Comptroller and Auditor General

Report on the

Accounts of the Public Services 2014

September 2015

Report of the Comptroller and Auditor General

Accounts of the Public Services 2014

Article 33 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 revenues collected by the Revenue Commissioners – these examinations include assessment of whether the accounts are complete and accurate, and whether the Revenue Commissioners have established and applied systems, procedures and practices 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 special reports, dealing with any general matters I wish to report arising from my audits of the financial statements of any of the bodies within my audit remit, or where I decide to present the findings of 'value for money' examinations or inspections undertaken under relevant provisions of the 1993 Act. Such special reports are submitted formally by me to the relevant Minister of the Government, who is then required to cause a copy of the report to be presented to Dáil Éireann within three months.

Presentation of this Report

This is my report under Section 3 (10) of the 1993 Act relating to the 2014 financial year. The report is set out in four parts.

- Part 1 deals with matters relating to the Central Fund and Government debt.
- Part 2 outlines certain matters related to voted expenditure in 2014.
- Part 3 deals with matters arising out of the audit of the Revenue Account and the examination of Revenue systems.
- Part 4 comprises 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 2014 to Dáil Éireann in accordance with Section 3 (11) of the 1993 Act.

Presentation of Appropriation Accounts 2014

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 2014 and, in an associated volume, submit those accounts, together with my audit certificates, to Dáil Éireann.

Seamus Mc Carthy.

Seamus McCarthy
Comptroller and Auditor General

29 September 2015

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Central Government

1 Exchequer Financial Outturn for 2014

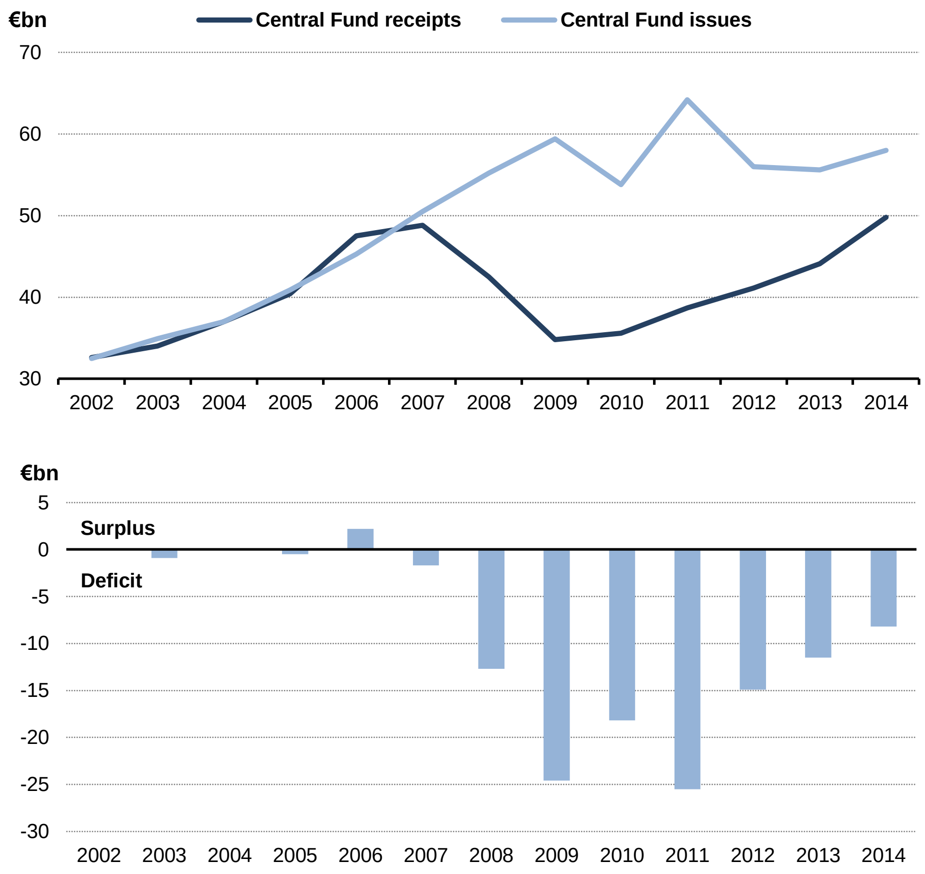
1.1 All revenues of the State are paid into the Central Fund of the Exchequer unless otherwise determined by law.[1] Central Fund receipts include tax revenues and the proceeds of borrowing undertaken on behalf of the State by the National Treasury Management Agency (NTMA). Issues from the Central Fund 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 NTMA borrowing and information about certain liabilities and assets of the State. This report summarises the transactions on the Central Fund and highlights some key trends. Because the Finance Accounts do not include a balance sheet, the summary position in relation to key assets and liabilities at year end is also set out.

Exchequer Deficit

1.3 The movement in the Central Fund receipts and issues over the period 2002 to 2014 and the surplus or deficit for each of those years is set out in Figure 1.1. In 2014, the deficit was €8.2 billion, €3.3 billion less than the deficit in 2013.

Figure 1.1 Central Fund receipts and issues and surplus/deficit, 2002 to 2014



Source: Finance Accounts 2002 to 2014

1 Examples of State revenue which is not paid directly into the Central Fund include Pay Related Social Insurance receipts which are paid into the Social Insurance Fund and the proceeds of motor tax which are paid into the Local Government Fund.

Figure 1.2 Composition of Central Fund receipts and issues, 2010 to 2014[a]

Receipts	**2010**	**2011**	**2012**	**2013**	**2014**
	€m	**€m**	**€m**	**€m**	**€m**
Tax revenue	31,753	34,027	36,646	37,806	41,282
Transfer from Local Government Fund	–	–	–	–	520
Other current revenues	2,687	2,520	2,765	2,676	2,446
Loans/advances repaid [b]	1,043	986	1,077	1,098	4,987
National Pensions Reserve Fund withdrawal	–	1,018	–	–	–
Sale of Irish Life plc	–	–	–	1,301	–
Sale of notes in Bank of Ireland	–	–	–	1,010	–
Sale of mobile phone licences	–	–	450	60	–
National Lottery licence receipts	–	–	–	–	405
Other capital receipts	138	116	150	113	131
Total receipts	**35,621**	**38,667**	**41,088**	**44,064**	**49,771**
Issues					
Issues for voted expenditure	46,434	45,711	44,950	43,072	42,224
Service of national debt	3,619	4,736	5,823	7,459	7,579
Contribution to EU budget	1,352	1,350	1,393	1,726	1,685
Oireachtas Commission	103	130	105	101	101
Share capital acquired in banks	725	2,300	1,300	–	–
Bank recapitalisation payments	–	5,268	–	–	–
Payments under Credit Institutions (Financial Support) Act 2008	–	–	–	1,035	75
Promissory notes repayment	–	3,085	25	25	25
Capital contribution to Irish Water	–	–	–	–	407
Transfer of Local Property Tax receipts to Local Government Fund	–	–	–	–	484
European Stability Mechanism capital contribution	–	–	510	510	255
Securities Market Programme related payment	–	–	–	–	31
Credit Union Fund	–	–	250	–	–
Loans/advances [b]	1,428	1,199	1,485	1,444	4,929
Other payments	105	406	139	195	165
Total issues	**53,766**	**64,185**	**55,980**	**55,567**	**57,960**
Deficit for the year	**18,145**	**25,518**	**14,892**	**11,503**	**8,189**

Source: Finance Accounts 2010 to 2014

Notes: a Transactions of the Exchequer Account and the Capital Services Redemption Account are consolidated. The latter acount is maintained by the National Treasury Management Agency for servicing national debt and transactions of a normal banking nature.

b See Annex A for further detail.

Central Fund Receipts

1.4 Receipts into the Central Fund in 2014 totalled €49.8 billion. This represented an increase of €5.7 billion (13%) relative to 2013 receipts.

1.5 The year-on-year increase in receipts is distorted by a large increase in the level of repayment of Exchequer loans and advances. This is related to the use of the Central Fund to provide temporary funding for the Social Insurance Fund (SIF). Advances made to the SIF amounted to just over €4 billion in 2014 compared with €285 million in 2013. When these repayments are excluded from both years, the increase in receipts year-on-year is around €2 billion (4.5%).[1]

Current Revenues

1.6 Tax and other current revenues amounted to €44.2 billion, an increase of €3.8 billion (9.3%) year-on-year.

1.7 Total tax revenue in 2014 was €3.5 billion higher than in 2013. The two largest increases were in respect of income tax receipts (€1.4 billion) and VAT receipts (€817 million).

1.8 Current non-tax revenues of the Central Fund in 2014 amounted to €3 billion. Significant components were

- €520 million paid to the Exchequer from the Local Government Fund, as provided for under the Local Government Reform Act 2014.[2]
- €1.2 billion in Central Bank surplus income arising in 2013 and paid into the Central Fund in 2014. The higher than usual level of receipts was due to additional bank income associated with banking stabilisation measures.[3]
- €475 million (€264 million in 2013) in dividends from State shareholdings in a range of bodies. The most significant were paid by the ESB (€269 million) and Ervia (€171 million).[4]
- €200 million in interest received on contingent capital notes held in banks.
- €179 million from credit institutions in respect of fees under the Eligible Liabilities Guarantee scheme. This was down from €576 million in 2013, following closure of the scheme to new liabilities during 2013.

Capital Receipts

1.9 Capital receipts in 2014 amounted to €5.5 billion – €1.9 billion greater than 2013.

1.10 Excluding repayments of loans (including advances to the SIF), capital receipts in 2014 amounted to €536 million. This was €1.95 billion less than receipts in 2013 (€2.5 billion). The 2013 receipts included €2.3 billion from the disposals of Irish Life and of an investment in Bank of Ireland. Significant capital receipts in 2014 were

- €405 million in respect of a 20 year National Lottery licence
- €115 million from the European Regional Development Fund (ERDF) – an increase of 42% (€34.2 million) as a result of a final payment from the EU Commission in respect of the closure of some ERDF 2000 – 2006 Operational Programmes.

1 See Chapter 15 for further details of advances to the Social Insurance Fund between 2012 and 2014.

2 The Local Government Reform Act 2014 provided for the transfer of up to €600 million from the Local Government Fund to the Exchequer, on the request of the Minister for Finance, on or before 31 December 2014.

3 Chapter 3 provides detail on the proportion of Central Bank's income attributable to banking stabilisation measures.

4 Ervia was formerly known as Bord Gáis Éireann.

Central Fund Issues

1.11 Issues from the Central Fund in 2014 amounted to €58 billion, which represents an increase of about €2.4 billion, or 4%, on the 2013 level. When advances to the Social Insurance Fund are excluded, the issues in 2014 amounted to €54 billion, 2.4% lower than in 2013. Significant components were

- Issues from the Fund for voted services were down by 2% when compared with 2013.
- Payments related to servicing of borrowing undertaken by the NTMA were around €7.6 billion in 2014, 2% higher than 2013.
- Capital funding of €407 million was paid to Irish Water.[1]
- €75 million was paid from the Central Fund under the Credit Institutions (Financial Support) Act 2008, arising from the winding up of the Irish Bank Resolution Corporation. €1,035 million had been paid in 2013 in relation to its winding up.

Local Property Tax Transfer

1.12 Local Property Tax (LPT) is collected by the Revenue Commissioners and remitted to the Exchequer as part of tax revenue receipts. Beginning in 2014, the Minister for Finance is required to pay an amount equivalent to the LPT, including any interest paid by taxpayers during the year, from the Central Fund to the Local Government Fund. Of the €491 million LPT receipts in 2014, €484 million was paid to the Local Government Fund in 2014 and the balance was paid in January 2015.

European Stability Mechanism

1.13 The European Stability Mechanism (ESM) has approved 'paid-in' capital of €80.2 billion, of which Ireland is required to contribute a share amounting to €1.274 billion.[2] Following payment of €255 million in April 2014, Ireland had contributed all of its share at that date.[3]

1.14 The Central Bank holds Greek government bonds as part of its Securities Market Programme. Under the Central Bank Act 2014, Ireland is to pay an amount equivalent to the income earned by the Central Bank on this portfolio to an account established by the ESM. The funds will be paid to Greece as financial assistance. The amounts paid will not exceed €126 million cumulatively and will be paid annually between 2014 and 2026. The first payment of €31 million was made in 2014.[4]

Exchequer Assets and Liabilities

1.15 The finance accounts do not include a balance sheet, notwithstanding the substantial levels of Exchequer financial assets and liabilities that exist. Exchequer borrowing is considered in Chapter 2, Government Debt.

1 See Chapter 11 for further details regarding capital contributions to Irish Water.

2 Total 'paid-in' capital increased by €0.3 billion with effect from 1 January 2015, following the accession of Lithuania to the ESM on 1 January 2015.

3 The ESM capital structure has two levels. Paid-in capital is the term applied to an initial block to be contributed by ESM members. A further €622 billion in committed callable capital may be called in from ESM members in the future.

4 The Department of Finance has noted that, following the expiry of the Greek financial assistance programme on 30 June 2015, the euro area member states suspended the 2015 transfer of income from Securities Market Programme portfolios to the account established by the ESM.

Cash and Financial Assets

1.16 The 2014 deficit of €8.2 billion and net debt repayments in the year of €653 million were met through funds held at the start of the year. As a result, balances in the Exchequer account at the Central Bank and other Exchequer financial assets fell by just over 37% in 2014 (see Figure 1.3).

1.17 At the end of 2014, the balance on the Central Bank Exchequer account was €4.1 billion, a reduction of €300 million on the balance at the end of 2013. Over the same period, the balance of Exchequer deposits in commercial banks (including collateralised deposits and tri-party repurchase agreements) fell by 50%, from just over €11 billion to €5.5 billion.[1]

Figure 1.3 Movements in Exchequer cash and financial asset balances, 2010 to 2014

Movements in Exchequer cash

	2010	2011	2012	2013	2014
	€m	€m	€m	€m	€m
Balance at 1 January	**21,816**	**16,164**	**17,692**	**23,850**	**23,601**
Movement in year					
Net Exchequer borrowing/ (repayment) in year [a]	12,493	27,046	21,050	11,254	(653)
Exchequer (deficit)	(18,145)	(25,518)	(14,892)	(11,503)	(8,189)
Balance at 31 December	**16,164**	**17,692**	**23,850**	**23,601**	**14,759**

Total cash and financial assets

	2010	2011	2012	2013	2014
	€m	€m	€m	€m	€m
Central Bank Exchequer account	11,399	13,099	15,280	4,432	4,089
Capital Services Redemption Account [b]	600	–	–	–	–
Bank deposits [c]	580	30	3,020	11,068	5,540
Non-Irish treasury bills	–	–	1,045	3,041	1,474
Loans to Housing Finance Agency	3,585	3,848	3,982	3,704	3,145
Collateral funding	–	715	523	1,356	511
Balance at 31 December	**16,164**	**17,692**	**23,850**	**23,601**	**14,759**

Source: Finance Accounts 2010 to 2014

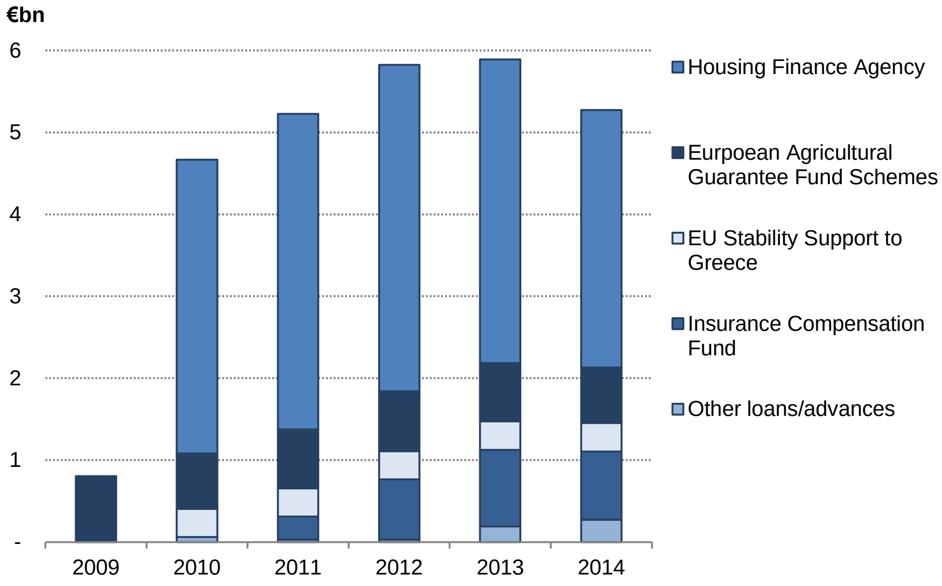
Notes:
a 2012 and 2013 exclude government bond issues of €3.5 billion, to meet the cost of the promissory note payment of €3.06 billion to Irish Bank Resolution Corporation, and floating rate bonds of just over €25 billion issued to replace Irish Bank Resolution Corporation promissory notes.
b The balance in the account at year end was less than €500,000 in each year, except 2010.
c Includes collateralised deposits and tri-party repurchase agreements.

1 See Chapter 2 on Government Debt for further details regarding tri-party repurchase agreements.

Exchequer Loans and Advances

1.18 Loans and advances provided from the Central Fund, and outstanding at the end of 2014, comprised lending of €3.1 billion to the Housing Finance Agency and other loans totalling €2.13 billion. The outstanding balances for the major categories of loans and advances at year end are shown in Figure 1.4.

Figure 1.4 End-year balances on Central Fund loans and advances, 2009 to 2014



Source: Finance Accounts 2009 to 2014

Annex A Loans and advances, 2011 to 2014

	2011 €m	2012 €m	2013 €m	2014 €m
Housing Finance Agency				
Opening balance	3,585	3,848	3,982	3,704
Net movement in the year	263	134	(278)	(559)
Closing balance	3,848	3,982	3,704	3,145
European Agricultural Guarantee Fund				
Opening balance	673	720	730	715
Repayments	(673)	(720)	(730)	(715)
Loans issued	720	730	715	677
Closing balance	720	730	715	677
Social Insurance Fund				
Opening balance	110	55	–	15
Repayments	(254)	(355)	(285)	(4,015)
Advances	199	300	300	4,000
Closing balance	55	–	15	–
Insurance Compensation Fund				
Opening balance	–	280	735	933
Repayments	–	–	–	(100)
Loans issued	280	455	198	–
Closing balance	280	735	933	833
EU Stability Support to Greece				
Opening balance	346	346	346	346
Repayments	–	–	–	–
Loans issued	–	–	–	–
Closing balance	346	346	346	346
Irish Water				
Opening balance	–	–	–	–
Repayments	–	–	–	–
Loans issued	–	–	–	54
Closing balance	–	–	–	54
Other [a]				
Opening balance	49	19[b]	17	165
Repayments	(59)	(2)	(83)	(157)
Loans issued	–	–	231	198
Closing balance	(10)	17	165	206

Source: Finance Accounts 2011 to 2014

Notes:
a Other comprises loans/advances repaid and issued in relation to NAMA, the Risk Equalisation Fund, the Local Loans Fund and salary advances to/from the PMG supply account.

b The opening balance relating to the Local Loans Fund was restated for 2012 due to the dissolution of Ulysses Plc, a securitisation vehicle in relation to local loans.

Social Insurance Fund

Funds are advanced on a monthly basis to the Social Insurance Fund and subsequently repaid to the Central Fund. In 2014, loan repayments amounted to €4.015 billion. The repayments were in respect of borrowings of €4 billion in 2014 and an outstanding balance of €15 million relating to a 2013 loan. At end-2014, there was a nil balance outstanding.

PMG Supply Account

Due to the unavailability of bank clearing systems on Thursday 1 January 2015, provision was made under Section 3 of the Appropriation Act 2013 for advances to be made from the Central Fund to the Paymaster General supply account in order to fund commercial bank accounts in respect of salaries to be paid from voted monies on Thursday 2 January 2015. Advances of just over €198 million made in December 2014 were repaid to the Central Fund in January 2015.

Insurance Compensation Fund

€933 million had been advanced to the Insurance Compensation Fund by end-2013. €100 million was repaid to the Central Fund in 2014, following a determination by the Minister for Finance that the Insurance Compensation Fund was in a position to repay this amount, leaving a balance outstanding at that date of €833 million.

2 Government Debt

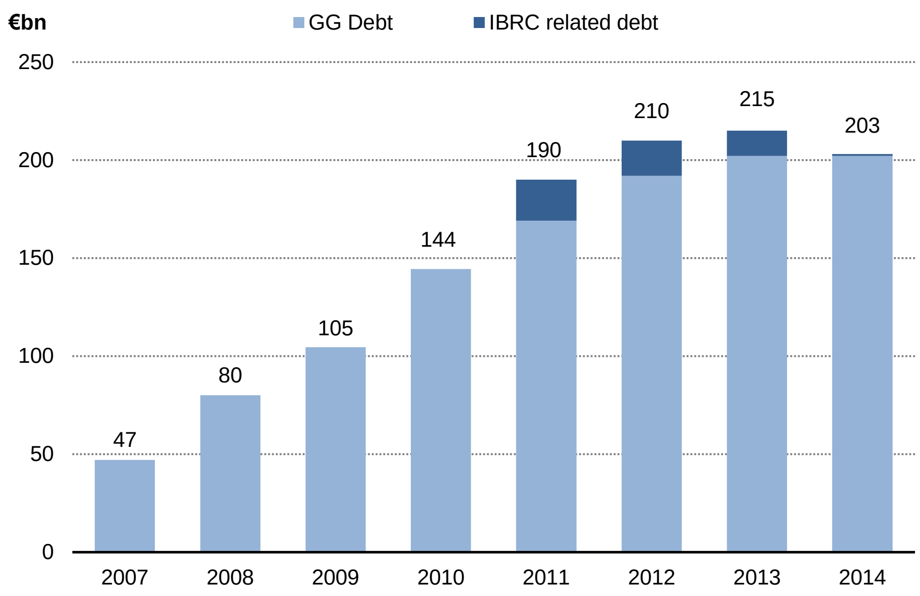
2.1 Revenues from taxation and other charges represent the primary source of State funding, but the State also borrows substantially to supplement annual funding. This report outlines the trend and composition of the government debt and the cost of debt service. It also provides an update in relation to Ireland's activity in the sovereign debt market.

General Government Debt

2.2 The most comprehensive measure of government debt is general government debt (GGDebt), an internationally standardised measure of debt which all EU countries are legally obliged to use for their twice-yearly reporting of government deficit and debt under the Maastricht Treaty. The GGDebt is defined by EU regulations as the total gross debt at nominal value outstanding at year-end for the consolidated general government sector – that is, the total gross debt owed by all government bodies to third parties outside government.[1] Debt that one government body owes another does not count towards the GGDebt. In Ireland, the general government sector includes most public sector bodies, but not publicly owned banks, NAMA Investment Ltd, and those commercially-operated State companies which cover a majority of their operating costs through sales.

2.3 Ireland's GGDebt at the end of 2014 is estimated at approximately €203 billion – a decrease of almost 6% year on year. This represents the first decrease in GGDebt in a number of years, as shown in Figure 2.1

Figure 2.1 Trend in general government debt, 2007 to 2014[a]



Source: Annex A, Figure A1

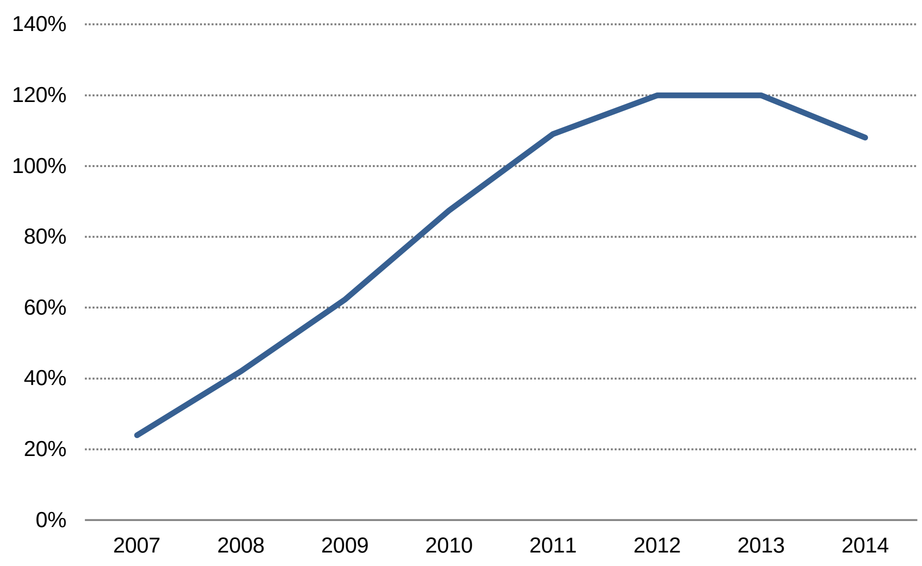
Note: a The GGDebt calculation is a statistical process. Consequently, amounts are subject to revision.

1 Specifically, GGDebt is defined as the consolidated liabilities of the general government sector in the following European System of Accounts (ESA2010) categories: currency and deposits; securities other than shares excluding financial derivatives; and loans.

2.4 Arising from changes in the definition of the general government sector in 2014, Irish Bank Resolution Corporation (IBRC) (in special liquidation) was included in the GGDebt calculation, back dated to 2011. The impact of the inclusion of IBRC's consolidated debt on GGDebt in the period 2011 to 2014 is shown in Figure 2.1. The extent of IBRC consolidated debt on GGDebt had reduced to €1.2 billion at the end of 2014 (Annex A, Figure A1).

2.5 The ratio of GGDebt to gross domestic product (GDP) is a standard sustainability measure applied for the purposes of comparison across the EU. The GGDebt as a proportion of GDP rose from 24% in 2007 to a peak of 120% in 2012 and 2013. At end-2014, GGDebt represented 108% of GDP as shown in Figure 2.2.

Figure 2.2 GGDebt as a proportion of GDP, 2007 to 2014



Source: Annex A, Figure A2

Funding and Debt Management Strategy 2013 to 2015

2.6 For 2013 and 2014, the Funding and Debt Management Unit (FDM) of the NTMA outlined its key objectives for the year in a series of strategic goals. These strategic goals for both 2013 and 2014 were approved by the Chief Executive.

2.7 The core strategic goal of FDM for 2013 was to regain access to capital markets on a sustainable and regular basis in order to position the State for exiting the EU/IMF Programme of Financial Support at end-2013. The NTMA's working plan – announced publicly on 9 January 2013 – was to raise €10 billion, subject to market conditions.

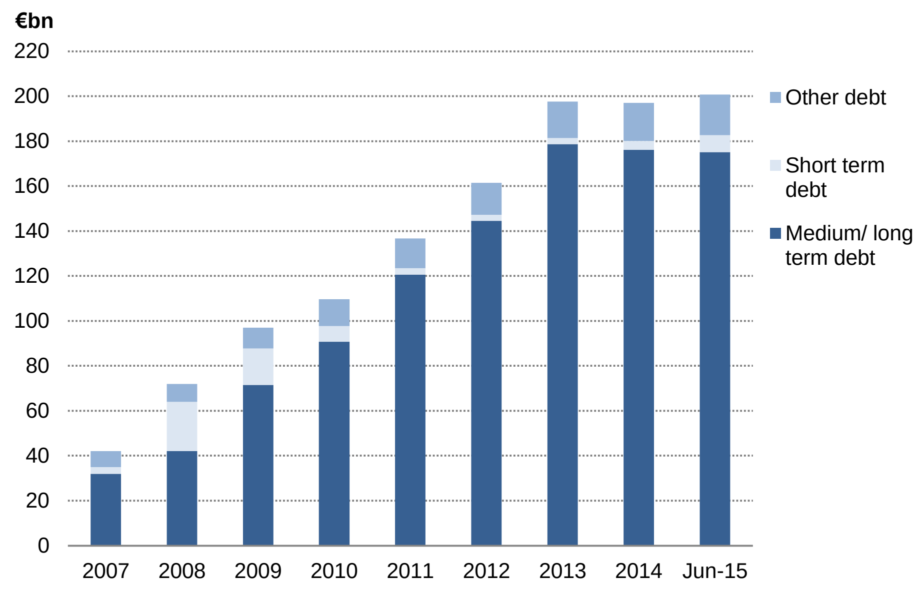
2.8 For 2014, the key strategic goal of FDM was to issue medium and long-term debt on a regular and sustainable basis in a manner consistent with the complete normalisation of Ireland's return to capital markets following the exit from the EU/IMF Programme of Financial Support at end-2013. Bond funding in the range of €6 billion to €10 billion – announced publicly in early January 2014 – was initially targeted as was a return to holding a series of regular bond auctions.

2.9 For 2015, bond funding in the range of €12 to €15 billion was approved by the NTMA board at its December 2014 board meeting. This targeted level of bond funding was announced publicly on 22 December 2014.

Gross National Debt

2.10 The largest component of GGDebt is the gross national debt, which is debt arising from borrowings of the Exchequer undertaken by the National Treasury Management Agency (the NTMA). This stood at €197.1 billion at the end of 2014, having changed little during the year (see Figure 2.3). By end-June 2015, gross national debt had increased to €200.8 billion – a 2% increase.[1]

Figure 2.3 Gross national debt at redeemable par values, 2007 to 2014 (year-end) and at end-June 2015



Source: Annex A, Figure A3

Short-term Debt

2.11 Short-term debt is debt with an original maturity of less than one year. Short-term debt[2] accounted for €4.1 billion of gross national debt at end-2014 and €7.5 billion at end-June 2015 (Annex A, Figure A6). Short-term instruments are used to provide liquidity and flexibility in the timing of long-term funding operations.

2.12 The main forms of short-term borrowings are treasury bills, exchequer notes and the euro commercial paper programme. Regular auctions of short-term treasury bills (which resumed in July 2012) continued throughout 2014, with five auctions taking place during the year. Between January and June 2015, a further three auctions have taken place. Exchequer notes and euro commercial paper are sold through reverse enquiry. At end-2014, NAMA held €0.7 billion (2013: €1.6 billion) in exchequer notes; this accounted for 16% of the total short-term paper outstanding at end-2014.

1 End-June 2015 figures are not audited.

2 Excluding short-term borrowing by NTMA from other State funds e.g. overnight balances.

Medium and Long Term Debt

2.13 Medium and long-term debt at end-2014 accounted for 89% of the gross national debt. It comprised mainly borrowings in the form of government bonds, and loans received under the EU-IMF Programme of Financial Support for Ireland.

Government Bonds

2.14 Of the €116 billion in government bonds outstanding at end-December 2014, fixed rate treasury bonds accounted for €90.6 billion or 78%.

2.15 During 2014, €11.75 billion (nominal) of bond market funding was raised by the NTMA, including the following significant transactions.

- In January, the NTMA raised €3.75 billion from the syndicated sale of a new ten year benchmark bond, with a maturity date of March 2024 at a yield of 3.54%.[1]
- In March, the NTMA resumed scheduled bond auctions (which had been suspended in 2010) – there were five scheduled auctions during 2014 of the 2024 treasury bond which raised a total of €4.25 billion – yields ranged from 2.97% in the first auction down to 1.63% in the final auction in October.
- In November, the NTMA completed its bond funding for the year raising €3.75 billion with the issue of a new 15-year benchmark bond by syndication, at a yield of 2.49%.

2.16 On 2 July 2014, the NTMA bought back just under €1.1 billion of the 4.6% treasury bond 2016 on an outright basis. The transaction also included a switch, done on a '2 for 1' nominal basis, which saw €959 million of the 2016 bond bought back and €479.5 million of the 3.9% treasury bond 2023 issued. This transaction reduced the amount outstanding of the 4.6% treasury bond maturing in April 2016 to €8.1 billion, from €10.2 billion.

2.17 The register of holders of Irish government bonds is maintained by the Central Bank of Ireland. Irish resident holders of government bonds increased from 17% at end-2009 to 45% at end-2014.

Floating Rate Government Bonds

2.18 In 2010, as part of the process of bank capitalisation, the Minister for Finance issued promissory notes to the value of €30.85 billion to three financial institutions – Anglo Irish Bank (Anglo), Irish Nationwide Building Society (INBS) and the Educational Building Society (EBS).[2] The net effect of this measure was to create State debt outside the NTMA-managed gross national debt. The promissory notes were held by the Central Bank as collateral for lending to IBRC.

2.19 On 7 February 2013, joint special liquidators were appointed to IBRC. The IBRC promissory notes were replaced with eight new floating rate government bonds with a nominal value of €25.034 billion, which were issued by the NTMA to the Central Bank with maturities ranging from 25 to 40 years. These floating rate government bonds accounted for 21% of the overall government bond balance at end-December 2014.

1 The yield is the annual rate of return investors will receive for holding the bonds.

2 Anglo and INBS were subsequently merged, becoming IBRC.

2.20 In December 2014, €500 million nominal of the 2038 bond was bought back by the NTMA and cancelled. The NTMA paid €680 million to the Central Bank, resulting in a book profit for the Central Bank. The Central Bank distributes a percentage of profits back to the Exchequer and holds the remainder as reserves.[1] Between June and August 2015, the NTMA bought back and cancelled a further €1 billion nominal of the 2038 bond, for a total consideration of almost €1.35 billion.

2.21 The nominal value of promissory notes outstanding at 30 June 2015 is €187 million, relating solely to EBS. EBS has received annual payments of €25 million in the period 2011 to 2015 totalling €125 million. The interest rate on the promissory notes is fixed at 5.46%.

EU-IMF Programme of Financial Support

2.22 Ireland's EU-IMF programme provided for loan funding from EU facilities, the IMF and bilateral loans from the UK, Sweden and Denmark. The final programme disbursement of €0.8 billion from the European Financial Stabilisation Mechanism (EFSM) occurred in March 2014. The net euro amount received by the Exchequer under the programme was €67.5 billion (after adjustment for below par issuance, deduction of a prepaid margin, and the effect of foreign exchange transactions).

2.23 The external support under the programme originally comprised of

- €22.5 billion from the IMF Extended Fund Facility
- €22.5 billion from the EFSM
- €17.7 billion from the European Financial Stability Facility (EFSF). (This is net of a prepaid margin of €530 million[2]) and
- €4.8 billion in bilateral loans from the United Kingdom (€3.8 billion), Sweden (€0.6 billion) and Denmark (€0.4 billion).

2.24 Between December 2014 and March 2015, Ireland made early repayments totalling just over €18 billion or 81% of the original €22.5 billion IMF loan facility granted under the EU/IMF Programme.[3] The repayment was of the more expensive portion of the IMF facility. The NTMA has estimated that the early repayments will generate interest savings in excess €1.5 billion over the original life time of the loans.

2.25 The terms of the EU-IMF funding have been amended several times since the first drawdowns were made to reduce interest margins on bilateral, EFSF and EFSM loans and extend maturities for loans granted by the EFSF and EFSM.

2.26 The outstanding EU-IMF programme loan balance reduced to €49.7 billion at end-June 2015. The first of the programme loans to mature is a bilateral loan from the United Kingdom in 2019.

Maturity Profile of Debt

2.27 Medium and long-term debt has various maturity dates. At end-June 2015, the residual maturity of fixed rate government bonds in issue ranged from under one year to 30 years. The maturity of floating rate bonds ranged from 23 to 38 years, and the final maturity of amortising bonds ranged from 12 to 32 years. The longest maturity for borrowing under the EU-IMF programme is currently just over 27 years.

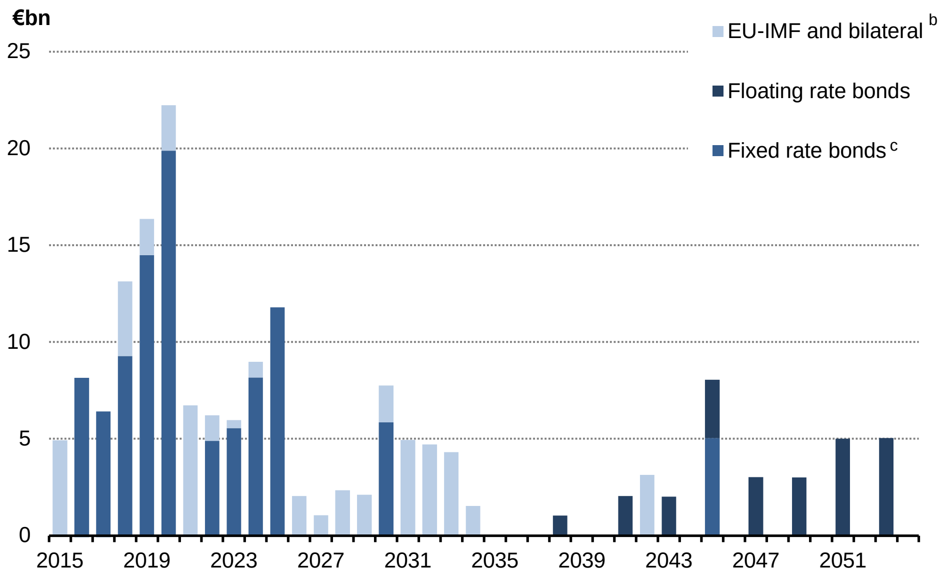
2.28 Figure 2.4. shows the maturity profile of government bonds and EU-IMF programme debt (totalling €174 billion) at end-June 2015.

1 SI No. 93 of 1943 Central Bank of Ireland (Surplus Income) Regulations provides that the Central Bank may retain up to a maximum of 20% of profit each year).

2 The first drawdown from the EFSF in February 2011 amounted to €4.2 billion. At that time, Ireland was required to prepay the present value of the interest margin charges that would accrue over the life of the loan (€530 million), along with additional fees and charges of €72 million. The net amount disbursed was €3.6 billion. It is expected that €485 million of the €530 million prepaid margin (along with the related EFSF investment return) will be rebated to Ireland in 2016. The remaining €45 million is due to member state guarantors.

3 These repayments discharge IMF principal repayment obligations that were originally to fall due from July 2015 to January 2021.

Figure 2.4 Maturity profile of government bonds and EU-IMF programme funding held at end-June 2015[a]



Source: Annex A, Figure A4 and Figure A5

Notes:
- a The EU-IMF programme balances are shown net of currency hedging transactions where relevant.
- b EFSF loans reflect maturity extensions agreed in June 2013. EFSM loans are also subject to a seven year extension. It is not expected that Ireland will have to refinance any of its EFSM loans before 2027. However, the revised maturity dates of individual EFSM loans will only be determined as they approach their original maturity dates. The original EFSM maturities are reflected here.
- c Includes amortising bonds.

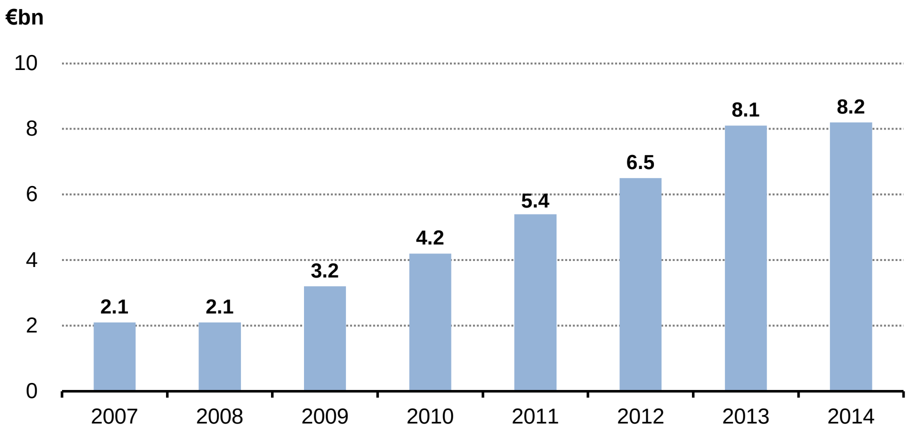
Debt Service Costs

Annual Cost

2.29 The debt service cost disclosed in the NTMA's accounts for 2014 was just over €8.2 billion when measured on a cash basis, up marginally (2%) year on year (see Figure 2.5). When account is taken of a transfer of €633 million from current funds to a statutory sinking fund, the servicing outlay was just under €7.6 billion.[1] This is net of €124 million interest received and includes fees and expenses of €108 million.

1 The sinking fund is used to make principal repayments. Each year, annuities are provided for in the Finance Act and are paid into the Capital Services Redemption Account from the Central Fund. A specified amount of this is used for servicing the national debt (interest payments) and the balance for principal repayments (referred to as the sinking fund). The requirement to make an annual sinking fund payment was removed in Finance Act 2014.

Figure 2.5 Debt service costs, 2007 to 2014 (cash basis)



Source: National Treasury Management Agency

2.30 When the debt service cost is measured on an accruals basis, the servicing cost for 2014 was €7.7 billion.[1] The equivalent cost for 2013 was €7.4 billion – a 3% increase year on year.

Average Cost of Borrowing

2.31 At end-2014, the overall weighted average cost of servicing the gross national debt was estimated at 3.8% (end-2013: 3.9%). The NTMA estimates the overall weighted average cost of servicing the gross national debt at 3.5% at end-June 2015. At end-June 2015, around 92% of gross national debt was at fixed rates, including debt where hedging had been undertaken.[2] The balance of the debt was at floating interest rates.

Figure 2.6 Average cost of borrowing, end-December 2014

Product	% Gross national debt December 2014[a]	Average interest rate %
Fixed rate bonds and amortising bonds	46.6	4.64[b]
EU-IMF programme	29.8	3.22[c]
Floating rate bonds	12.4	2.80[d]
State savings schemes	8.3	2.72[e]

Source: National Treasury Management Agency

Notes:
a The remaining 2.9% of gross national debt is made up of short-term debt (2.4%) and other medium/long term debt (0.5%). Figures above are rounded.
b This is the nominal interest rate which differs from the yield.
c The rate is the estimated all-in fixed euro equivalent cost reflecting hedging costs.
d This equates to an interest rate of six-month Euribor plus an average margin of 263 basis points. The rate reflects the relevant rate reset. The NTMA has entered into interest rate swaps to hedge an element of the exposure to interest rate movements. However, the rates quoted do not take account of this hedging.
e This rate reflects accrued interest and expenses in 2014 as a percentage of average State savings schemes balances. The maximum interest rates (AER) payable on the fixed term fixed rate products available for purchase at end–2014 ranged from 0.83% – 2.26% (down from 1.32% – 2.66% at end–2013)

1 The accruals basis recognises the debt service costs incurred in the year, rather than those paid, and excludes sinking fund movements.

2 Fixed rate debt also includes EFSF loans disbursed as part of the EFSF's pooled funding mechanism. The cost of these EFSF pooled loans is related to the EFSF's cost of funds in managing the pool and can change from time to time.

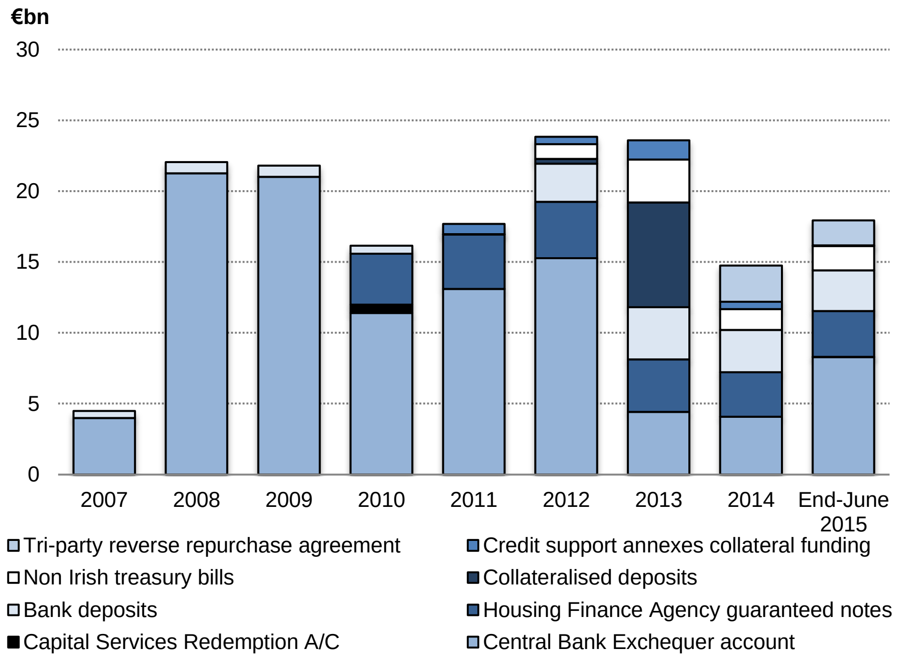
Composition of Cash and Other Financial Assets

2.32 The NTMA defines the 'net national debt' as gross national debt incurred by the Exchequer, less cash balances and other financial assets held.

2.33 The NTMA has held significant balances of cash and other financial assets over the past number of years. At end-2014, a total of €14.8 billion was held. This had increased by 21% to €17.9 billion at end-June 2015.

2.34 The composition of the Exchequer's cash balances and financial assets has changed significantly in recent years. Prior to the financial crisis, almost all were held in the form of deposits at the Central Bank. At end-2014, only 28% of cash and financial assets was held in the Central Bank (see Figure 2.7).

Figure 2.7 Cash and other financial assets, 2007 to June 2015



Source: Annex A Figure A7

2.35 Around 75% (€11.1 billion) in cash and other financial assets held at end-2014 was available to the State immediately or at short notice. Housing Finance Agency (HFA) guaranteed notes of €3.1 billion were not readily realisable. A further €0.5 billion used to fund collateral deposited with derivative counterparties under credit support agreements, while not readily realisable, is given a cash value that reflects changes in the market value of related derivatives or as the derivatives mature.[1]

2.36 In July 2015, the Minister for Finance paid 27 local authorities €427 million from the Exchequer under Section 10 (3) of the Water Services Act 2014, in order for them to repay the HFA any water related loans (and associated interest) held by local authorities. This will reduce the holding of HFA guaranteed notes but increase the cash holding as the HFA repays the notes.

1 This is the net of collateral posted of €1.5 billion and collateral received from NAMA (€690 million), IBRC (€25 million) and other counterparties (€289 million).

2.37 Since 2012, the NTMA has invested available cash balances in short-term bank deposits (including collateralised deposits,[1] tri-party reverse repurchase agreements and in non-Irish Treasury Bills). These investments earn a higher rate of return than cash held at the Central Bank but may also carry a higher risk.

2.38 In June 2014, following a decision of the European Central Bank, all Government deposits held in the Central Bank are remunerated at zero per cent or at the deposit facility rate, whichever is lower.[2] The deposit rate was minus 0.1% from 10 June 2014 and minus 0.2% from 9 September 2014.

2.39 At end-June 2015, €1.8 billion or 12% of available cash balances and other short-term investment balances were in tri-party reverse repurchase agreements with financial institutions.[3] The administration of the transactions including settlement, collateral allocation and other functions are carried out by a third party agent (Euroclear). Collateralised deposits are now entirely completed under tri-party agreements. At end-June 2015, the overall weighted average maturity remaining on these agreements was 12 days.

Post Office Savings Bank Fund

2.40 The Post Office Savings Bank (POSB) Fund (the Fund) had an accumulated surplus at 31 December 2014 of €190 million. Under guidelines issued to the NTMA by the Minister for Finance, the Fund accumulated surplus must be kept above €5 million.

2.41 The Fund accumulated surplus does not form part of the financial assets of the Exchequer. However, section 19 of the Finance Act 1930 provides the ability to appropriate to the Exchequer an accumulated surplus of the Fund, having made appropriate provision for the depreciation in the value of the Fund's assets available to meet the liabilities to the depositors.

2.42 The NTMA has stated that during 2015, there has been a reversal in the performance of Irish government bonds with yields rising. As a result of this, the Fund has incurred a negative return for the year to date, resulting in a reduction of the accumulated reserves to €172 million at the end of June. It stated that an appropriation of any surplus through a distribution of reserves would, all other things being equal, lower the Exchequer borrowing requirement and reduce the national debt. However, there would be no impact on the General Government Balance or GGDebt, as the POSB is classified within the 'General Government' sector.

2.43 It stated that given the potential for increased volatility in the current low interest rate environment, the fact that the appropriation of a surplus would have a negligible impact on the national debt, and noting the reduction in the surplus since end-2014, it would not currently recommend transferring the surplus to the Exchequer, instead retaining it in the Fund for future interest payments to POSB depositors and as a provision against depreciation in the value of the securities standing to the credit of the Fund.

2.44 In the period 2000 to 2011, the Fund accumulated surplus has ranged in value between €7.5 million and €13.2 million. Since 2012, there has been a significant increase in the surplus, rising to €66.6 million in 2012 with further increases in 2013 and 2014 to €96.2 million and €190.4 million respectively.

1 In order to mange counterparty credit risk, the NTMA receives collateral such as Government bonds for cash placed on deposit.

2 This applies to government deposits exceeding the higher of either €200 million or 0.04% of gross domestic product.

3 A reverse repurchase agreement is where one party buys an asset from another party and commits to sell the asset back to the second party at a future date.

Conclusions

2.45 The ratio of GGDebt to GDP declined to 108% at end-2014, from its peak level of 120% at end-2013, due largely to a combination of strong GDP growth and a reduction in the liabilities of IBRC.

2.46 The main component of GG Debt is cumulative borrowing undertaken by the NTMA on behalf of the State, referred to as gross national debt. This decreased by a net €500 million during 2014. In the first six months of 2015, the gross national debt rose marginally to €201 billion. Additional short-term debt and Government bonds account for the majority of the increase.

2.47 The NTMA estimates that the weighted average cost of servicing the gross national debt was 3.5% at end-June 2015, down from 3.8% at end-2014. Around 92% of the gross national debt at end-June 2015 was at fixed rates, including debt where hedging had been undertaken. The remainder of the debt was at floating interest rates.

2.48 A significant factor in the reduction in the average cost of borrowing was the early repayment of the most expensive portion of the EU-IMF lending. The first tranche of early repayment concluded in the first quarter of 2015, and in total, just over €18 billion (81% of the original IMF loan facility) was repaid early. Ultimately, bond funding in excess of the NTMA's original target was sourced in 2014 given the decision to repay early the most expensive portion of the IMF loan facility.

2.49 There is no specific monetary limit set by the Minister for Finance for the level of cash and financial assets maintained by the NTMA. The NTMA has stated that its current policy in accordance with prudent liquidity risk management, is to maintain cash and other liquid assets equivalent to at least twelve months' advance Exchequer funding requirements.

2.50 At end-2014, over half of the assets were held in higher yielding (but also higher risk) instruments. Nevertheless, the return on cash and related assets is lower than the average cost of borrowing. As a result, there is a cost associated with maintaining high levels of cash balances.

Annex A

Figure A1 Composition of General Government Debt at year-end, 2007 to 2014[a]

	2007	2008	2009	2010	2011	2012	2013	2014
	€m	€m	€m	€m	€m	€m	€m	€m
Central Government – Exchequer								
Gross national debt	42,047	72,457	96,968	109,609	136,774	161,482	197,547	197,069
Less liabilities to other central government bodies, local authorities and VECs	(2,943)	(3,275)	(2,409)	(2,472)	(2,635)	(2,330)	(2,346)	(2,621)
Adjustment for nominal value of debt [b]	23	489	55	72	4	6	4	2
European Financial Stability Fund prepaid margin	–	–	–	–	530	530	530	530
Liability for coinage in circulation	653	697	674	673	694	670	675	693
Accrual adjustment [c]	780	653	346	368	464	548	604	596
Other adjustments [d]	4	3	12	(10)	153	1440	996	1,042
National loans advance interest	–	–	127	64	12	12	5	49
Promissory notes	–	–	–	30,850	28,333	25,261	215	201
Exchequer contribution	**40,564**	**71,024**	**95,773**	**139,154**	**164,329**	**187,619**	**198,230**	**197,561**
Other Central Government								
IBRC consolidated debt	–	–	–	–	20,927	17,797	12,660	1,237
Post Office Savings Bank Fund deposits	1,303	1,770	1,892	2,328	2,506	2,774	2,646	2,672
Other State bodies [e]	584	876	789	544	536	456	375	654
Westlink buy-out	–	560	510	460	410	360	310	260
Other central government contribution	**1,887**	**3,206**	**3,191**	**3,332**	**24,378**	**21,387**	**15,991**	**4,823**
Housing Finance Agency								
Gross debt	4,338	4,992	4,941	4,512	4,414	4,501	4,423	4,209
Less liabilities to central government bodies and local authorities	(523)	(487)	(212)	(3,833)	(4,030)	(4,107)	(3,996)	(3,796)
Housing Finance Agency contribution	**3,815**	**4,505**	**4,729**	**679**	**384**	**394**	**427**	**413**
Local Government								
Gross debt	4,744	5,403	5,641	5,598	5,469	5,358	4,956	4,776
Less liabilities to Housing Finance Agency and other central government bodies	(3,862)	(4534)	(4,667)	(4,537)	(4,438)	(4,521)	(4,276)	(4,254)
Local government contribution	**882**	**869**	**974**	**1,062**	**1,032**	**837**	**679**	**522**
Total[f]	**47,148**	**79,604**	**104,667**	**144,227**	**190,123**	**210,238**	**215,327**	**203,319**

Source: Central Statistics Office

Notes:
a Information for the years 2009 to 2014 sourced from the CSO April 2015 publication 'Government Finance Statistics Annual results'. Information for 2007 and 2008 supplied by CSO as part of its Quarterly Government Debt return to Eurostat.
b GGDebt reported to the EU is stated at nominal values. Certain debt, such as commercial paper, is issued at a discount to its nominal value, but the nominal value is reported for GGDebt purposes.
c Small Savings Reserve Fund and national loans advance interest.
d Repurchase agreements, collateral and OPW contracts.
e Includes voluntary hospitals, HSE, National Oil Reserve Agency.
f This excludes other exchequer liabilities including commitments in respect of public private partnership contracts in place at year-end and accrued pension entitlements.

Figure A2 GGDebt as a proportion of GDP, 2007 to 2014[a]

Ratio	2007	2008	2009	2010	2011	2012	2013	2014
	€m	€m	€m	€m	€m	€m	€m	€m
GGDebt	47,148	79,604	104,667	144,227	190,123	210,238	215,327	203,319
GDP	197,054	187,547	169,432	166,157	173,940	174,845	179,448	189,046
GGDebt: GDP	24%	42%	62%	87%	109%	120%	120%	108%

Source: Central Statistics Office

Note: a Information for the years 2009 to 2014 sourced from the CSO April 2015 publication 'Government Finance Statistics Annual results'. Information for 2007 and 2008 supplied by CSO as part of its Quarterly Government Debt return to Eurostat.

Figure A3 Cumulative borrowing at redeemable par values, at year-end 2007 to 2014 and end-June 2015[a]

	2007	2008	2009	2010	2011	2012	2013	2014	June 2015
	€m	€m	€m	€m	€m	€m	€m	€m	€m
Medium/long-term debt [b]									
Government bonds	30,947	41,863	70,858	90,102	85,310	87,853	111,007	116,339	124,382
EU-IMF programme funding [c]	–	–	–	–	34,629	55,898	66,942	58,793	49,665
Other medium/long-term	615	483	670	673	673	772	772	927	1,068
Short-term debt [d]									
Short-term debt	3,286	21,783	16,261	6,972	2,920	2,690	2,645	4,102	7,534
Other debt									
Borrowings from other State funds [e]	2,258	2,605	1,783	1,524	1,696	786	676	523	1,571
Government savings schemes [f]	4,941	5,723	7,396	10,338	11,546	13,483	15,506	16,384	16,546
Gross national debt	**42,047**	**72,457**	**96,968**	**109,609**	**136,774**	**161,482**	**197,548**	**197,068**	**200,766**

Source: National Treasury Management Agency

Notes:
- a End-June 2015 figures have not been audited.
- b Original maturities of more than one year.
- c The balances are stated net of currency hedging transactions.
- d Original maturities of one year or less.
- e The main element of this borrowing relates to the Post Office Savings Bank Fund.
- f Maturities up to ten years.

Figure A4 EU-IMF programme of financial support for Ireland, December 2014 and end-June 2015[a]

	December 2014		End-June 2015	
Lender	**€m**	**Average term (years)[b]**	**€m**	**Average term (years)[b]**
IMF	13,550	8.3	4,342	9.3
EFSF [c]	17,881	20.7	17,881	20.7
EFSM	22,500	12.2	22,500	12.2
Bilateral loans [d]	4,862	7.5	4,942	7.5
Total	**58,793**		**49,665**	

Source: National Treasury Management Agency

Notes:
a The liability outstanding at end–June 2015 differs from the drawdown amount due to repayments, the effects of hedging instruments to hedge currency risk, exchange rate movements and adjustment for below par issuance. The balances are stated net of currency hedging transactions.

b Weighted average term from date of drawdown.

c The EFSF figures are shown net of a prepaid margin of €530 million. It is expected that €485 million of the prepaid margin will be rebated to Ireland in 2016. (The total aggregate liability including the prepaid margin at end-June 2015 was €50.2 billion.)

d The bilateral loans are with the United Kingdom, Denmark and Sweden.

Figure A5 Maturity profile of government bonds, at year-end 2009 to 2014 and end-June 2015[a]

	Under 5 years €m	5 to 10 years €m	Over 10 years €m	Total €m
2009	25,687	29,296	15,875	**70,858**
2010	28,298	53,520	8,284	**90,102**
2011	33,670	43,356	8,284	**85,310**
2012	30,548	44,733	12,572	**87,853**
2013	32,490	40,656	37,861	**111,007**
2014	40,659	34,653	41,027	**116,339**
End-June 2015[b]	38,366	38,542	47,474	**124,382**

Source: National Treasury Management Agency

Notes:
a End-June 2015 figures have not been audited.

b Maturity refers to the position at the end of the calendar year.

Figure A6 Maturity profile of short-term paper, at year-end 2009 to 2014 and end-June 2015[a]

	Less than one month	One to three months	Three to six months	Over six months	Total
	€m	€m	€m	€m	€m
2009	4,561	8,628	2,913	159	**16,261**
2010	2,186	3,286	1,392	108	**6,972**
2011	2,796	106	18	–	**2,920**
2012	1,147	1,417	93	33	**2,690**
2013	445	747	1,428	25	**2,645**
2014	1,114	1,554	1,074	360	**4,102**
End-June 2015	1,615	2,602	2,866	451	**7,534**

Source: National Treasury Management Agency

Note: a End-June 2015 figures have not been audited.

Figure A7 Cash and other financial assets, at year-end 2007 to 2014 and end-June 2015[a]

	2007 €m	2008 €m	2009 €m	2010 €m	2011 €m	2012 €m	2013 €m	2014 €m	End-June 2015 €m
Exchequer account	3,997	21,269	21,026	11,399	13,099	15,280	4,432	4,089	8,296
Capital services redemption account	–	–	–	600	–	–	–	–	18
Housing Finance Agency guaranteed notes	–	–	–	3,585	3,848	3,982	3,704	3,145	3,232
Bank deposits	490	790	790	580	30	2,680	3,679	2,984	2,860
Collateralised deposits	–	–	–	–	–	340	7,389	–	–
Non Irish treasury bills	–	–	–	–	–	1,045	3,041	1,474	1,734
Credit support agreements collateral funding	–	–	–	–	715	523	1,356	511	45
Tri-party reverse repurchase agreements	–	–	–	–	–	–	–	2,556	1,757
Total cash and financial assets	**4487**	**22,059**	**21,816**	**16,164**	**17,692**	**23,850**	**23,601**	**14,759**	**17,942**

Source: National Treasury Management Agency

Note: a End-June 2015 figures have not been audited.

3 Cost of Banking Stabilisation Measures as at end-2014

3.1 Following the onset of the financial crisis in 2008, the State undertook a number of measures to stabilise the banking system. The initial responses to the crisis, in late 2008 and 2009, focused on liquidity support by the Central Bank of Ireland and State guarantees for bank liabilities. Some of these measures gave rise to significant contingent liabilities for the State.

3.2 Measures taken since 2008 include the provision by the Central Bank of exceptional liquidity assistance to domestic banks, the provision of Government guarantees of deposits and certain other liabilities, recapitalisation of domestic banks and the establishment of the National Asset Management Agency (NAMA) to acquire impaired assets from banks.

3.3 The purpose of this report is to provide an estimate, as at end-2014, of the financial cost of the banking stabilisation measures taken by the State. The report also outlines the extent of consultancy costs incurred in respect of banking stabilisation activities and the costs incurred in respect of the shareholding management unit of the Department of Finance (the Department), which has responsibility for managing the State's investments in the banks.

Overview of Costs

3.4 The sums involved in recapitalising banks, including covering their losses, are relatively straightforward to identify. Income accruing from the investments is also generally identifiable. However, estimation procedures are required to identify the costs incurred by the State in funding the investments and in arriving at a valuation of the State's interest in banking assets. It should also be noted that the estimates are at a point in time, and will change – the State's shareholdings in banks may rise or fall in value in the future, and the cost of servicing the debt used to fund the investments will continue to accrue for many years to come.

3.5 The examination analysis has estimated that the net cost to the State from banking stabilisation measures up to end-2014 was around €60 billion. The estimated value at 31 December 2014 of the State's investments in banks was around €17 billion, resulting in a net outturn for the State of around €43 billion (see Figure 3.1). The long-term annual recurring cost to the State of servicing the debt associated with these investments will be determined by the level of interest rates, in particular, the State's cost of borrowing.[1]

3.6 In addition, at the end of 2014

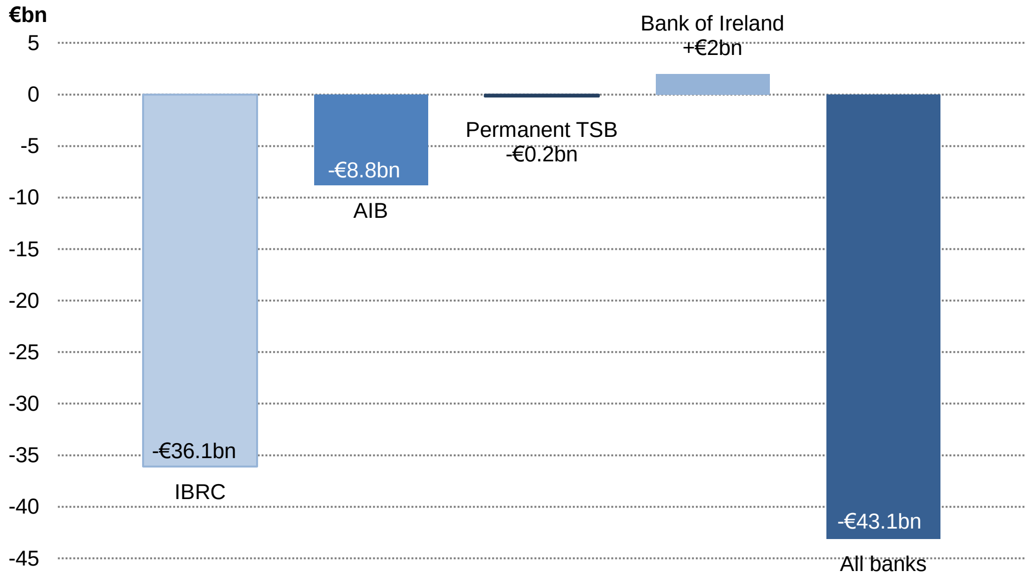
- NAMA had reported accumulated losses of €126 million. NAMA has, however, indicated that it anticipates making a surplus of up to €1 billion when it is wound up.
- Payments of around €152 million in respect of consultancy services had been made by the Central Bank, the National Treasury Management Agency (NTMA), the Department and the National Pensions Reserve Fund (NPRF).
- Since August 2011, approximately €7.6 million had been incurred in operating a dedicated banking and shareholding management unit in the Department.

1 Other factors that will determine the long-term debt servicing cost include the amount the State realises for its remaining investments and the period for which the Central Bank continues to hold government bonds.

Figure 3.1 Estimated net outturn from banking stabilisation measures as at 31 December 2014

	€ billion	€ billion
Cost of capitalising banks (investments)		**66.8**
Estimated cost of servicing debt (to end December 2014) [a]		**8.7**
Less income arising from:		
Disposals of investments	(5.3)	
Income from investments	(3.8)	
Net income from liability guarantee schemes	(3.3)	
Estimated related income from the Central Bank[b]	(3.3)	**(15.7)**
Estimated net cost to the State from banking stabilisation measures as at 31 December 2014		**59.8**
Estimated residual value of investments at 31 December 2014		**(16.7)**
Estimated net outturn to the State from banking stabilisation measures as at 31 December 2014		**43.1**
Estimated annual cost of servicing the debt[c]		***0.85 – 1.7***

Estimated net outturn by bank as at end-2014



Source: Analysis by the Office of the Comptroller and Auditor General. See Annex A for further detail.

Notes:
a The estimated cost of servicing the debt associated with the investment in banks includes the imputed debt service costs of investments made by the NPRF.

b The examination has estimated the portion of the Central Bank's surplus income that is attributable to banking stabilisation measures.

c Range assuming interest rates of 2% to 4% per year; actual cost will be determined by State's cost of borrowing.

Capitalisation of Banks

3.7 The investments of €66.8 billion were funded through

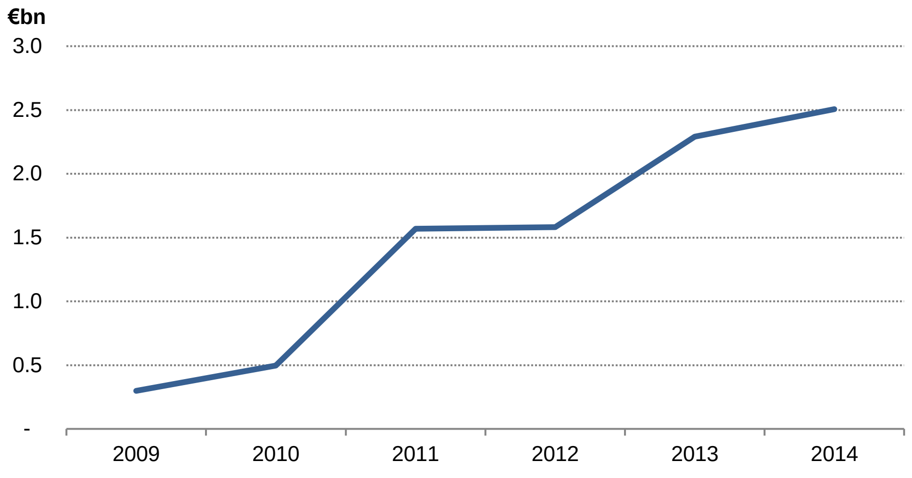
- the Exchequer – €44.4 billion, including €30.85 billion in the form of promissory notes. In February 2013, following the appointment of special liquidators to IBRC, promissory notes to the value of €25.034 billion which were held by the Central Bank as collateral for lending to IBRC were replaced by government bonds
- the NPRF – €22.4 billion, including re-investment of €1.7 billion in ordinary shares received in lieu of dividends on preference shares.

3.8 Further detail on the investments and the income from them is set out in Annex B.

Debt Service Costs

3.9 In addition to the capital cost of the investments, the State bears the annual debt service costs associated with them. The examination has estimated the debt service cost to the State associated with the investments (including the imputed debt service costs of investments made by the NPRF) was around €8.7 billion in total for the period 2009 to 2014 (see Figure 3.2).

Figure 3.2 Estimated debt service costs associated with the State's investments in banks, 2009 to 2014



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

3.10 The estimated debt service costs comprise two elements

- the interest costs incurred in respect of borrowings to fund cash investments by the Exchequer, promissory notes issued by the Minister for Finance and government bonds issued by the NTMA, and
- the imputed interest costs of the funding used by the NPRF in its investments (see Figure 3.3).

Figure 3.3 Investments by NPRF – imputed debt service costs

The NPRF funded its investments from its own resources. Therefore, there was no direct interest charge to the State for these investments. However, if the NPRF funds (approximately €20.7 billion cash investment) had not been invested in the banks, either the NPRF would have invested the funds to earn a return or the funds could have been available to the State and used as an alternative to borrowing for other purposes. Thus, there is an opportunity cost to the State for the investment. For the purposes of this examination, this imputed cost has been calculated as the interest incurred by the Exchequer on the borrowings that could have been avoided if the NPRF funds had been available to the State for purposes other than investing in banks.

3.11 Interest on the national debt, together with interest payments on promissory notes, for the period 2009 to 2014 was around €31.7 billion. The €8.7 billion estimated cost of servicing the debt associated with investments to end-2014 (including the imputed debt service costs of the NPRF investments) represents almost 28% of this.

3.12 Further detail of the estimated debt service costs and the methodology used by the examination are set out in Annex C.

Banking Stabilisation Related Income from the Central Bank

3.13 The Central Bank may retain up to 20% of its surplus income annually, thereby increasing its reserves.[1] It pays the balance to the Exchequer in the form of an annual dividend, in the year subsequent to the year in which the income was earned.

3.14 For the years 2009 to 2014, the examination has estimated that around €4.1 billion of the Central Bank's surplus income was attributable to financial instruments held as a result of banking stabilisation measures taken by the State, of which €3.3 billion was paid to the State in the form of dividends (see Figure 3.4). This represented 52% of the total dividends (€6.4 billion) paid by the Central Bank over this period.

Figure 3.4 Estimate of Central Bank dividend attributable to transactions in respect of banking stabilisation measures, 2009 to 2014

	Net interest income	Gains on disposal of bonds	Total	80% included in dividends paid to State
	€bn	€bn	€bn	€bn
Exceptional liquidity assistance [a]	1.89	–	1.89	1.51
Government bond, or Government-guaranteed bonds, held by the Central Bank[b]	1.48	0.74	2.22	1.78
Total	**3.37**	**0.74**	**4.11**	**3.29**

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

Notes: a Between 2009 and 2013, exceptional liquidity assistance was advanced to the four banks capitalised by the State.

b These included IBRC-related bonds issued by NAMA, bonds issued to meet a promissory note payment of €3.06 billion and bonds issued to replace promissory notes to the value of €25.034 billion when IBRC was liquidated.

1 The Central Bank Commission determines the amount of surplus income to be retained annually. For each year from 2008 to 2014, the Central Bank retained 20% of its surplus income.

3.15 The bulk of the exceptional liquidity assistance (almost 90% based on interest received by the Central Bank) was provided to IBRC and all of the income and gains in respect of government bonds was related to IBRC. In total, an estimated 95% of the €3.3 billion portion of the Central Bank's dividends to the State for the years 2009 to 2014 that arises from banking stabilisation measures is attributable to transactions between the Central Bank and IBRC (see Figure 3.5).

Figure 3.5 Amount of Central Bank dividend for the years 2009 to 2014 attributable to banking stabilisation measures, by bank

	AIB	Bank of Ireland	Permanent TSB	IBRC	Total
	€bn	**€bn**	**€bn**	**€bn**	**€bn**
Dividend attributable to banking stabilisation measures	0.05	0.08	0.04	3.12	**3.29**

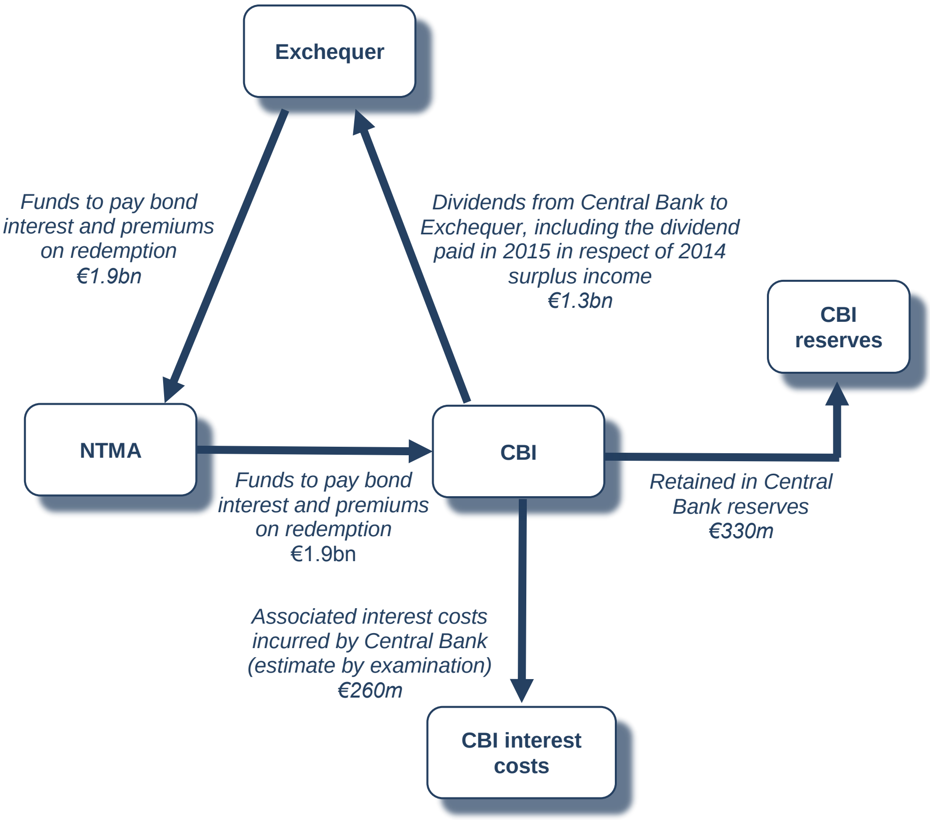
Source: Analysis by the Office of the Comptroller and Auditor General.

3.16 For the years 2009 to 2014, the Central Bank's reserves increased by €1.36 billion from €1.32 billion to €2.68 billion. The examination estimated that around €820 million of this is due to net income that the Central Bank has retained from transactions in respect of banking stabilisation measures (€380 million in respect of interest earned on exceptional liquidity assistance and €440 million in respect of interest and gains on government bonds).

3.17 The interest on the bonds held by the Central Bank is paid by the NTMA, from Exchequer funds. In addition, in 2014, the NTMA repurchased some of the bonds from the Central Bank at a premium, generating a gain of €180 million for the Central Bank.

3.18 A significant proportion (estimated by the examination at almost 70%) of the interest and premiums paid by the NTMA to the Central Bank has been returned to the Exchequer as part of the dividend paid by the Central Bank from its surplus income, thereby reducing the net cost of servicing this part of the debt. This circular flow of funds is described in Figure 3.6.

Figure 3.6 IBRC-related bonds held by Central Bank – flow of funds from/to Exchequer, 2013 and 2014[a]



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

Note: a In addition, the Central Bank realised a further €562 million from the disposal of IBRC-related bonds on the open market. These funds did not come from the Exchequer.

Government Bonds held by the Central Bank

3.19 In 2013, the Central Bank acquired government bonds issued by the NTMA following the liquidation of IBRC.

- Floating rate bonds with a nominal value of €25.034 billion with maturities ranging from 25 to 40 years, issued to replace promissory notes.
- A 5.4% Irish 2025 government bond with a nominal value of €3.5 billion.

3.20 During 2013 and 2014, the Central Bank realised gains of almost €743 million from the disposal of some of these bonds.

- €180 million of the gains arose from a disposal back to the NTMA of floating rate bonds with a nominal value of €500 million.
- €562 million of the gains arose from disposals to the open market of €2.65 billion nominal value of the 5.4% government bonds.

3.21 In addition, the Central Bank acquired other assets, including NAMA bonds, as a result of the liquidation of IBRC.

3.22 At the end of 2014, the Central Bank reported unrealised gains of €9.4 billion on the remaining bonds that it held at that date – €9.1 billion in respect of the floating rate notes and almost €300 million in respect of the 5.4% Irish 2025 government bond. The gains arose because the yield on government bonds was lower at the time of disposal (realised gains), and at the end of the year for the remaining bonds (unrealised gains), than when the Central Bank acquired the bonds.

3.23 The Central Bank stated in its 2014 annual report that it intends to sell the combined portfolio of the floating rate bonds and the 5.4% bond as soon as possible, provided conditions of financial stability permit. It stated that it will sell minimum amounts of these securities in accordance with the following schedule: 2015-2018 (€0.5 billion per annum), 2019-2023 (€1 billion per annum), and 2024 on (€2 billon per annum until all bonds are sold).

3.24 When the Central Bank disposes of the bonds, the net annual cost to the Exchequer of servicing the debt associated with the investments in banks will increase because the interest on the bonds will then be paid to external parties and none of this will be repaid to the Exchequer in the form of surplus income generated by the Central Bank.

3.25 The net impact of the disposal by the Central Bank of government bonds on the Exchequer is the same whether the bonds are redeemed by the NTMA using funds borrowed at market rates, or the bonds are sold on the open market. The consequent effective cost of servicing the debt that is related to the disposals is the same.

- If the bonds are redeemed by the NTMA using borrowed funds, any premium paid by the NTMA on redemption returns to the State, either as part of the Central Bank dividend or retained by the Bank in its reserves.[1] The NTMA will then pay interest to an external party on the funds it has used to redeem the bonds.
- If the bonds are sold to a third party, the Central Bank will realise a gain. In these circumstances, the NTMA continues to pay interest on the bonds, to the purchaser, at the same rate that would have been paid to the Central Bank. This higher rate of interest is offset for the State by the Central Bank's gain on disposal.

1 It is assumed that the yield on bonds at disposal is lower than the yield when the bonds were issued, giving rise to a gain on disposal for the Central Bank.

3.26 The disposal by the Central Bank of the bonds will result in an increase in the net cost to the Exchequer because interest that had been previously paid to the Central Bank (and either returned to the Exchequer or retained by the Central Bank in its reserves) will become payable to a third party.

3.27 The Central Bank pointed out that the State would not necessarily benefit from a delay in disposal of the bonds. It has indicated that it will not hold the bonds to maturity so they will have to be refinanced at some point, and delayed sales or refinancing may involve larger net servicing costs in the long run, depending on future interest rate movements.

Liability Guarantee Schemes Income

3.28 The State guaranteed certain bank liabilities under three main schemes

- the Deposit Guarantee Scheme (DGS) under which deposits by individuals in covered credit institutions[1] are guaranteed to a limit of €100,000 per eligible depositor per institution. No guarantee fees are payable to the State under this scheme.
- the Credit Institutions (Financial Support) Scheme (CIFS), which operated between 2008 and 2010, provided a guarantee for a broad range of bank liabilities for seven institutions that opted to avail of the scheme. The credit institutions were required to make payments for the protection provided under the scheme.[2]
- the Eligible Liabilities Guarantee Scheme (ELG) came into effect in December 2009 and closed to new liabilities in March 2013. At that time, liabilities of around €74.6 billion were guaranteed under the scheme. The four institutions that participated in the scheme were required to pay fees for the cover they received.[3]

3.29 By the end of 2014, the State had received net income of around €3.3 billion under the schemes – €4.4 billion had been received in fees and almost €1.1 billion had been paid in claims (see Figure 3.7). Further detail on each scheme is set out in Annex D.

Figure 3.7 Net income from liability guarantee schemes, 2010 to 2014

	DGS	CIFS	ELG	Total
	€bn	€bn	€bn	€bn
Fees paid to the Exchequer [a]	–	0.8	3.6	4.4
Claims paid by the Exchequer	–	–	(1.1)[b]	(1.1)
Net income	**–**	**0.8**	**2.5**	**3.3**

Sources: Central Bank and Department of Finance.

Notes: a Includes approximately €8 million in interest earned when the fees were on deposit in the Central Bank.

b The Department stated that the €1.1 billion paid under the ELG scheme is expected to be recovered when the liquidation of IBRC is completed.

Ongoing Debt Servicing Costs and Income from 2015

3.30 At the end of 2014, the Exchequer continues to incur the cost of servicing the debt associated with the €60 billion cost of the investments in the banks. The examination estimated that this cost is likely to be around €2.3 billion for 2015. The bulk of this is in respect of IBRC (around €1.2 billion) and AIB (around €0.9 billion).[4]

1 Only institutions that are licensed to receive deposits in Ireland and are authorised by the Central Bank are covered.

2 The institutions that availed of the scheme were AIB, Anglo, Bank of Ireland, EBS, Irish Life and Permanent, INBS and Postbank Limited (the 'covered institutions').

3 AIB, IBRC, Bank of Ireland and Irish Life and Permanent.

4 The ongoing annual costs of funding for the other two banks are estimated at around €60 million for Bank of Ireland and €100 million for Permanent TSB.

3.31 Around a third of the estimated annual debt servicing costs for 2015 are in respect of the government bonds held by the Central Bank, which currently holds most of the bonds that were issued by the State following the liquidation of IBRC. The cost of servicing the debt associated with the investments will be partially offset by surplus income paid to the Exchequer by the Central Bank from the interest it earns from these bonds, and from any gains on disposals.

3.32 In addition, the State continues to receive some fees in respect of liabilities that are covered under the ELG scheme – these have fallen significantly in 2013 and 2014.

3.33 The long-term cost of servicing the debt associated with the investments will depend on a number of factors including

- the amount the State realises for its remaining investments. As further disposals of the investments are made by the State, the debt associated with the investments will fall. If the State realises the estimated value of the remaining investments as at end-2014 (€16.7 billion), it will thereafter incur the cost of servicing around €43 billion of debt in the long-term. The amount to be funded may vary from this, if the disposal value of the remaining investments is greater or less than the end-2014 valuations
- the period for which the Central Bank continues to hold government bonds. While the Central Bank continues to hold these bonds, the interest expense for the State will be offset by income from the Central Bank
- the cost of funding for the State as it refinances existing debt when it matures.

3.34 In the long-term, the cost of servicing the debt associated with the investments is projected to be around €430 million annually (if €17 billion is realised for the remaining investments) for each percentage point that the State pays on its debt. For example, at rates of 2% and 4%, the cost of servicing the debt would be between around €850 million and €1.7 billion annually.

National Asset Management Agency

3.35 NAMA's purpose was to acquire certain property-related bank assets (largely property loans to debtors) from Irish banks, to hold and manage the loans and related collateral and ultimately to dispose of these assets in a manner that protects the State's interests.[1]

3.36 NAMA paid €31.8 billion to banks to purchase property-related loans in respect of which the borrowers owed just over €74.4 billion. The loss incurred by the banks on the loans was of the order of €42.6 billion, or 57% of the loans' carrying value.

3.37 NAMA's financial statements from 2010 to 2014 report accumulated losses of €126 million. NAMA has, however, indicated that it anticipates making a surplus of approximately €1 billion when it is wound up.

Cost of Consultancy Services

3.38 The State, through the Central Bank, the NTMA, the Department and the NPRF has used the services of advisors extensively in the course of developing and implementing the measures aimed at stabilising the banking sector.

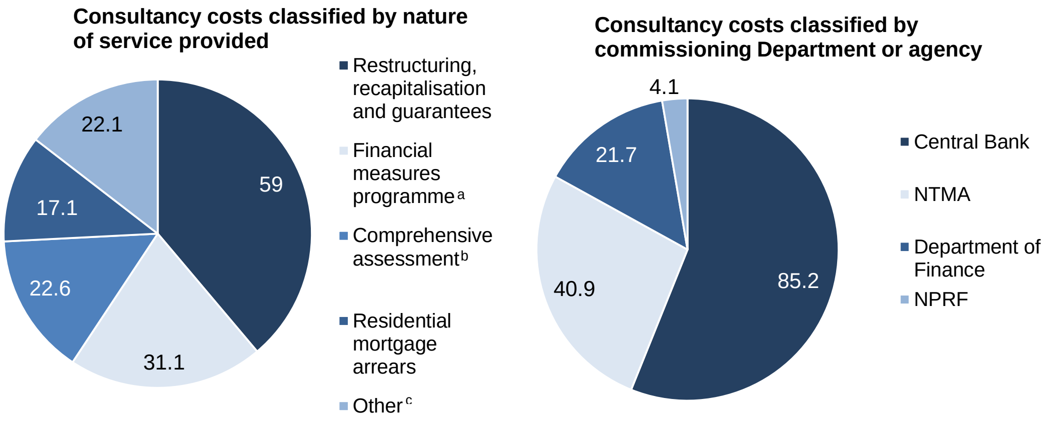
1 The banks were Anglo, AIB, Bank of Ireland, INBS and EBS.

3.39 By the end of 2014, these services had cost almost €152 million. The Department also pointed out that, where appropriate, it receives advice from firms on a pro bono basis.

3.40 Figure 3.8 sets out the consultancy costs incurred, classified by the nature of the service provided and by the commissioning Department or agency. Four firms accounted for 60% of this expenditure – Arthur Cox (€33.1 million), Blackrock Financial Management (€23.5 million), Ernst and Young (€20.9 million) and KPMG (€13.2 million).

3.41 Details of payments made classified by the year in which they were incurred and of the payments made to consultants are set out in Annex E.

Figure 3.8 Payments for consultancy services classified by nature of service and by commissioning body, 2008 to 2014 (€ millions)



Sources: Central Bank, NTMA, Department of Finance and the NPRF.

Notes:
a The Central Bank financial measures programme was a review of the capital and funding assessments of the domestic Irish banks.
b The European Central Bank's comprehensive assessment, incorporating asset quality reviews and stress tests, assessed the financial position of banks in advance of the introduction of the Single Supervisory Mechanism in November 2014.
c Other includes advice of a general nature (€10.0 million) and advice in respect of credit unions (€4.2 million), NAMA (€2.9 million), crisis management (€2.5 million), bank nationalisation (€2.0 million), the banking crisis inquiry (Nyberg) (€0.4 million) and liquidity assistance (€0.1 million).

3.42 The Department stated that it has concluded processes to appoint panels of both financial and legal advisors to assist in matters such as the future sale of the State's bank investments and other assignments that may arise from time to time. The list of the firms on each panel is set out in Annex E.

3.43 The Central Bank and the NTMA pointed out that they recover a large proportion of the consultancy costs from the banks, while the Department states that it also recovers some of the costs.

Shareholding Management Unit

3.44 The NTMA banking unit was seconded to the Department on 5 August 2011 resulting in the creation of a new stand alone shareholding management unit.

3.45 The shareholding management unit is responsible for managing the Minister for Finance's shareholdings in the banking sector and in NAMA, and represents the Minister's interests in relation to the oversight of NAMA, the credit unions and the liquidation of IBRC.

3.46 The cost of operating the unit from inception to the end of 2014 was €7.6 million. At present, there are approximately 20 Department and NTMA staff employed in the unit. The Department pointed out that staff employed in the unit have a wide range of banking, capital markets, corporate finance and legal expertise.

Conclusions

3.47 By the end of 2014, the estimated net cost to the State of measures taken to stabilise the banking system was just under €60 billion. Net investments (after disposals) of just over €61 billion and estimated debt servicing costs associated with the investments of almost €9 billion were offset by net income totalling just over €10 billion from the investments, liability guarantee schemes and associated dividends from the Central Bank.

3.48 At the end of 2014, the estimated value of the State's remaining shareholdings in AIB, Bank of Ireland and Permanent TSB was €16.7 billion. When these shareholdings are taken into account, the estimated net outturn as at end-2014 was a cost of just over €43 billion.

3.49 The total net cost will continue to grow each year because the State will incur the cost of servicing the associated debt – estimated at around €2.3 billion for 2015. This will be offset by income earned by the Central Bank on IBRC-related government bonds while the Central Bank continues to hold those bonds.

3.50 In the long term, when all of the State's remaining shareholdings are sold and the Central Bank has disposed of the government bonds it holds, the cost of servicing the associated long-term debt will be determined by the prevailing borrowing costs for the State – around €430 million for each percentage point incurred. For borrowing rates between 2% and 4%, it is estimated the annual interest cost will be between €850 million and €1.7 billion.

3.51 The estimated net outturn does not take account of any return that the State might obtain from NAMA or of any residual value in IBRC that may accrue to the State. NAMA has indicated that it expects to achieve a surplus of around €1 billion by the time it is wound up.

Exchequer Income from the Central Bank

3.52 It is estimated that around €3.3 billion of the total annual dividends paid to the Exchequer by the Central Bank for the years 2009 to 2014 is attributable to banking stabilisation measures – €1.5 billion in respect of exceptional liquidity assistance provided to banks and €1.8 billion in income and gains from government bonds held by the Central Bank.

3.53 The Central Bank holdings of banking-related government bonds (including Government-guaranteed bonds) has resulted in a circular movement of funds between State bodies. The NTMA paid around €1.9 billion to the Central Bank in 2013 and 2014, of which around €1.3 billion was returned to the Exchequer as part of the Central Bank's annual dividend. The Central Bank retained a further €330 million as reserves.

Outturn for Individual Banks

3.54 There are significant differences between the individual banks in the level of State support provided. After taking account of the estimated residual value of the State's investments and allocation of income and costs, the estimated State outturn, as at 31 December 2014, in respect of each institution was

- IBRC – estimated net cost of €36.1 billion
- AIB – estimated net cost of €8.8 billion
- Permanent TSB – estimated net cost of €0.2 billion
- Bank of Ireland – estimated net surplus of €2 billion.

3.55 The ongoing costs of servicing the debt associated with the investments are largely attributable to the measures taken to recapitalise IBRC and AIB.

- An estimated €1.2 billion will be incurred in respect of IBRC in 2015, although this will be offset by income from the Central Bank as it holds most of the IBRC-related government bonds.
- Approximately €0.9 billion will be incurred in respect of AIB.
- Less than €0.2 billion, in total, will be incurred in respect of Bank of Ireland and Permanent TSB.

Annex A Outturn as at end-2014

Figure 3.9 shows the components of the net outturn from banking stabilisation measures as at 31 December 2014 for each bank.

Figure 3.9 Estimated net outturn, by bank, from banking stabilisation measures as at 31 December 2014

	AIB[a]	Bank of Ireland	Permanent TSB[a]	*Trading banks – total*	IBRC[a]	Total
	€bn	€bn	€bn	*€bn*	€bn	€bn
Cost of capitalising banks, through investments	*(22.2)*	*(5.9)*	*(4.0)*	*(32.1)*	*(34.7)*	*(66.8)*
Estimated cost of servicing debt associated with the investments	*(3.7)*	*(0.7)*	*(0.4)*	*(4.8)*	*(3.9)*	*(8.7)*
Disposals of investments	–	*4.0*	*1.3*	*5.3*	–	*5.3*
Income from investments	*2.0*	*1.6*	*0.2*	*3.8*	–	*3.8*
Estimated net cost of capitalisation measures	(23.9)	(1.0)	(2.9)	*(27.8)*	(38.6)	(66.4)
Fees received under liability guarantee schemes	1.7	1.5	0.7	*3.9*	0.5	4.4
Claims made under liability guarantee scheme	–	–	–	–	(1.1)	(1.1)
Related income from the Central Bank [b]	0.1	0.1	–	*0.2*	3.1	3.3
Estimated net cost as at 31 December 2014	***(22.1)***	***0.6***	***(2.2)***	***(23.7)***	***(36.1)***	***(59.8)***
Estimated residual value as at 31 December 2014[c]	13.3	1.4	2.0	*16.7*	–	16.7
Estimated net outturn as at 31 December 2014	**(8.8)**	**2.0**	**(0.2)**	***(7.0)***	**(36.1)**	**(43.1)**

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

Notes:

a Investments in Allied Irish Banks plc (AIB) include those in the Educational Building Society (EBS) which was acquired by AIB in July 2011. Irish Life and Permanent changed its name to Permanent TSB in May 2012. IBRC was formerly Anglo Irish Bank (Anglo) and Irish Nationwide Building Society (INBS).

b Around €40 million of the related income from the Central Bank is attributable to Permanent TSB. Due to rounding, it does not appear in Figure 3.9.

c See Annex B for further details.

Annex B Capitalisation of Banks through Investments

In total, the State made capital injections of €66.8 billion, net of fee income of just over €260 million, into four financial institutions and had, by the end of 2014, made disposals to the value of €5.3 billion (see Figure 3.10).

Figure 3.10 Capitalisation of banks – investments and disposals, December 2014

	AIB	Bank of Ireland	Permanent TSB	*Trading banks - total*	IBRC	Total
Investments	**€bn**	**€bn**	**€bn**	***€bn***	**€bn**	**€bn**
Ordinary shares [a]	(10.8)	(3.1)	(2.3)	(16.2)	(4.1)	(20.3)
Preference shares [b]	(3.5)	(1.8)	–	(5.3)	–	(5.3)
Capital contribution	(6.0)	–	–	(6.0)	–	(6.0)
Contingent capital notes [c]	(1.6)	(1.0)	(0.4)	(3.0)	–	(3.0)
Value of promissory notes issued [d]	(0.3)	–	–	(0.3)	(30.6)	(30.9)
Irish Life	–	–	(1.3)	(1.3)	–	(1.3)
Investments net of fee income [e]	**(22.2)**	**(5.9)**	**(4.0)**	**(32.1)**	**(34.7)**	**(66.8)**
Disposals						
Ordinary shares	–	1.1	–	1.1	–	1.1
Preference shares	–	1.9	–	1.9	–	1.9
Contingent capital notes	–	1.0	–	1.0	–	1.0
Irish Life	–	–	1.3	1.3	–	1.3
Disposals of investments	**–**	**4.0**	**1.3**	**5.3**	**–**	**5.3**
Net investment	**(22.2)**	**(1.9)**	**(2.7)**	**(26.8)**	**(34.7)**	**(61.5)**

Sources: NPRF and Department of Finance.

Notes:
a Ordinary shares include dividends on preference shares received in the form of ordinary shares (AIB €1.41 billion and Bank of Ireland €0.25 billion).

b In March 2009, the NPRF invested €3.5 billion in preference shares in Bank of Ireland. In Quarter two 2010, a total of €1.66 billion of these shares were converted to ordinary shares (included in ordinary shares above).

c Contingent capital notes qualify as tier two capital. They convert to ordinary shares under certain circumstances, including if the core tier one capital ratio falls below 8.25%.

d The promissory notes held by IBRC were cancelled in February 2013 and exchanged between the NTMA and the Central Bank for floating rate treasury bonds totalling €25.034 billion.

e Fee income deducted from investments totalled around €260 million.

Income from Investments and Estimated Residual Value of State's Investments in Banks

Total income received in respect of the investments to the end of 2014 amounted to €3.8 billion and the estimated residual value of the State's investments in banks as at 31 December 2014 was €16.7 billion (see Figure 3.11).

Figure 3.11 Income from and estimated residual value of State's investments in banks, December 2014

Income from investments	**AIB**	**Bank of Ireland**	**Permanent TSB**	**Total**
	€bn	**€bn**	**€bn**	**€bn**
NPRF				
Fee income on preference shares	0.03	0.03	–	0.06
Ordinary shares in lieu of dividends on preference shares	1.41	0.25	–	1.66
Dividends on preference shares	–	0.74	–	0.74
Cancellation of preference share warrants	0.05	0.49	–	0.54
Exchequer				
Coupon interest on contingent capital notes	0.48	0.15	0.12	0.75
Accrued dividend on sale of Irish Life	–	–	0.04	0.04
Total	**1.97**	**1.66**	**0.16**	**3.79**

Estimated residual value of investments	**Valuation**
Bank	**€bn**
IBRC [a]	–
AIB [b]	13.3
Bank of Ireland [c]	1.4
Permanent TSB [d]	2.0
Total	**16.7**

Sources: NPRF and Department of Finance.

Notes:

a The Department stated that it considers the outstanding investment in IBRC to be irrecoverable.

b Equity (€7.2 billion), preference shares (€4.6 billion) and contingent capital notes (€1.6 billion), The figures do not tot to €13.3 billion due to rounding. The equity and preference shares were valued, by Ernst and Young, on behalf of the Ireland Strategic Investment Fund (ISIF). The assets of the NPRF transferred to the ISIF in December 2014. The contingent capital notes were valued at cost.

c The equity held in Bank of Ireland (€1.4 billion) was valued at market prices.

d Equity (€1.6 billion) and contingent capital notes (€0.4 billion). The State made an equity investment of €2.3 billion in Permanent TSB. This investment has not been valued since then. No such valuation was required for Government accounting purposes. In 2015, Permanent TSB conducted a capital raising exercise in which the State did not participate. Following this exercise, Permanent TSB requested the Minister for Finance to sell part of its shareholding in order to reduce the State's share of the enlarged share capital to 75% to facilitate a main market listing on the Irish and London stock exchanges. The State received €97 million for the disposal. The Department estimated that the value of the State's remaining equity investment is €1.5 billion based on market prices in August 2015. On the basis of the disposal in May and this estimated valuation, the residual value of the equity as at end-2014 is €1.6 billion. The contingent capital notes were valued at cost.

Annex C Estimated Cost of Servicing the Debt Associated with the State's investments

The examination has estimated the cost of servicing the debt associated with the investments, including the imputed debt service costs of NPRF investments, as at end-2014 as around €8.7 billion (see Figure 3.12).

Figure 3.12 Estimated cost of servicing debt associated with the investments, 2009 to 2014 (including the imputed debt service costs of NPRF investments)

Classified by Year

Source of funding	2009 €bn	2010 €bn	2011 €bn	2012 €bn	2013 €bn	2014 €bn	Total €bn
Exchequer	0.08	0.17	0.35	0.72	0.75	0.74	2.81
Promissory notes	–	–	0.57	0.01	0.01	0.01	0.60
Floating rate notes [a]	–	–	–	–	0.67	0.95	1.62
NPRF	0.22	0.33	0.65	0.84	0.86	0.81	3.71
Total	**0.30**	**0.50**	**1.57**	**1.57**	**2.29**	**2.51**	**8.74**

Classified by Bank

Source of funding	AIB €bn	Bank of Ireland €bn	Permanent TSB €bn	*Trading banks – total* *€bn*	IBRC €bn	Total €bn
Exchequer	0.61	0.04	0.39	*1.04*	1.77	2.81
Promissory notes	0.05	–	–	*0.05*	0.55	0.60
Floating rate notes	–	–	–	–	1.62	1.62
NPRF	3.02	0.69	–	*3.71*	–	3.71
Total	**3.68**	**0.73**	**0.39**	***4.80***	**3.94**	**8.74**

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

Note: a The cost of funding the floating rate notes includes premiums paid by the NTMA to repurchase some of these notes from the Central Bank.

Promissory Notes

Promissory notes were issued to EBS (€250 million) and IBRC (€30.6 billion) in 2010. By the end of 2014, the State had made capital repayments of €49 million in respect of the promissory notes issued to EBS, in addition to interest of €51 million, leaving a balance of €201 million. A further payment in 2015 reduced the balance to €187 million.

In respect of the promissory notes issued to IBRC

- the interest charge in respect of 2010 was €554 million. Under the terms of the notes, no interest was charged for 2011 or 2012
- by the end of 2012, the State had made promissory note payments of €6.12 billion, in the form of government bonds to the value of €3.06 billion and cash of €3.06 billion, leaving a net balance of just over €25 billion
- when joint special liquidators were appointed to IBRC in February 2013, the remaining promissory notes, which were held by the Central Bank as collateral for lending to IBRC at that time, were replaced with government bonds to the value of €25 billion. These bonds were issued by the NTMA to the Central Bank.

Bonds Issued to Replace Promissory Notes

Floating rate bonds with a nominal value of €25 billion were issued by the NTMA to the Central Bank with maturities ranging from 25 to 40 years. The rate of interest on the bonds is based on the 6-month Euribor interest rate plus a fixed margin averaging 2.62% across the eight issues.

In 2014, the Central Bank sold €500 million of these bonds back to the NTMA. Due to the drop in the cost of borrowing, the value of the bonds had increased and the Central Bank made a gain of €180 million on the disposal.

The methodology used to calculate the estimated cost of servicing the debt associated with each source of funding is set out in Figure 3.13.

Figure 3.13 Methodologies used to estimate cost of funding investments in banks as at end-2014

Source of funding	Method
Exchequer funding	▪ The cost of funding investments was estimated using the rate of the most recent borrowing by the NTMA in the quarter in which the transactions occurred, using rates provided by the NTMA. ▪ For disposals or income received in cash, the reductions in the cost of funding when the proceeds were received by the Exchequer were calculated using the same approach.
Promissory notes	▪ The cost of funding the promissory notes is the amount of interest paid by the State.
Government bonds	▪ The cost of funding government bonds (including floating rate notes) was calculated using the rates applying to the bonds.
NPRF	The NPRF funded its investments from its own resources. Therefore, there was no direct interest charge to the State for these investments. However, there was an opportunity or imputed cost to the State because, if the funds had not been invested in the banks, they would have been available for other purposes. Two approaches were considered by the examination as a basis for estimating the imputed cost of funding to the State. ▪ The first was to estimate the opportunity cost – that is, what the NPRF would have earned if it had retained the funds to invest at its discretion. The NPRF pointed out that the assets liquidated to fund the investments in the banks were mainly liquid global assets (including debt and equity instruments), which left the Fund with an increased weighting in illiquid assets (including private equity and property). The NPRF stated that if the withdrawals had not occurred, it is reasonable to assume that the Fund would have remained invested in line with its long-term strategic asset allocation and that the Fund would have earned the same return as its long-term strategic benchmark over the period 2009 to 2014 – around 11% per annum. ▪ The second was to estimate the cost of the funds at the Exchequer's cost of borrowing, on the basis that if the funds had been available to the Exchequer, State borrowing could have been reduced by the cost of the investments made by the NPRF (€20.7 billion). The imputed interest cost has been calculated, by the examination, as the interest incurred by the State on the borrowings that could have been avoided if the NPRF funds had been available to the State for purposes other than investing in banks. For disposals or income received in cash, the reductions in the cost of funding when the proceeds were received by the NPRF were calculated using the same approach. The second approach (which gave a significantly lower cost of funding than the first approach) was used by the examination.

Annex D Liability Guarantee Schemes

Certain liabilities of banks were guaranteed by the State under three main schemes - a Deposit Guarantee Scheme, the Credit Institutions (Financial Support) Scheme and the Eligible Liabilities Guarantee Scheme.

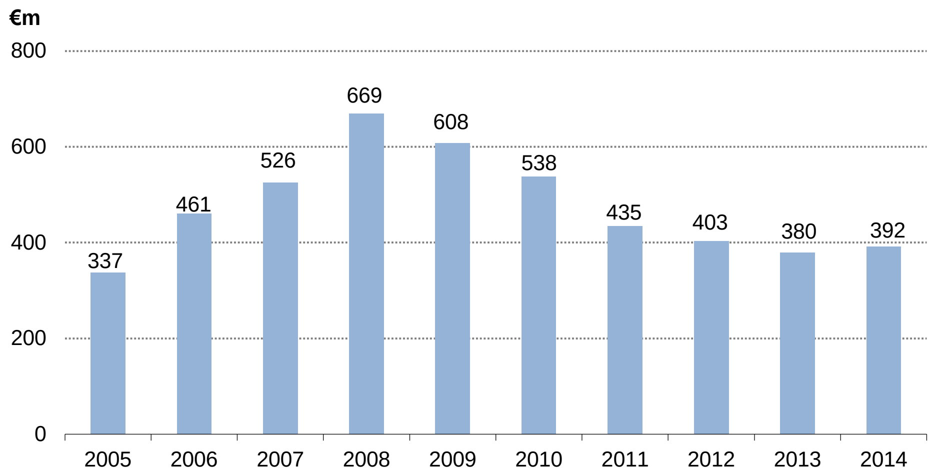
Deposit Guarantee Scheme

The Deposit Guarantee Scheme guarantees eligible deposits up to €100,000 per depositor in any bank, building society or credit union licensed to receive deposits in Ireland and authorised by the Central Bank.[1]

Banks, including credit unions with effect from 30 November 2012, subject to the provisions of the scheme are required to deposit funds to the value of 0.2% of their total deposits in a Deposit Protection Account administered by the Central Bank. Any claims of depositors under the scheme would be met in the first instance from the resources of the Deposit Protection Account and any residual shortfall would then be met from the Central Fund of the Exchequer which would be recouped in due course from the banking sector.

At the end of 2014, 32 banks and building societies and 377 credit unions were subject to the provisions of the scheme. The balance in the Deposit Protection Account at that date was €392 million (see Figure 3.14).

Figure 3.14 Deposit protection account balance at year-end 2005 to 2014



Source: Central Bank Statement of Accounts 2005 to 2014

Payments, totalling €47 million, were made under the scheme to eligible depositors subsequent to the liquidations of IBRC (€36 million)[2] and Berehaven Credit Union (€11 million).[3] The payments were met from the Deposit Protection Account and no call was made on Exchequer funds.

CIFS Bank Guarantee Scheme

The Credit Institutions (Financial Support) Scheme (the CIFS Bank Guarantee Scheme), which operated from September 2008 to September 2010, provided a guarantee for a broad range of bank liabilities for seven covered institutions that opted to avail of the scheme.[4]

1 Financial Services (Deposit Guarantee Scheme) Act 2009.

2 €25 million paid in 2013 and €11 million paid in 2014.

3 Berehaven Credit Union was liquidated in July 2014.

4 The legal basis for the scheme was provided through the Credit Institutions (Financial Support) Act 2008, which was signed into law on 2 October 2008. The institutions that availed of the scheme were AIB, Anglo, Bank of Ireland, EBS, Irish Life and Permanent, INBS and Postbank Ireland Limited (the 'covered institutions').

The CIFS Bank Guarantee Scheme expired on 29 September 2010 and any liabilities that had not transferred to the Eligible Liabilities Guarantee Scheme by that date no longer benefited from a Government guarantee.

The covered institutions were required to make payments for the protection provided under the scheme. As a result, just over €759 million was received from the banks and almost €4.6 million in interest was earned on the balances held. After the expiry of the scheme, the total amount raised was paid over to the Exchequer as no claims had been made.

Eligible Liabilities Guarantee Scheme

The Eligible Liabilities Guarantee Scheme (ELG scheme) came into effect in December 2009. It was designed to provide a longer-term guarantee of certain banking liabilities. The scheme is administered by the NTMA on behalf of the Minister.

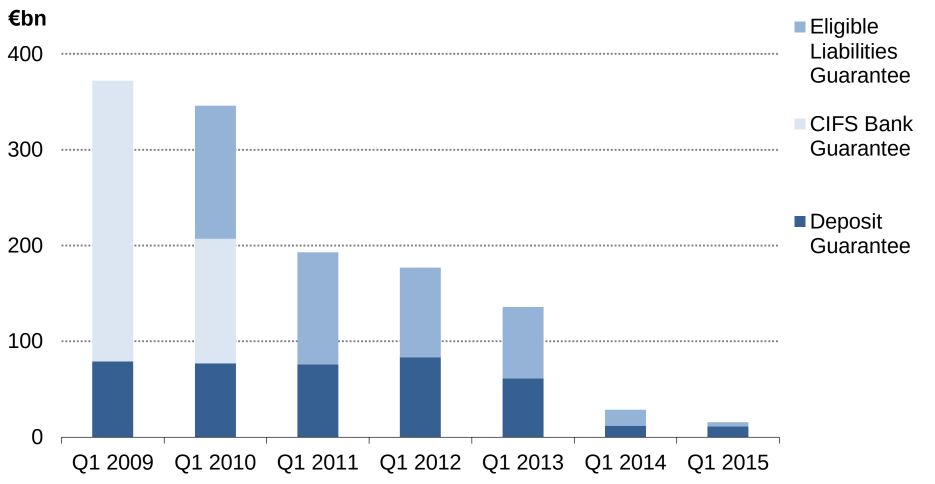
The four institutions participating in the ELG scheme pay a fee for the cover they receive.[1] Fee payments are made into a designated account at the Central Bank and are paid quarterly to the Exchequer in arrears. Fees collected from the institutions to the end of December 2014 amounted to just over €3.58 billion with interest earned on the account totalling €3.28 million. The total has been paid over in full to the Exchequer.

On 26 February 2013, the Minister announced the closure of the scheme to all new liabilities with effect from midnight on 28 March 2013. Amounts covered by the scheme when it closed totalled €74.6 billion, but had reduced to €4.2 billion by March 2015 (see Figure 3.15).

Claims Under the Scheme

A number of claims under the scheme were made following the liquidation of IBRC in February 2013. Total claim payments at 31 December 2014 were €1,072 million – €934 million in respect of bonds and €138 million for deposits. A further €2 million has been paid in claims in 2015 in respect of IBRC deposits.

Figure 3.15 Guaranteed liabilities of covered institutions, March 2009 to March 2015



Source: Department of Finance

1 AIB, IBRC, Bank of Ireland and Irish Life and Permanent.

Annex E Payments for Consultancy Services

The State, through the Central Bank, the NTMA, the Department and the NPRF, has used the services of advisors in the course of developing and implementing the measures aimed at stabilising the banking sector.

By the end of 2014 almost €152 million had been paid by these bodies in respect of consultancy services – Figure 3.16 sets out the payments, classified by the measure for which the related service was provided.

Figure 3.16 Payments for consultancy services for banking stabilisation measures, classified by nature of service provided, 2008 to 2014

	2008	2009	2010	2011	2012	2013	2014	Total
Phase of stabilisation	**€m**	**€m**	**€m**	**€m**	**€m**	**€m**	**€m**	**€m**
Restructuring, recapitalisation and guarantees	6.48	14.24	12.02	18.23	3.36	3.49	1.16	58.98
Financial measures programme	–	–	–	28.13	1.57	1.14	0.30	31.14
Comprehensive assessment	–	–	–	–	–	–	22.62	22.62
Residential mortgage arrears	–	–	–	0.02	7.01	8.67	1.41	17.11
Other[a]	0.06	6.49	2.73	8.39	1.55	1.75	1.10	22.07
Total	**6.54**	**20.73**	**14.75**	**54.77**	**13.49**	**15.05**	**26.59**	**151.92**

Sources: Central Bank, NTMA, Department of Finance and the NPRF.

Notes: a Other includes advice of a general nature (€10.0 million) and advice in respect of credit unions (€4.2 million), NAMA (€2.9 million), crisis management (€2.5 million), bank nationalisation (€2.0 million), the banking crisis inquiry (€0.4 million) and liquidity assistance (€0.1 million).

19 firms received payments totalling €149 million – payments range from €664,000 to €33 million – while a further 53 received a total of €2.9 million – payments ranged from less than €10,000 to just under €350,000 (see Figure 3.17).

Four firms received almost 60% of the total

- payments made to Arthur Cox included €26.9 million in respect of restructuring, recapitalisation and guarantees, €2 million in respect of NAMA and €2 million in respect of bank nationalisation
- payments to Blackrock Financial Management included around €12.5 million in respect of the financial measures programme and €11 million in respect of residential mortgage arrears
- payments to Ernst and Young included €5.9 million in respect of residential mortgage arrears, €10.2 million in respect of the comprehensive assessment and €4.5 million in respect of the financial measures programme
- payments to KPMG included €11.2 million in respect of the comprehensive assessment and €2.0 million in respect of crisis management.

Figure 3.17 Payments for consultancy services for banking stabilisation measures, classified by service provider, 2008 to 2014

Service provider	Central Bank €m	NTMA €m	Department of Finance €m	NPRF €m	Total €m
Arthur Cox	1.86	9.92	19.12	2.16	33.06
Blackrock Financial Management	23.48	–	–	–	23.48
Ernst and Young	20.90	–	–	–	20.90
KPMG	13.19	–	–	–	13.19
Goldman Sachs	–	9.39	–	–	9.39
PricewaterhouseCoopers	6.06	0.45	0.37	1.58	8.46
Merrill Lynch	–	7.33	–	–	7.33
NM Rothschild & Sons	–	6.96	–	–	6.96
Boston Consulting Group UK LLP	5.08	–	–	–	5.08
McKinsey & Company	–	4.41	–	–	4.41
Deloitte and Touche	4.11	–	0.10	–	4.21
Barclays Bank plc	3.51	–	–	–	3.51
Grant Thornton	2.16	–	–	–	2.16
Mazars	1.76	–	0.11	–	1.87
Matheson Ormsby Prentice	0.38	0.07	1.09	–	1.54
McEvoy Partners	–	0.99	–	–	0.99
MKO Partners	0.93	–	–	–	0.93
McCann Fitzgerald	0.86	–	–	–	0.86
AIB Corporate Finance Ltd	–	0.66	–	–	0.66
Other [a]	0.89	0.69	0.94	0.41	2.93
Total	**85.17**	**40.87**	**21.73**	**4.15**	**151.92**

Sources: Central Bank, NTMA, Department of Finance and the NPRF.

Note: a 53 individuals or firms received payments totalling €2.93 million. These payments ranged from less than €10,000 to just under €350,000.

Figure 3.18 Firms qualified to provide specialist financial services to the Department of Finance, 2015

1 – Capital markets, strategic, mergers and acquisitions and restructuring advice	2 – General financial advice	3 – Capital markets distribution services
Bank of America Merrill Lynch	Alvarez and Marsal	Bank of America Merrill Lynch
Barclays	Aon Hewitt	Barclays
Citi	BlackRock Solutions	Citi
Credit Suisse	Boston Consulting Group	Credit Suisse
Deutsche Bank	Citi	Deutsche Bank
Goldman Sachs	Ernst and Young	Goldman Sachs
JP Morgan	Goldman Sachs	Goodbody
Lazard	Goodbody	Investec
Nomura	Grant Thornton	J&E Davy
Rothschild	IBI	JP Morgan
UBS	KPMG	Nomura
	MKO – EisnerAmper	UBS
	Oliver Wyman	
	Promontory	
	UBS	

Source: Department of Finance

Figure 3.19 Firms qualified to provide specialist legal services to the Department of Finance, 2015

William Fry

Arthur Cox

A&L Goodbody

Matheson

McCann Fitzgerald

Mason Hayes & Curran

Byrne Wallace

Source: Department of Finance

Voted Expenditure

4 Vote Accounting and Budget Management

4.1 Dáil Éireann provides money for the services of government departments and offices by

- approving estimates of receipts and expenditure for those services in the course of each year
- giving statutory effect to the estimates in an annual Appropriation Act.

4.2 Expenditure is provided for under ‘votes’, with one or more votes covering the functions of each department or office. The first part of the estimate for each vote (referred to as the ambit) provides an outline of the services to be financed. The ambit is incorporated in the annual Appropriation Act and so represents the purposes for which funds have been authorised by Dáil Éireann.

4.3 At the end of each financial year, each department and office is required to prepare an account, known as the appropriation account, for each voted service administered by it. The statutory requirement is for the appropriation account to report the outturn for the year compared with the amount provided by Dáil Éireann.

Results of 2014 Audits of Appropriation Accounts

4.4 Audits of the 2014 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.

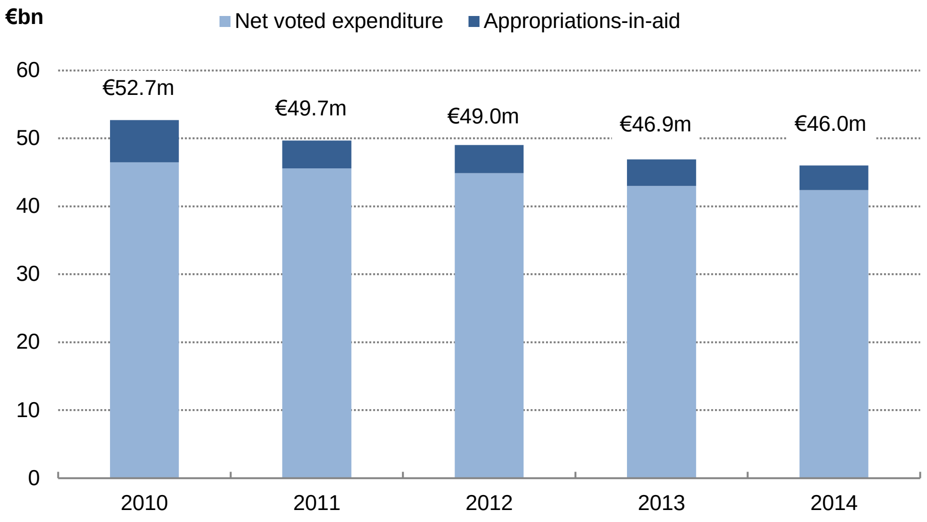
4.5 A summary of the amounts appropriated in 2014 for voted public services is included in Annex A (Figure A1). The outturn for the year is also shown, together with the surplus of appropriations over expenditure.

4.6 The final amount appropriated for public services in 2014 was €46.4 billion. This comprised supply grants of €42.7 billion, capital funding carried over from 2013 totalling €132 million and appropriations-in-aid of €3.6 billion.

Vote Outturn

4.7 Aggregate expenditure and appropriations-in-aid of all votes for the years 2010 to 2014 are summarised in Figure 4.1. The total amount spent by departments and offices in 2014 was €46 billion. After deduction of realised appropriations-in-aid totalling €3.6 billion, the net expenditure in the year was €42.4 billion.

Figure 4.1 Vote outturn, 2010 to 2014



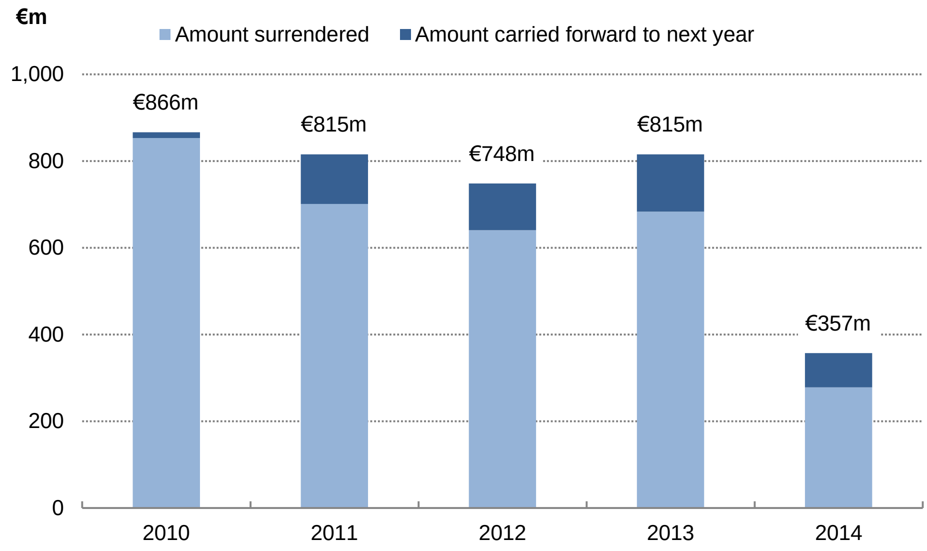
Source: Reports on the Accounts of the Public Services, 2010 to 2014, Annex A

4.8 Departments and offices are not permitted to spend more than the amount appropriated for each vote. When the expenditure in the year is less than the amount provided, the surplus is liable to be surrendered to the Exchequer.

4.9 All departments and offices managed within their overall voted allocations in 2014 and surpluses were recorded by all votes. Consequently, no excess vote occurred in 2014.

4.10 The 2014 surpluses amounted to €357 million (see Figure 4.2). Of that amount, a total of €79 million was approved for carry over to 2015. The balance of €278 million was due for surrender. The sums liable for surrender or carried over to 2015 for each vote are shown in Annex A (Figure A2).

Figure 4.2 Surplus appropriations, 2010 to 2014



Source: Reports on the Accounts of the Public Services, 2010 to 2014, Annex A

Exchequer Extra Receipts

4.11 Certain sums collected by departments and offices are directed by the Department of Public Expenditure and Reform to be credited to the Exchequer, and not treated as appropriations-in-aid. This includes court fine receipts, and Property Registration Authority fee 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, compensation payments and voluntary surrender of salary. Where Exchequer extra receipts arose in 2014, the amounts are shown in notes to the relevant appropriation accounts. The total Exchequer extra receipts recorded by departments and offices in 2014 was €125 million (2013: €120m). The aggregate amount of those receipts reported in each account is set out in Annex A (Figure A3).

Grants-in-Aid

4.12 In addition to covering the ordinary services administered directly by a department or office, a vote may contain financial provision for a particular activity or service administered by an outside body. This financial provision can take the form of a grant or a grant-in-aid to the body. Grants are subject to all the usual requirements pertaining to any payment from a subhead, and any balance remaining unexpended by the grant recipient at the end of the year is liable to be surrendered. A grant-in-aid differs from other voted grants in that any unexpended end-year balance of the sums issued from the vote is not liable to surrender to the Exchequer. In 2014, total issues under grant-in-aid subheads amounted to €1.9 billion.

4.13 The Department of Public Expenditure and Reform's *Public Financial Procedures* states that the total amount paid by way of a grant-in-aid may not exceed the amount specified in the estimate, and savings on other subheads cannot be used to increase a grant-in-aid amount. Apart from one case (discussed below), the amounts paid by way of grant-in-aid were equal to or less than the amounts of the subhead provisions provided by Dáil Éireann, and so were compliant with *Public Financial Procedures*.

4.14 In the case of payments to regional assemblies from the Public Expenditure and Reform vote, the amount paid of €814,000 exceeded the estimate provision of grant-in-aid of €650,000. Notwithstanding the provisions of *Public Financial Procedures* in that regard, the Department sanctioned the reallocation of savings on another subhead to cover the excess expenditure on the grant-in-aid subhead.[1] The Department has stated that sanction was conveyed in this case on the basis of the merits of the application and the availability of savings to facilitate it.

4.15 From 2015, under revised procedures issued by the Department of Public Expenditure and Reform, all funding previously provided by way of grant-in-aid will be reclassified as grants.[2]

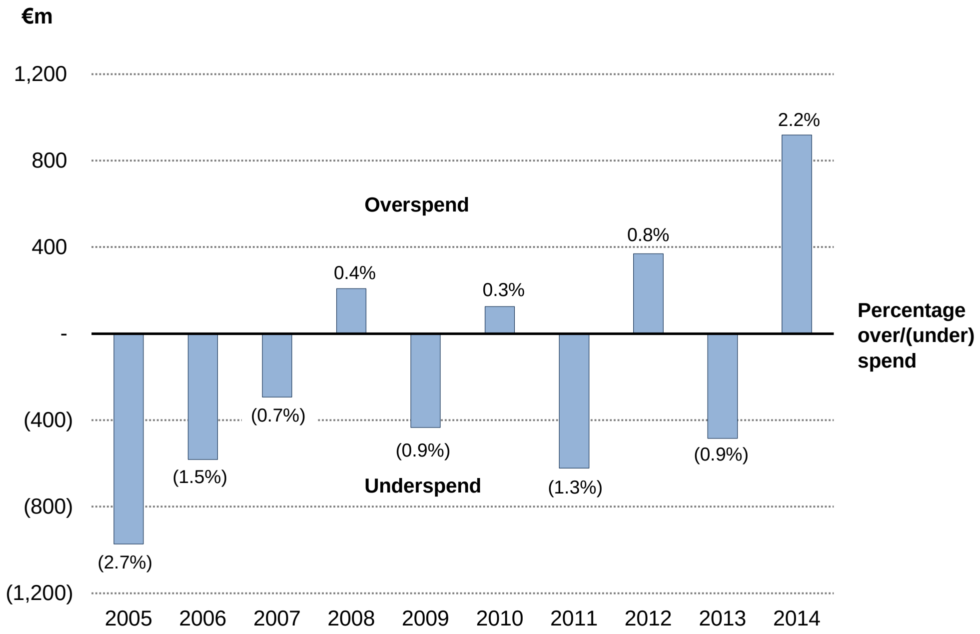
1 This process of reallocation of savings on one subhead to spending on another subhead is referred to as 'virement'.

2 Circular 13/2014. Chapter 5 (Management of Government Grants) provides further detail on the provisions of this circular.

Budget Variance

4.16 The original estimate amount approved represents the forecast of the amount required to meet the cost of the services to be provided from each vote. The budget variance is therefore the difference between the original estimate of net expenditure and the actual outturn in a year.[1] Figure 4.3 sets out the budget variance for all votes combined, for the years 2005 to 2014.

Figure 4.3 Net expenditure variance from original budget, all votes, 2005 to 2014



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

4.17 Between 2005 and 2007, net voted expenditure was less than originally estimated each year. Since 2008, there has not been a consistent pattern of variances. In 2014, net expenditure was €914 million greater than the original forecast.

Budget Variance by Vote

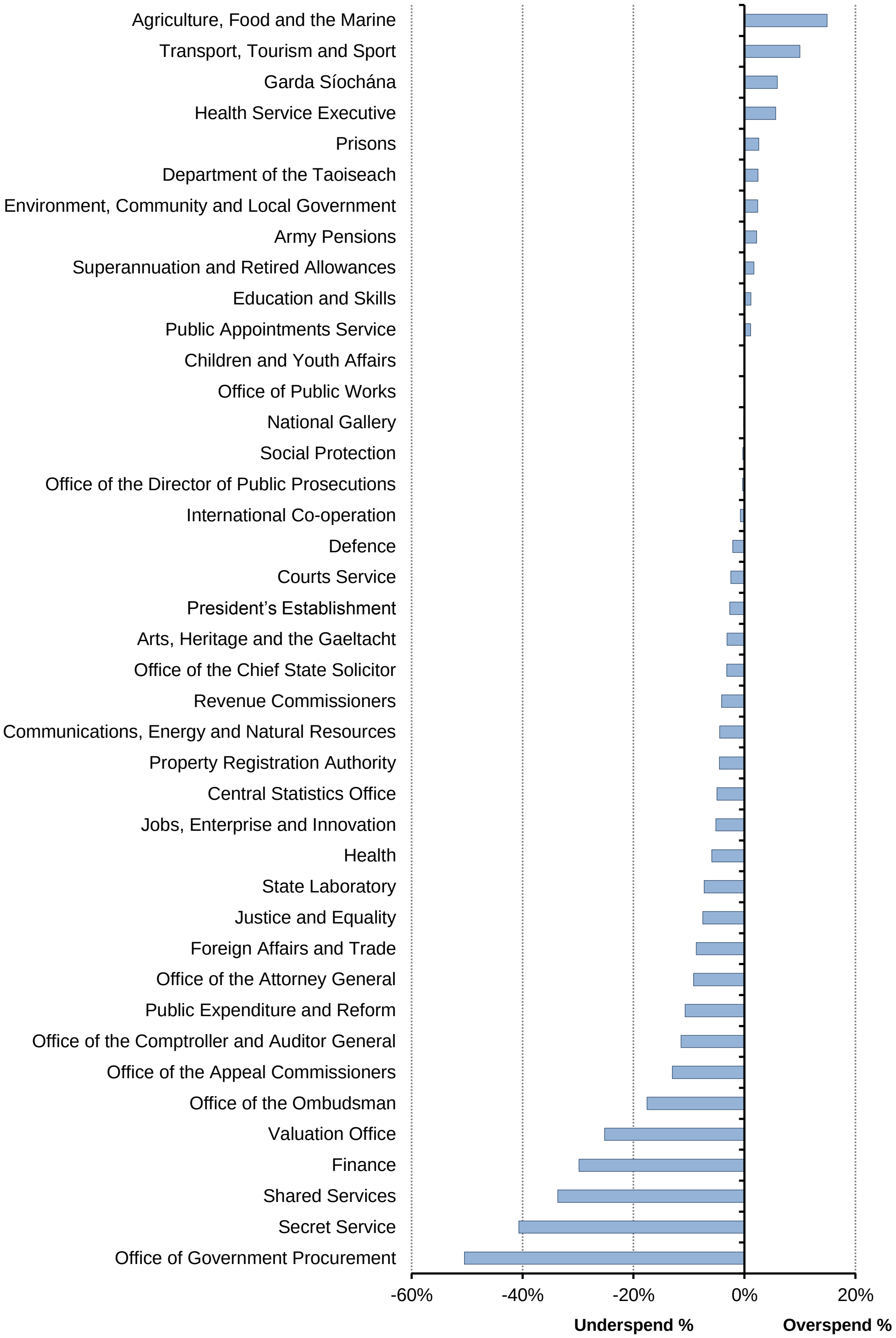
4.18 The three votes with the largest monetary net variance in 2014 were Health Service Executive (€653 million), Agriculture, Food and the Marine (€145 million) and Transport, Tourism and Sport (€128 million).

4.19 Figure 4.4 sets out, for each vote, the proportionate variance between actual expenditure and the original estimate in 2014.

- There were 11 votes where the net expenditure outturn was greater than the original estimate. Agriculture, Food and the Marine, at 15%, had the largest percentage overspend compared with its original estimate.
- The remaining 30 votes incurred net expenditure less than originally anticipated in the revised estimates.

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

Figure 4.4 Net expenditure variance by vote, as a proportion of the original budget, 2014



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

Supplementary Estimates

4.20 When the Dáil approves a vote estimate, it does so at the aggregate level. Departments are allowed some scope to manage budgets by moving allocations between programmes and subheads, but only if the Department of Public Expenditure and Reform agrees. This reallocation process is referred to as virement.

4.21 If large adjustments to the budgets for programmes or subheads are required as the year progresses, formal approval must be sought from the Dáil. This is done through the ‘supplementary estimate’ process. This process may also be used, if required, to increase the cash limit for a vote for the year. Details of supplementary estimates requested are discussed at the relevant Dáil committees before approval is sought from the Dáil itself.

4.22 11 votes required substantive supplementary estimates in 2014 to increase the overall amount available (see Figure 4.5). These included three votes which have required substantive supplementary estimates each year since 2010.

Figure 4.5 Votes with supplementary estimates, 2010 to 2014[a]

	2010	2011	2012	2013	2014
Army Pensions	●	●	●	●	●
Health Service Executive	●	●	●	●	●
Garda Síochána	●	●	●	●	●
Transport, Tourism and Sport	○		●	●	●
Justice and Equality	○	○		○	
Shared Services				○	
Courts Service	○	●	●		○
Social Protection	●		●		
Jobs, Enterprise and Innovation	○	○	○		○
Environment, Community and Local Government	○	○	○		●
Arts, Heritage and the Gaeltacht	●				○
Superannuation and Retired Allowances			●		●
Education and Skills	○				●
Foreign Affairs and Trade	●				
Agriculture, Food and the Marine					●
Children and Youth Affairs					○
Public Expenditure and Reform		○			
Public Appointments Service					●
Prisons					●
Department of the Taoiseach					●
Defence					○

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

Notes: ● Indicates an increase in the net expenditure estimate i.e. a substantive supplementary estimate.

○ Indicates that the increase in net expenditure was a token €1,000 i.e. a technical supplementary estimate.

a Vote titles are as per the 2014 Revised Estimates for Public Services. For some votes, different titles may have applied in earlier years in which a supplementary estimate was approved.

Annex A 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 A1 provides a summary of the outturn on expenditure and receipts relative to the amounts appropriated for public services in 2014.

Figure A2 shows how surplus appropriations in 2014 were applied – either through deferral of expenditure to 2015, or by surrender to the Exchequer.

Figure A3 shows estimated and realised Exchequer extra receipts.

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 2013	Amount of capital funding not spent in 2013 and carried over for expenditure on capital services in 2014. The carry over of these sums was approved by Dáil Éireann in the Appropriation Act 2013.
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 2013 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 2014 which was carried over for expenditure in 2015. These carry overs were approved by Dáil Éireann in the Appropriation Act 2014.
Surplus to be surrendered	Amount of money appropriated in 2014 but not spent in the year or deferred to 2015, 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 paid directly into the Exchequer.

Figure A1 Summary of Appropriations for Public Services in 2014, by vote

Vote	Service	Amount appropriated				Outturn			Surplus/deficit		
		Supply grants	Deferred from 2013	Appropriations -in-aid	Total	Gross expenditure	Appropriations -in-aid	Net expenditure	Gross surplus	Excess/ (deficit) in receipts	Net surplus for the year[a]
		€000	€000	€000	€000	€000	€000	€000	€000	€000	€000
1	President's Establishment	3,267	—	120	3,387	3,275	94	3,181	112	(26)	86
2	Department of the Taoiseach	21,423	—	878	22,301	20,835	935	19,900	1,466	57	1,523
3	Office of the Attorney General	14,301	—	788	15,089	13,820	834	12,986	1,269	46	1,315
4	Central Statistics Office	39,577	—	1,943	41,520	39,472	1,866	37,606	2,048	(77)	1,971
5	Office of the Director of Public Prosecutions	36,838	—	975	37,813	37,675	973	36,702	138	(2)	136
6	Office of the Chief State Solicitor	26,309	—	1,860	28,169	26,983	1,514	25,469	1,186	(346)	840
7	Office of the Minister for Finance	31,200	—	1,500	32,700	24,143	2,248	21,895	8,557	748	9,305
8	Office of the Comptroller and Auditor General	5,922	—	5,875	11,797	11,045	5,801	5,244	752	(74)	678
9	Office of the Revenue Commissioners	320,463	—	72,966	393,429	385,294	78,061	307,233	8,135	5,095	13,230
10	Office of the Appeal Commissioners	477	—	32	509	445	30	415	64	(2)	62
11	Office of the Minister for Public Expenditure and Reform	35,898	—	4,000	39,898	36,802	4,748	32,054	3,096	748	3,844
12	Superannuation and Retired Allowances	384,800	—	93,000	477,800	473,868	105,129	368,739	3,932	12,129	16,061
13	Office of Public Works	354,146	—	27,026	381,172	381,008	27,227	353,781	164	201	365
14	State Laboratory	7,795	—	852	8,647	8,312	1,085	7,227	335	233	568
15	Secret Service	1,000	—	—	1,000	593	—	593	407	—	407
16	Valuation Office	8,904	—	1,291	10,195	8,295	1,639	6,656	1,900	348	2,248
17	Public Appointments Service	6,987	—	245	7,232	7,169	337	6,832	63	92	155
18	Shared Services	30,581	—	3,468	34,049	23,245	2,955	20,290	10,804	(513)	10,291
19	Office of the Ombudsman	7,743	—	397	8,140	6,718	335	6,383	1,422	(62)	1,360
20	Garda Síochána	1,314,728	—	126,800	1,441,528	1,439,854	126,892	1,312,962	1,674	92	1,766

		€000	€000	€000	€000	€000	€000	€000	€000	€000	€000
21	Prisons	317,795	2,400	16,393	336,588	335,341	16,351	318,990	1,247	(42)	1,205
22	Courts Service	58,031	—	48,722	106,753	105,399	48,797	56,602	1,354	75	1,429
23	Property Registration Authority	30,108	—	979	31,087	29,923	1,177	28,746	1,164	198	1,362
24	Justice and Equality	324,596	—	55,940	380,536	363,276	63,068	300,208	17,260	7,128	24,388
25	Environment, Community and Local Government	773,591	72,000	94,632	940,223	916,120	85,607	830,513	24,103	(9,025)	15,078
26	Education and Skills	7,951,544	—	554,333	8,505,877	8,500,082	558,928	7,941,154	5,795	4,595	10,390
27	International Co-operation	478,013	—	1,150	479,163	475,745	1,183	474,562	3,418	33	3,451
28	Foreign Affairs and Trade	167,236	570	45,048	212,854	201,321	48,120	153,201	11,533	3,072	14,605
29	Communications, Energy and Natural Resources	194,506	8,500	237,000	440,006	424,743	230,796	193,947	15,263	(6,204)	9,059
30	Agriculture, Food and the Marine	1,135,103	16,800	66,797	1,218,700	1,191,460	71,220	1,120,240	27,240	4,423	31,663
31	Transport, Tourism and Sport	1,437,669	4,800	394,431	1,836,900	1,798,874	390,277	1,408,597	38,026	(4,154)	33,873
32	Jobs, Enterprise and Innovation	732,075	23,000	48,948	804,023	765,560	49,248	716,312	38,463	300	38,763
33	Arts, Heritage and the Gaeltacht	259,458	—	4,439	263,897	257,166	5,904	251,262	6,731	1,465	8,196
34	National Gallery	7,274	—	3,256	10,530	10,495	3,231	7,264	35	(25)	10
35	Army Pensions	220,190	—	5,500	225,690	225,674	5,503	220,171	16	3	19
36	Defence	640,292	900	36,638	677,830	672,960	45,345	627,615	4,870	8,707	13,577
37	Social Protection	11,856,900	—	242,020	12,098,920	12,071,252	252,543	11,818,709	27,668	10,523	38,191
38	Health	201,969	—	3,916	205,885	194,762	4,702	190,060	11,123	786	11,909
39	Health Service Executive	12,232,496	—	1,355,313	13,587,809	13,542,917	1,337,185	12,205,732	44,892	(18,128)	26,764
40	Children and Youth Affairs	974,268	2,576	22,887	999,731	999,145	22,898	976,247	586	11	597
41	Office of Government Procurement	12,431	—	350	12,781	6,377	225	6,152	6,404	(125)	6,279
	Total	**42,657,904**	**131,546**	**3,582,708**	**46,372,158**	**46,037,443**	**3,605,011**	**42,432,432**	**334,715**	**22,303**	**357,019**

Source: 2014 Appropriation Accounts

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. Any apparent differences in totals are due to rounding.

Figure A2 Application of Surplus 2014 Appropriations, by vote

Vote	Service	Surplus for the year	Deferred surrender (for 2014)	Surplus for surrender
		€000	€000	€000
1	President's Establishment	86	—	86
2	Department of the Taoiseach	1,523	—	1,523
3	Office of the Attorney General	1,315	—	1,315
4	Central Statistics Office	1,971	—	1,971
5	Office of the Director of Public Prosecutions	136	—	136
6	Office of the Chief State Solicitor	840	—	840
7	Office of the Minister for Finance	9,305	—	9,305
8	Office of the Comptroller and Auditor General	678	—	678
9	Office of the Revenue Commissioners	13,230	—	13,230
10	Office of the Appeal Commissioners	62	—	62
11	Office of the Minister for Public Expenditure and Reform	3,844	—	3,844
12	Superannuation and Retired Allowances	16,061	—	16,061
13	Office of Public Works	365	—	365
14	State Laboratory	568	—	568
15	Secret Service	407	—	407
16	Valuation Office	2,248	—	2,248
17	Public Appointments Service	155	—	155
18	Shared Services	10,291	998	9,293
19	Office of the Ombudsman	1,360	—	1,360
20	Garda Síochána	1,766	—	1,766

Figure A3 Exchequer Extra Receipts 2014, by vote

Vote	Service	Extra receipts realised
		€000
1	President's Establishment	—
2	Department of the Taoiseach	—
3	Office of the Attorney General	—
4	Central Statistics Office	—
5	Office of the Director of Public Prosecutions	14
6	Office of the Chief State Solicitor	16
7	Office of the Minister for Finance	11
8	Office of the Comptroller and Auditor General	—
9	Office of the Revenue Commissioners	1,580
10	Office of the Appeal Commissioners	—
11	Office of the Minister for Public Expenditure and Reform	78
12	Superannuation and Retired Allowances	—
13	Office of Public Works	1,682
14	State Laboratory	—
15	Secret Service	—
16	Valuation Office	—
17	Public Appointments Service	—
18	Shared Services	—
19	Office of the Ombudsman	158
20	Garda Síochána	3,673

21	Prisons	1,205	—	1,205
22	Courts Service	1,429	—	1,429
23	Property Registration Authority	1,362	—	1,362
24	Justice and Equality	24,388	—	24,388
25	Environment, Community and Local Government	15,078	—	15,078
26	Education and Skills	10,390	—	10,390
27	International Co-operation	3,451	—	3,451
28	Foreign Affairs and Trade	14,605	—	14,605
29	Communications, Energy and Natural Resources	9,059	4,600	4,459
30	Agriculture, Food and the Marine	31,663	18,000	13,663
31	Transport, Tourism and Sport	33,873	29,105	4,768
32	Jobs, Enterprise and Innovation	38,763	20,000	18,763
33	Arts, Heritage and the Gaeltacht	8,196	6,216	1,980
34	National Gallery	10	—	10
35	Army Pensions	19	—	19
36	Defence	13,577	—	13,577
37	Social Protection	38,191	—	38,191
38	Health	11,909	—	11,909
39	Health Service Executive	26,764	—	26,764
40	Children and Youth Affairs	597	—	597
41	Office of Government Procurement	6,279	125	6,154
	Total	**357,019**	**79,044**	**277,975**

Source: 2014 Appropriation Accounts

21	Prisons	—
22	Courts Service	11,281
23	Property Registration Authority	47,064
24	Justice and Equality	—
25	Environment, Community and Local Government	39,677
26	Education and Skills	813
27	International Co-operation	—
28	Foreign Affairs and Trade	758
29	Communications, Energy and Natural Resources	135
30	Agriculture, Food and the Marine	1,137
31	Transport, Tourism and Sport	1,271
32	Jobs, Enterprise and Innovation	9,154
33	Arts, Heritage and the Gaeltacht	12
34	National Gallery	—
35	Army Pensions	—
36	Defence	1
37	Social Protection	11
38	Health	—
39	Health Service Executive	6,023
40	Children and Youth Affairs	—
41	Office of Government Procurement	19
	Total	**124,568**

Source: 2014 Appropriation Accounts

5 Management of Government Grants

5.1 Government grants are one of the mechanisms that are used to provide funding to support particular organisations and activities. A grant can be defined as a transfer of public funding for a specific purpose to be used in accordance with a set of terms and conditions.

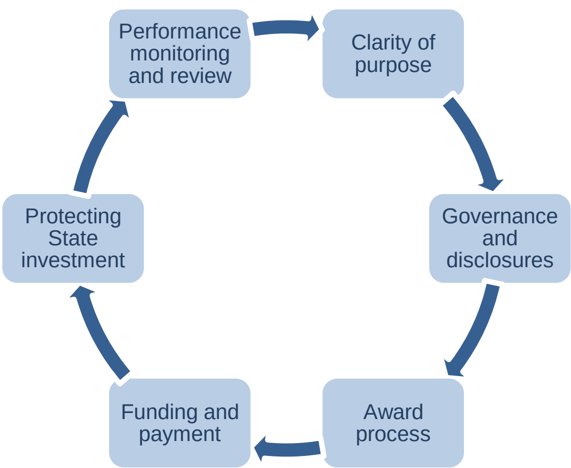
5.2 The circumstances in which grant funding is provided and the objectives which that funding is intended to meet vary considerably. The funding includes grants provided to State bodies to allow them to undertake their functions and grant schemes operated by Government departments or other bodies in receipt of Exchequer funding. In 2014, 22 Government departments and offices paid over €11 billion in grants.

5.3 Grants enable Government departments to provide support to a wide range of activities without having to directly manage those activities. Providing grants to the organisation with the most appropriate powers and skills can be an efficient way to deliver on policy objectives. However, because the delivery of the services or activities being funded is at a remove from the provider of that funding, there can be an increased risk around the management of and accountability for the public money involved. It is important therefore that the funding body has appropriate arrangements in place to ensure that the public funds provided are properly administered and used for the purposes intended.

5.4 The main elements of a sound control system for grant funding can be categorised as set out in Figure 5.1. The nature and extent of the controls under each category will depend on

- the purpose for which the funding is provided
- the basis on which that funding is provided
- the type of grantee
- the scale of the grant involved.

Figure 5.1 Grant funding control process



Source: Office of the Comptroller and Auditor General

Revised Control and Accountability Arrangements

5.5 Previous reports on the accounts of the public services raised specific issues in relation to the control and management of grants, including

- grant-funded assets being used, without the grant-funder's permission, as collateral for borrowings for commercial developments
- use of grant funding for purposes other than those intended
- issue of funding in excess of needs resulting in a build up of excessive cash balances.

5.6 The 2013 special report on the examination of the administration of the National Health and Local Authority Levy Fund highlighted a number of issues of general concern in relation to the administration of grant funding by public bodies.[1] That report made a number of recommendations to the Department of Public Expenditure and Reform aimed at improving the control and accountability arrangements for grants.

5.7 In September 2014, the Department of Public Expenditure and Reform issued a circular (13/2014) setting out a comprehensive revised framework for the management of and accountability arrangements for grants from Exchequer funds. The effective date for the commencement of the provisions of the circular was 1 January 2015. A copy of the circular is at Annex A, for reference.

5.8 The circular sets out the public financial management principles, procedures and reporting requirements to be followed in the management of all grant funding provided from public money. The stated overall principle is that there should be transparency and accountability in the management of public money, in line with economy, efficiency and effectiveness.

5.9 The circular defines a grant as a financial provision, originating in a vote, for a particular activity or service administered or undertaken by an outside body, including agencies, companies, committees, advisory groups, charities or individuals. It applies to the movement of grant funds from a vote to an outside body, as well as any onward movement of that funding.

Additional Requirements

5.10 The revised grants framework extends requirements which previously only applied to certain types of grants and introduces a number of additional requirements which will impact on both funding bodies and recipient bodies.

5.11 The main additional requirements introduced are summarised below, together with a reference to the relevant section of the circular.

Principles and Procedures (paragraph 7)

5.12 The circular requires grantors to ensure that the principles and procedures set out in the circular are applied in a meaningful and effective way. Grantors are required to take a proactive approach to ensure the terms and conditions attaching to grants are appropriate to the local conditions in the sector in which the grantee operates while maintaining effective management and accountability of public money.

1 Comptroller and Auditor General, Special Report No. 80 (2013)

Reclassification of Grants-in-Aid (paragraph 4)

5.13 Grants are subject to all the usual requirements pertaining to any other payment from a vote subhead. Any balance held by a recipient of a grant that remains unexpended at the end of the year is required to be surrendered to the funder.

5.14 Up to 2014, some transfers of funding from votes to outside bodies were designated as grants-in-aid. Grants-in-aid were mainly used to provide funding to State bodies to meet their running costs or to carry out particular functions. A grant-in-aid differed from a grant in that any unexpended year-end balances of sums issued were not liable for surrender to the vote and ultimately the Exchequer.

5.15 One of the most significant changes arising from the new circular is that from 2015 all funding previously provided by way of grant-in-aid will be reclassified as a grant.

Award Principles (section 2)

5.16 The circular places emphasis on relating payments to (desired) outcomes. In awarding grants, particularly larger scale grants in personal and social services, applicants providing evidence of best outcomes for end-users should be prioritised. Grants should be allocated on a competitive basis where appropriate with an assessment made of projected outcomes, efficiency of proposed approach and evidence of effectiveness and prior performance of each applicant.

Funding Arrangements (paragraphs 6, 11 and 19)

5.17 The default position is that grant payments should be on the basis of vouched expenditure already incurred. Claims for grants funded on this basis should be accompanied by a statement that

- the invoices used to support the claims relate to activities and services appropriate to the grant scheme objectives
- the amounts invoiced have been paid
- the invoices have not and will not be used to support a claim from any other funder.

5.18 Pre-funding of grant recipients may occur in certain circumstances. This involves the provision of the funds to the grantee before expenditure has been incurred.

5.19 The prior approval of the Department of Public Expenditure and Reform is required where pre-funding is proposed. Where pre-funding results in the recipient having unexpended balances at the year end, those balances may be retained by the recipient with the approval of the funding department and the Department of Public Expenditure and Reform.

5.20 Departments are required to provide a statement to the Department of Public Expenditure and Reform identifying the schemes that are to be pre-funded and declaring that vouched expenditure arrangements apply to all other schemes.

Service Level Agreements (paragraph 11)

5.21 The Code of Practice for the Governance of State Bodies (2009) requires that the development of service level agreements should form part of the performance management framework for State bodies involved in service provision. Such an agreement is also an important element in the control and management of grants to non-State bodies.[1]

5.22 The revised arrangements require grant-giving departments to put a service level agreement in place setting out the resources being provided and the outputs to be achieved by the grant-receiving body. The agreement should also include the arrangements for the drawdown of funding, the nature of the review of performance – including the procedures where outputs are not delivered – and assurance and governance requirements. A service level agreement is stated to be required in each case where grants are provided to an organisation that has been established to carry out specific tasks (e.g. a community or voluntary body established to provide social services to people with disabilities or a statutory body) rather than to an organisation that exists for other purposes (e.g. a for profit company that exists to trade).

Once-off Grants (paragraph 11)

5.23 Some grant schemes provide financial assistance when certain qualifying criteria are met. To avoid over-subscription, such schemes are now required, in the normal course, to be cash limited. If a cash limit is not imposed, the relevant accounting officer is required to provide justification to the Department of Public Expenditure and Reform as to why a cash limit is not appropriate.

Statement on Internal Financial Control (paragraph 20)

5.24 From 2015 on, departments are required to reflect the requirements for the management and control of grants in the statement on internal financial control which forms part of the annual appropriation account of each vote.

Funding Declaration (paragraphs 11 and 22)

5.25 A grant recipient is required to provide an annual declaration to each funding body in a co-funding arrangement. The declaration should set out the source, amount and purpose of all other funding. It should affirm that there will be no duplication of funding for the same activity or project and state whether Exchequer funding from all sources exceeds 50% of total income.

Statement of Assurance (paragraph 11)

5.26 A signed statement of assurance is required from each recipient body certifying that the funds provided have been used in accordance with the terms and conditions of the grant. Acceptable proof that the funds have been spent appropriately is required to be provided. The frequency of such statements is not stipulated but should be appropriate to the size and nature of the grant.

1 In May 2015, a revised draft version of the code of practice was circulated to departments and state bodies for observation. The draft provides guidance on the contents of performance delivery agreements.

Disclosures by Grant Recipients (paragraph 21)

5.27 Since 2011, grant recipient bodies have been required to disclose in their annual financial statements the sources and amounts of each grant. The revised arrangements extend the disclosures in the annual financial statements of recipient bodies to include

- the purposes for which the funds were applied under appropriate headings (for example, pay and general administration, service provision, charitable activity, advertising, consultancy)
- the number of employees of the body whose total employee benefits fell within each band of €10,000 from €60,000 upwards and the overall total employer pension contributions
- where the body is in receipt of capital grants, an undertaking that the State's investment is protected and that the asset will not be used as security for any other activity without prior approval
- a statement as to whether the body is or is not compliant with relevant tax clearance procedures.

Protection of State investment (paragraph 11)

5.28 Grant recipients should not dispose of publicly–funded assets without the prior approval of the relevant department which in turn should have approval for the disposal from the Department of Public Expenditure and Reform.

Confirmation of Financial Control Systems (paragraph 25)

5.29 Recipient bodies are required to confirm that they have financial control systems in place that are adequate to manage the funds provided.

Conclusion

5.30 The revised arrangements for the control and accountability of grants introduce a number of additional requirements on both funding bodies and those in receipt of funds. Those measures should increase the transparency and accountability arrangements for grants, and address certain weaknesses in the existing control system which have been previously reported on. Meeting the new or extended requirements may present a significant challenge to both funding bodies and recipient bodies. The exercise of judgement will be required to ensure that the requirements are applied by reference to the size and capacity of the grant recipient, and the scale of the grant involved.

5.31 Compliance with the new requirements will be examined during the course of the audits of funding departments as well as the agencies within my audit remit, commencing with the 2015 audits.

Annex A Department of Public Expenditure and Reform Circular 13/2014

DPE 022/05/2013
26 September 2014

Circular: 13/2014

Management of and Accountability for Grants from Exchequer Funds
To: Accounting Officers, Finance Officers and Heads of Internal Audit

A Dhuine Uasail,

1. I am directed by the Minister for Public Expenditure and Reform to refer to expenditure of public funds by way of disbursement of grant funding to all bodies, including agencies, companies, committees, advisory groups, charities, or individuals, whether directly from the Votes of Government Departments/Offices or through an intermediary body or series of bodies.

This circular supersedes previous Department of Finance Circular 17/2010.

Principles and Procedures
The Circular outlines the public financial management principles, procedures, and additional reporting requirements to be followed in the management of grant funding provided from public money as well as the reclassification of grants and grants-in-aid. The overall principle is that there should be transparency and accountability in the management of public money, in line with economy, efficiency and effectiveness.

Management of Public Monies
The provisions of this Circular apply to the movement of funds from a Vote to an outside body, and to any/all onward movements of that funding. The objective is to ensure that all Exchequer funds, regardless of the method of distribution, are accounted for and properly managed.

Grantors
All grantors should be proactive in ensuring that these principles and procedures are applied in an appropriate, meaningful and effective manner in respect of any exchequer funded grants managed by the Grantor.

Grantees
This Circular includes a new statement of principles for grantees, in respect of clarity, fairness, governance and value for money, in their management of and accountability for public funds.

Introduction

2. This Circular, which resulted from a review of the requirements for the management of grants and grants-in-aid, includes the following:

Section 1 – Reclassification of Grants and Grants-in-aid
Section 2 – Award Principles of Grant Funding
Section 3 – Management of Grant Funding – General Conditions
Section 4 – Management of Grant Funding – Vote Related Issues
Section 5 – Grantee Responsibilities

Section 1: Reclassification of Grants and Grants-in-aid

All funding in the grant and grant-in-aid category will be reclassified as grants, in line with the provisions of this Circular, commencing with the 2015 Estimates.

3. Grants and Grants-in-Aid
The principle distinction in the payment process for grants and grants-in-aid is that grants are required to be paid on the basis of vouched expenditure and any amounts unexpended at year end are surrendered to the Exchequer. In the case of grants-in-aid, pre-funding of a grantee is permitted, on an instalment basis, in line with demonstrated need, and any unexpended end year balance of the sums issued to the grantee, is not subject to surrender.

4. Reclassification of Grants and Grants-in-Aid
Taking account of current practices in the management of grants and grants-in-aid, the need for value for money and accountability in the management of public money and the business needs of grantors and grantees, **all grant funding,** regardless of (i) the status of the grantee i.e. state body or otherwise and (ii) of the means of funding i.e. either funding directly from the Vote of a Government Department/Office or on a devolved basis through an intermediary body or bodies, **will be classified as a grant, in line with the provisions of this Circular, commencing with the 2015 Estimates.**

5. Definition of a Grant
In the context of this Circular, a grant is a financial provision, originating in a Vote, for a particular activity or service administered or undertaken by an outside body, including agencies, companies, committees, advisory groups, charities or individuals. It ranges from grants to State Bodies to undertake their statutory functions to specific grant schemes operated by government Departments or other Bodies in receipt of exchequer funding.

6. Payment Principles
The default position is that grants should be paid on the basis of vouched expenditure. However, where **pre-funding** is required, for example, in the case of grant funding to a public sector Body towards its running costs, prior approval must be sought from the Department of Public Expenditure and Reform (DPER). The rationale for prefunding should be documented by the grantor and available for audit/inspection, together with the monitoring and control arrangements attaching to the pre-funding. In cases where pre-funding is required on an ongoing basis, these arrangements should be referred to in the Annual Delegated Sanction letter from DPER.

7. Principles and Procedures
The requirements relating to the management of and accountability for grants are outlined in **Sections 3 to 5** below. All grantors should ensure that the principles and procedures reflected in these requirements are applied in a meaningful and effective way in respect of any grants under their remit. Grantors are required to take a proactive approach to ensuring that the terms and conditions for grants are appropriate to the local conditions in the sector in which they operate, while ensuring effective management and accountability of public money.

8. Intermediary Payments
Certain grants involve the onward movement of funds from the Exchequer to the grantee through an intermediary Body or Bodies. In such cases, the number of intermediaries should be kept to a minimum.

Section 2: Award Principles of Grant Funding

9. The Public Service Reform Plan 2014 – 2016 is committed to the design and delivery of better and more cost effective services using innovative delivery models. The Plan commits to releasing funds for specified outcomes for service users and moving away from the traditional system of block grants. This approach also aligns with the Public Spending Code[1].

10. Public Bodies awarding grants, particularly larger scale grants in personal and social services, should prioritise the award of grants to those applicants that can provide evidence of the best outcomes for the end-users. Grantors are encouraged to seek expressions of interest from service providers for grant allocations, where appropriate. In circumstances where grants are to be allocated competitively, grantors should assess the projected outcomes, efficiency of proposed approach, all evidence of effectiveness and prior performance of each applicant and

[1] http://publicspendingcode.per.gov.ie/b-01-standard-appraisal-steps/

make evidence-based decisions to allocate grants. Grantors should keep records of this process.

Section 3: Management of Grant Funding - General Conditions

11. Grantors should ensure that they have an effective grant-funding supervision regime in place which, in particular, takes account of the following, as appropriate:

(a) Objective
There is clarity regarding the objective of the grant, which should be included in the terms and conditions/grant arrangements.

(b) Terms and Conditions
The grantor should notify the grantee of the terms and conditions under which the money will issue to ensure that the grantee is fully aware of their responsibilities. The purpose of the funding should be clearly notified to the grantee – salaries, training, research, public relations/advertising, front-line services, etc. These terms and conditions should reflect, as relevant, that it is a condition of funding that grantees comply with the ***Statement of Principles for Grantees –***- See Appendix 2.

(c) Service Level Agreement (SLA)
In the case of grants provided by Departments to Bodies or Agencies which have been set up to carry out specific tasks, an agreement should be put in place between the Department and the Body setting out details of the resources which are being provided by the Department and the outputs to be achieved by the Body[2]. The content and the extent of the agreement is a matter for the Department having regard to the nature of the grant, and agreements will vary depending on the size and complexity of the Body's operations. If deemed appropriate, this model can be used between grantor and grantee at any level of the Exchequer funding chain.

In the case where a Department/Office is involved in a multi-donor arrangement, e.g. where the Department/Office is not the supervisory authority, it may not be feasible to insist on a service level agreement, but the Department/Office should be satisfied that there are appropriate monitoring and control arrangements in place.

The general parameters for a service level agreement include:

1. ***Roles*:** specify the roles of Department/Office and Body;
2. ***Outputs*:** identify the services to be delivered – there should be clear measurable outputs specified and the desired outcome should be stated;
3. ***Funding*:** identify the funding arrangements, including the process for the drawdown of funding;
4. ***Review*:** establish the timing and methodology of review of performance against outputs and outcomes specified in the agreement;
5. ***Failure to Deliver*:** identify the procedures to be adopted where the Body has not delivered on the outputs specified in the agreement, including claw-back of grant or offset against future allocation;
6. ***Assurance Requirements*:** Identify assurance requirements, e.g. audited annual accounts or annual declaration confirming that all conditions have been met and the required service/outputs delivered. Assurance requirements should take account of relevant governance requirements, for example, the Code of Practice for the Governance of State Bodies and compliance with public procurement policy and pay policy.

[2] It is recognised that where money is being contributed to a body or project under a multi-donor arrangement, assessed contributions, intergovernmental agreements or other funding mechanisms where the donating Vote is not the supervisory authority it is not feasible for that Vote to insist on a SLA. Accounting for this type of funding is governed by global governance structures and other arrangements and these should be relied upon in lieu of service level agreements. These should include the Supervisory Vote copying their SLA to other funding Votes.

(d) Monitoring and Reporting

Grantors should put arrangements in place for an appropriate type and frequency of financial and performance reporting, with access to relevant records kept by the grantee including expenditure profiles, cash profiles, regular management accounts and annual audited accounts, as appropriate. These reports should be accompanied by a certificate of assurance signed at management level, (in general by two responsible persons for example at management or board level), certifying that the public money granted was used in accordance with the terms and conditions of the grant. In small organisations, with a single manager, a single management signature is acceptable. The grantee can sign off on the funding with the grantor, having provided acceptable proof that the funds have been spent as appropriate.

(e) Inspection

Grantors should also ensure that the grantee is informed that:

- They have an obligation to make books and accounts available to the Comptroller and Auditor General, where 50 per cent or more of their total income is sourced from Exchequer Funds,
- Grantors have the right to inspect the grantee's records.

(f) Payment

The default position is that grants should be paid on the basis of **vouched expenditure**. Grantees making claims for grant funding on the basis of vouched expenditure are required to state to their grantors that:

- the invoices used to support their claims relate to activities and services appropriate to the grant scheme objectives,
- the amounts invoiced have been paid,
- the invoices have not and will not be used in support of another claim for reimbursement from any other funder(s) (except as provided for in agreed joint-funding arrangements).

(g) Advance Payment

Sanction from DPER is required for pre-funded grant schemes and sanction requests should include the rationale and monitoring arrangements, for example, in the case of grant funding to a Body towards its running costs, grantors should document the rationale for pre-funding and have it available for inspection/audit, together with the monitoring and control arrangements attaching to the pre-funding. Payments should be aligned with the grantee's cash needs and on costs incurred.

(h) No Automatic Payment

With due regard to the provisions in paragraph (i) below, payments should only be made to a grantee when they are due, in line with the relevant terms and conditions/SLA. If there is an overpayment of a grant, a refund should be obtained.

(i) Retention of end-year balances

Pre-funding may lead to unexpended balances of grant money at year's end. With grantor approval (on foot of DPER sanction), these balances, or a portion thereof, may be retained by the grantee if deemed necessary to meet outstanding financial requirements. Such balances should be kept to a minimum and taken into account when considering the following year's grant.

(j) Once-off Grants

Organisations, community groups, charities, companies and individuals can obtain once-off financial assistance under some grant schemes once they satisfy qualifying criteria before funding is provided. Such schemes should be cash limited to avoid over-subscription, unless the Accounting Officer of the relevant Vote can supply justification as to why a cash limit is not appropriate.

(k) Administrative and Control Requirements

The grantor should be satisfied that the accounting system and organisational arrangements of the grantee are adequate, taking account of the level of the grant payment, to ensure the proper administration of the money.

(l) Multiple Funding

Where funding is being provided as part of a co-funding arrangement, grantees are required to provide annually to each grantor, as a condition of grant, a declaration as to the source, amount and purpose of all other funding they receive and a declaration that there will be no duplication of funding for the same activity/project. This declaration should also state if the Exchequer funding from all sources exceeds 50% of total income.

(m) Onward payments of grants

If it is the intention of the grantee to make onward grants from the funding received from their own grantor, details of these onward grants and their recipients/proposed recipients must be provided to the grantor, along with details of the terms and conditions applying to these onward payments.

(n) Protecting State investment

Grantees should not dispose of publicly funded assets without the prior approval of the relevant Government Department/Office on foot of sanction of the relevant Vote Section in DPER.

Section 4: Management of Grant Funding - Vote Related Issues

All grants originate directly from the Vote of a government Department or Office and as such raise issues for Vote Management and the Appropriation Accounts.

12. *Vote Ambit*

Where a Vote includes a grant, this should be indicated in the ambit of the Vote – for example,

Estimate of the amount required in the year ending 31 December 2015 for the salaries and expenses of the Office of the Minister for Public Expenditure and Reform, for certain services administered by the Office of the Minister and for payment of certain grants.

If the Vote includes **cash limited** grants, this should also be stated in the ambit. [The term 'cash limited' means that the funds available for a particular scheme for the year will be limited to the cash amount specified in the Estimates allocation and so entitlement to payment under the scheme will be contingent on the availability of funds]:

Estimate of the amount required in the year ending 31 December 2015 for the salaries and expenses of the Office of the Minister for Public Expenditure and Reform, for certain services administered by the Office of the Minister and for payment of certain grants including grants under cash limited schemes.

13. Virement

The use of savings on one subhead to increase expenditure on another subhead, by way of Virement, should not be taken as a matter of course. Virement requires the prior approval of DPER.

14. Subhead

There should be an appropriate Programme and Subhead in the Vote.

15. Multiple Grantees

Where payments from a grant to a number of different agencies/bodies are involved, the grant may be payable to a named account administered by the Department concerned from which payments are made in due course. The purpose of this account should always be stated in, and account details appended to, the Appropriation Account of the relevant Vote.

16. Audit

Where the creation of a new grant is being proposed by a Department and the Comptroller and Auditor General is not the auditor, that Department should, when submitting the proposal to DPER, give the reasons why this is the case.

17. Matured Liabilities

Government accounting rules on matured liabilities apply to all voted monies, including payments from grant subheads. In the case of grant funding, payment is due when the grant payment is fully approved and processed in accordance with the particular agreement or grant scheme's terms and conditions and when the grantee has fulfilled all conditions.

To ensure the integrity of the Appropriation Account, all due payments (i.e. matured liabilities) should be settled with the grantee at year-end and payments to grantees which are not matured (i.e. are not due to be paid under the grant funding arrangements or terms and conditions of a grant scheme) should not be brought forward into the current accounting period. Please also note that matured liabilities must be met even at the risk of incurring an excess vote.

18. *Operating Budgets*
As a prelude to formulating estimates demands each year, operating budgets for all State Bodies under a Department's aegis, covering their main activities, should be published in the Revised Estimates Volume as an Agency Statement.

19. DPER Sanctions
Pre-funded schemes must have the prior approval of the Department of Public Expenditure and Reform. As a prelude to funding and in a statement to DPER, Departments and Offices should identify schemes which are to be pre-funded and have a statement that vouched expenditure arrangements apply to all other schemes. These arrangements should be reflected in the Annual Delegated Sanction from DPER.

20. Statement of Internal Financial Control
The requirements of this Circular should be reflected, as appropriate, in the systems of internal financial control, administrative and management reporting and internal audit covered by the Statement of Internal Financial Control.

Section 5: Grantee Responsibilities

21. *Reporting*:
The following provisions

i. apply in full to grantees who return annual report and accounts
ii. apply insofar as possible (and in advance) in the case of once-off grants mentioned in Section 3, paragraph 11(j) as reporting requirements are required in the application process;
iii. apply insofar as possible to other grantees[3]

Financial Statements
Grantees should submit their audited accounts to the grantor without delay after the end of the financial year. Where an Accounting Officer is satisfied, suitable financial statements are acceptable as an alternative (e.g. where audited accounts are not prepared). An Accounting Officer must, in this case, prepare a statement of such bodies outlining their level of expenditure, the rationale for not auditing accounts and seek DPER sanction. In the case of State Agencies, see the Code of Practice for the Governance of State Bodies for timing and other rules regarding submission of accounts.

Grantees must report in their financial statements;
(a) *Name of Grantor*
The name of the grantor, specifying the exact title to be used in the report (e.g. Department of Environment, Community & Local Government, Health Service Executive etc.). Where the grant making agency is not a Government Department e.g. Pobal, the sponsoring Government Department must also be recorded.

(b) *Name of Grant*
The actual name of the grant programme e.g. Rural Water Development Programme.

(c) Purpose of Grant
With reference to Section 3, paragraph 11 above, the purpose for which the funds are applied under the following headings:

- Pay and general administration

[3] This acknowledges that small community and voluntary groups will only have basic financial statements and receipts available as a basis for reporting

- Service provision / charitable activity
- specified others, including such expenditure as advertising, consultancy

(d) Accounting for Grants:

i. The amount and term of the total grant awarded;
ii. The amount of the grant taken to income in the current financial statements;
iii. Where (ii) above differs from the cash received in the relevant financial period, a table showing:
    a. The grant taken to income in the period
    b. The cash received in the period, and
    c. Any grant amounts deferred or due at the period end.

(e) Capital Grants

The amount of money provided and the conditions/milestones being used in relation to current and future instalments. Grantees should also provide an undertaking that the State's investment is protected and will not be used as security for any other activity without prior consultation with the parent Department and sanction of DPER.

(f) Employees

In a table accompanying the report, the number of employees whose total employee benefits (excluding employer pension costs) for the reporting period fell within each band of €10,000 from €60,000 upwards and an overall figure for total employer pension contributions. (This applies even if salaries are not being funded by the Exchequer).

(g) Restrictions

Whether and how the use of the grant is restricted (i.e. is it for a particular project, or for the delivery of a service)

(h) Tax Clearance

Whether compliant with relevant Circulars, including Circular 44/2006 "Tax Clearance Procedures Grants, Subsidies and Similar Type Payments".

22. *Multiple Funding Sources*

Where a grantee receives funds from more than one grant making agency, please see Section 3, paragraph 11(l) above re reporting requirements.

23. *State Bodies*

Where a service level agreement as cited above, and in the Code of Practice for the Governance of State Bodies, is in place between a Department and a Body, adherence to the terms of that agreement must be confirmed by that Body to the Grantor.

24. *Vouched Expenditure*

Grantees making claims for grant funding on the basis of vouched expenditure are required to state formally to their funders that:

- the invoices used to support their claims relate to activities and services appropriate to the grant scheme objectives,
- the amounts invoiced have been paid, and
- the invoices have not and will not be used in support of another claim for reimbursement from any other funder(s) (except as provided for in agreed joint-funding arrangements)

25. *Financial Control*

Grantees should be able to confirm that they have adequate financial control systems in place to manage granted funds.

26. *Sectoral Compliance*

The requirements of this Circular do not override existing Statutory or sectoral requirements.

Mise le meas,
David Moloney,
Assistant Secretary,
Department of Public Expenditure and Reform.

Appendix 1a: Illustrative checklist for Grantors. This checklist is not exhaustive. Managers of grants should consider operating a comprehensive checklist relevant for the grant funding they manage.

Grantor Checklist			
Circular 13/2014	**Y / N N/A**	***Action Required?***	**Ref.**
Administrative responsibilities			
Will the grant be pre-funded or based on vouched expenditure and has sanction been issued for pre-funded schemes?			6, 11(f)-(i), 19, 24
Has the grantor documented cases where there are several levels of intermediary funding?			8
Is the ambit of the Vote correct?			12
Is the grant cash-limited?			12
Are proper procedures in place for the management of the account to pay multiple grantees?			15
If Auditor is not C&AG, is there a note appended to the Vote?			16
Supervision			
Is there clear agreement with the grantee re the grant's objective?			11(a)
Is grantee aware of terms under which money is issued?			11(b) - 11(n)
Is there a service delivery/level agreement in place with grantee where appropriate?			11(c)
Is there an appropriate reporting regime in place?			11(d), 11(k)
Is grantee aware that their records can be inspected by the grantor?			11(e)
Are all appropriate matured liabilities paid?			17

Appendix 1b: Illustrative checklist for Grantees - This checklist is not exhaustive.

Recipients of grants should consider operating a comprehensive checklist relevant for the grant funding for which they are accountable.

Grantee Checklist			
Circular13/2014	**Y / N N/A**	***Action Required?***	**Ref**
Annual Estimates Have annual operating budgets for State Agencies been submitted?			18
Annual Reports Have end of year accounts or financial statements as appropriate been submitted to each grantor?			21
Has the grantee, if involved in a multiple co-funding arrangement, informed all grantors if exchequer funding exceeds 50% of income?			22
Compliance Is all funding being used for the purpose intended?			21(g)
Is a current Tax Clearance certificate in place where appropriate?			21(h)
For State Agencies, is confirmation of adherence to any service level agreement included with reports?			23
Is there compliance requirements in relation to vouched expenditure?			24
Is there an adequate financial control system in place?			25
Is there confirmation that other sector-specific guidelines / legislation have been adhered to?			26

Appendix 2 Statement of Principles for Grantees

Are you in receipt of public funding?

This statement outlines the four principles which apply in the case of bodies in receipt of grant funding provided directly or indirectly from Exchequer sources.

Clarity	**Governance**
Value for Money	**Fairness**

This statement should be brought to the attention of every grant receiving body

If you are in receipt of public funding you should

Clarity Understand the purpose and conditions of the funding and the outputs required Apply funding only for the business purposes for which they were provided Apply for funding drawdown only when required for business purposes Seek clarification from the grantor where necessary – on use of funds, governance and accountability arrangements.	**Governance** *Ensure appropriate governance arrangements are in place for:* oversight and administration of funding control and safeguarding of funds from misuse, misappropriation and fraud accounting records which can provide, at any time, reliable financial information on the purpose, application and balance remaining of the public funding accounting for the amount and source of the funding, its application and outputs/outcomes.
Value for Money *Be in a position to provide evidence on:* effective use of funds value achieved in the application of funds avoidance of waste and extravagance	**Fairness** Manage public funds with the highest degree of honesty and integrity Act in a manner which complies with relevant laws and obligations (e.g. tax, minimum wages) Procure goods and services in a fair and transparent manner Act fairly, responsibly and openly in your dealings with your Grantor

6 Payroll Accrual for National Accounts

6.1 National accounts are a series of statistical data giving information on the overall performance of the economy including the main government finance statistics such as the budget deficit and debt. They are compiled by the Central Statistics Office (CSO), as provided for by EU regulations, according to the European System of National and Regional Accounts framework and provide a basis for country-by-country comparison of economic and fiscal data. The national accounts include information that is required for, among other purposes, fiscal monitoring of national budget deficits under the Excessive Deficit Procedure.[1]

6.2 The national accounts record expenditure and economic flows on an accrual basis. This recognises a transaction in the period the service or good is provided. In contrast, the appropriation accounts of government departments are prepared on a cash basis, and record transactions when the liability to pay for the good or service has matured and the payment is made. However, appropriation accounts include accrual-based operating cost information in a note to the account.

6.3 Public service staff pay costs and payments to pensioners are recognised in the appropriation accounts at the point of payment. Payments are made either weekly, fortnightly or monthly, and normally are paid in arrears. The accounting policies and principles for appropriation accounts set by the Department of Public Expenditure and Reform (the Department) specify that there is no accrual recognised for the earned but unpaid element of salary at the year end.

6.4 As the number of days covered by pay periods does not exactly match the number of days in the calendar year, an accrual element builds up over time. This gives rise to an extra pay period every ten to eleven years for fortnightly paid staff, and every five to six years for weekly paid staff, and represents the crystallisation of this liability.

6.5 To enable the introduction of the reporting of this accrual element of payroll and payments to pensioners for the purpose of the national accounts, the Department

- published information for the first time in the Revised Estimates Volume for 2015 on the estimated accrued Exchequer pay and pensions liabilities at end of 2014 and 2015, and
- requested departments to include the accrued liabilities for Exchequer pay and Exchequer pensions at the end of 2013 and 2014 as part of the appropriation accounts submitted for audit, together with an estimate of the accrual for 2015.

6.6 The accrual information submitted by departments with the appropriation account was audited as part of the statutory audit of the accounts. No material changes to the figures submitted were required following the audit.

6.7 By agreement with the Department, the information is presented in the annex to this report in a format specified by the CSO. The table also includes information in relation to Houses of the Oireachtas which is funded directly from the Exchequer and which prepares its financial statements in the appropriation account format.

1 The Excessive Deficit Procedure is derived from the Treaty on the Functioning of the European Union (as provided for in the Lisbon Treaty) and the requirement that member states avoid excessive government deficits. The European Council of Finance Ministers (ECOFIN) is the appropriate body for deciding on whether sanctions should be applied to member states who breach the budgetary rules. National accounts provide the economic and fiscal information to enable ECOFIN to monitor government deficits.

Annex A Accrued liabilities for Exchequer pay and Exchequer pensions[a]

Vote No.	Title	2013 Gross €000 actual	2013 Net €000 actual	2014 Gross €000 actual	2014 Net €000 actual	2015 Gross €000 estimates	2015 Net €000 estimates
1	President's Establishment	39	37	44	41	3	3
2	Department of the Taoiseach	334	313	374	350	36	34
3	Office of the Attorney General	301	284	318	296	18	17
4	Central Statistics Office	784	738	885	833	156	151
5	Office of the Director of Public Prosecutions	380	353	411	383	24	23
6	Office of the Chief State Solicitor	431	406	482	451	25	24
7	Office of the Minister for Finance	494	467	502	472	55	42
8	Office of the Comptroller and Auditor General	292	274	323	304	1	1
9	Office of the Revenue Commissioners	7,118	6,691	7,980	7,507	1,375	1,322
10	Office of the Appeals Commissioners	12	11	16	15	1	–
11	Office of the Minister for Public Expenditure and Reform	618	573	674	628	20	19
12	Superannuation and Retired Allowances	13,565	13,565	16,714	16,714	–	–
13	Office of Public Works	2,660	2,515	2,870	2,721	1,118	1,068
14	State Laboratory	159	148	153	144	6	6
15	Secret Service	–	–	–	–	–	–
16	Valuation Office	215	202	229	215	9	9
17	Public Appointments Service	116	110	142	134	25	25
18	Shared Services	153	145	261	248	241	234
19	Office of the Ombudsman	171	160	170	158	17	16
20	Garda Síochána	35,323	31,586	38,619	36,037	26,051	24,672
21	Prisons	3,033	2,826	3,862	3,607	4,086	3,807
22	Courts Service	1,298	1,222	1,487	1,406	249	241
23	Property Registration Authority	601	568	645	617	117	113
24	Justice and Equality	2,846	2,672	3,195	3,017	421	408
25	Environment, Community and Local Government	1,403	1,309	1,468	1,370	76	73
26	Education and Skills	157,156	148,290	168,436	159,179	58,852	55,511
27	International Co-operation	382	359	434	405	19	18
28	Foreign Affairs and Trade	1,621	1,532	1,890	1,789	310	301
29	Communications, Energy and Natural Resources	438	410	493	461	26	26
30	Agriculture, Food and the Marine	4,710	4,415	5,063	4,748	497	477
31	Transport, Tourism and Sport	794	732	820	760	1	1
32	Jobs, Enterprise and Innovation	1,354	1,272	1,606	1,508	222	216
33	Arts, Heritage and the Gaeltacht	896	844	1,013	955	80	76
34	National Gallery	49	47	95	90	–	–
35	Army Pensions	–	–	–	–	–	–
36	Defence	6,326	5,991	867	817	1,030	987
37	Social Protection	7,297	6,659	8,116	7,412	1,764	1,675
38	Health	617	576	668	624	42	40
39	Health Service Executive	64,740	55,854	76,510	66,010	23,541	20,311
40	Children and Youth Affairs	14,679	13,101	13,064	11,483	12,918	11,304
41	Office of Government Procurement	90	84	252	237	22	21
	Houses of the Oireachtas	668	632	190	147	243	236
	Total	**334,163**	**307,973**	**361,341**	**334,293**	**133,697**	**123,508**

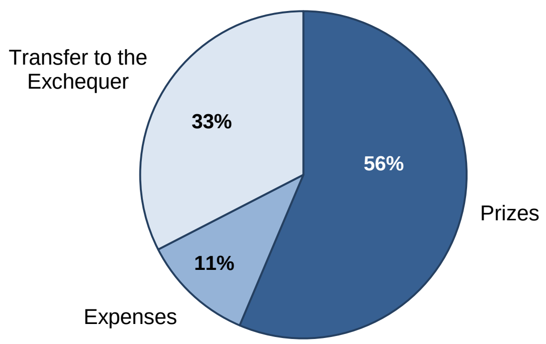
Note: a Net pay is the total (gross) pay after deducting the pension related deduction introduced under financial emergency legislation.

7 The National Lottery Fund

7.1 The National Lottery Fund (the Fund) was established under the National Lottery Act 1986. Proceeds from the sale of National Lottery tickets are paid into the Fund after the deduction of remuneration of ticket sellers and, where authorised, certain small prizes paid by tickets sellers. Larger prizes and the remuneration of the operator of the lottery (under licence) are paid out of the Fund. The balance of the Fund is available for spending on a range of 'good causes' specified in legislation.

7.2 The National Lottery Act 2013 replaced the 1986 Act and provided for the establishment of the Office of the Regulator of the National Lottery, and for the payment of a levy on the Fund to meet the expenses of the Regulator. The Act requires the total value of prizes to be not less than 50% of the total moneys received by the operator in respect of the sale of National Lottery tickets (or such other greater percentage as may be specified in the licence).[1] Distributions from the Fund in 2014 are shown in Figure 7.1. The Regulator has reported that the Fund had a balance of €57 million at the end of 2014.

Figure 7.1 National Lottery Fund distributions, 2014



Source: National Lottery Regulator (2014 unaudited data)

7.3 The Department of Finance manages payments into the Fund and authorises disbursements from the Fund for the payment of prizes and operating costs. Up to November 2014, these functions were carried out under instructions from the Department of Public Expenditure and Reform. Since the establishment and commencement of operation of the Lottery Regulator, instructions on disbursements are issued by the Lottery Regulator.

1 This excludes ticket sellers' remuneration and certain small prizes.

Accounting for the Application of National Lottery Funds

7.4 The purposes for which proceeds of the Fund can be used, as set out in the 2013 Act,[1] are

- sport and other recreation
- national culture and heritage (including the Irish language)
- the arts
- the health of the community
- youth, welfare and amenities
- the natural environment, and
- other purposes as the Government may determine.

7.5 In 2014, fund proceeds were disbursed through the votes for seven departments and the Health Service Executive (HSE). The appropriation accounts of each department identify subheads that receive National Lottery funding support, and provide a note of the value of subhead funding received (the total of National Lottery funding and Exchequer funding) for each programme supported.

7.6 Each department publishes a listing of organisations supported by National Lottery funding on its website and the value of the grant provided to each organisation.

7.7 The Estimates for Public Services (the Estimates) provides a breakdown by department of subheads supported by National Lottery funding. The Estimates note that expenditure on subheads that include National Lottery funded programmes was expected to amount to €410 million in 2014, of which it anticipated that €200 million would be financed by the Fund. The remaining expenditure was to be provided by the Exchequer.

7.8 However, not all programmes within a subhead noted in the Estimates are supported by the Fund. The appropriation accounts of the relevant departments and the HSE reported that in 2014, expenditure of €216.7 million was incurred on programmes supported by the Fund. Ultimately, the Fund contributed €178 million (82%) of the funding for these programmes. Figure 7.2 sets out the estimated and actual expenditure in 2014.

1 The 1986 Act allowed proceeds to be disbursed for sport and other recreation, national culture (including the Irish language), the arts, the health of the community and other purposes as the Government may determine.

Figure 7.2 Subhead expenditure supported by National Lottery funding, 2014

Department	Estimates for Public Services	Programme estimate[b]	Programme outturn[b]
	2014	2014	2014
	€000	€000	€000
Justice and Equality	2,000	2,000	2,000
Environment, Community and Local Government [a]	193,107	17,870	17,710
Education and Skills	133	133	133
Transport, Tourism and Sport	85,028	85,028	70,388
Arts, Heritage and the Gaeltacht	65,081	65,081	64,929
Health	3,286	3,286	3,268
Health Service Executive	10,052	10,052	6,828
Children and Youth Affairs	51,335	51,440	51,433
Total	**410,022**	**234,890**	**216,689**

Source: Office of the Comptroller and Auditor General

Notes: a The programme funding figures relate only to the programmes under the sub-head for which National Lottery funding is provided. The Estimates figure relates to the entire subhead cost.

b As reported in the individual appropriation accounts.

7.9 The Department of Public Expenditure and Reform stated that the variance between the Estimate of €200 million and the outturn of €178 million is mainly due to technical and timing issues relating to the transition to the new lottery regime with transition costs reducing the potential amount available for transfer. In addition, the final level of transfers and transition costs at year end was uncertain so it was deemed prudent to transfer a lower amount, especially in view of the impending wind-up of An Post National Lottery Company.

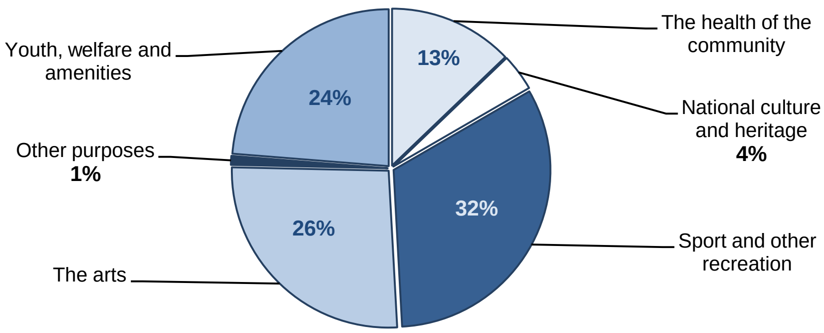
7.10 The Department of Public Expenditure and Reform also stated that the National Lottery Fund is not allocated on a subhead by subhead basis. No department is informed of the proportion of its funding that is provided by the Fund, as available National Lottery funding is combined with Exchequer funds to support specific programmes that address the intended purpose of the National Lottery Fund.

7.11 It has been the practice over the years for the Estimates to set out the subheads being funded but not to assign specific National Lottery funding amounts to individual subheads.

Application of National Lottery Funds

7.12 Figure 7.3 sets out the distribution of the funding across the various purposes which are set out in the Act.

Figure 7.3 Distributions supported by the National Lottery Fund and the Exchequer in 2014, by purpose



Source: Office of the Comptroller and Auditor General

7.13 Annex 1 shows the programmes supported by the funding.

Application of National Lottery Licence Fee

7.14 In May 2013, the Minister for Public Expenditure and Reform launched a competition for the award of a licence to operate the National Lottery.

7.15 In February 2014, the Premier Lotteries Ireland consortium was awarded a twenty year licence to operate the National Lottery. Premier Lotteries Ireland is a consortium comprising Ontario Teachers Pension Plan (owner of the Camelot Group), An Post and An Post pension funds. The licence fee of €405 million was paid to the Exchequer in 2014.

7.16 The licence required the retention of existing arrangements for retailer commission, and that 65% of gross gaming revenues (sales less prizes) be allocated to the specified ‘good causes’.

7.17 The Department of Public Expenditure and Reform stated that the licence fee income enabled the commitment of funding to a number of investment projects, including the National Children’s Hospital, with capital budgets operating on a multi-annual basis benefiting the public capital programmes over a number of years.

7.18 The Department of Public Expenditure and Reform also stated that a total of €195.8 million was provided in the Estimates in 2014 for projects which are being funded or part-funded from the National Lottery Licence fee (see Figure 7.4). At end-2014, departments reported that €158.3 million of this had been spent. A further €24.7 million was included in the Estimates for 2015 (some through capital carryover and the remainder provided directly into the Vote of the relevant departments). The balance of the project funding will be provided as required over the next two to three years.

7.19 The licence fee will also provide €200 million towards the National Children's Hospital. As the main construction works have not yet commenced on this project, the funds will not be required until 2016 at the earliest.

Figure 7.4 Allocation of National Lottery licence fee receipts (as at August 2015)

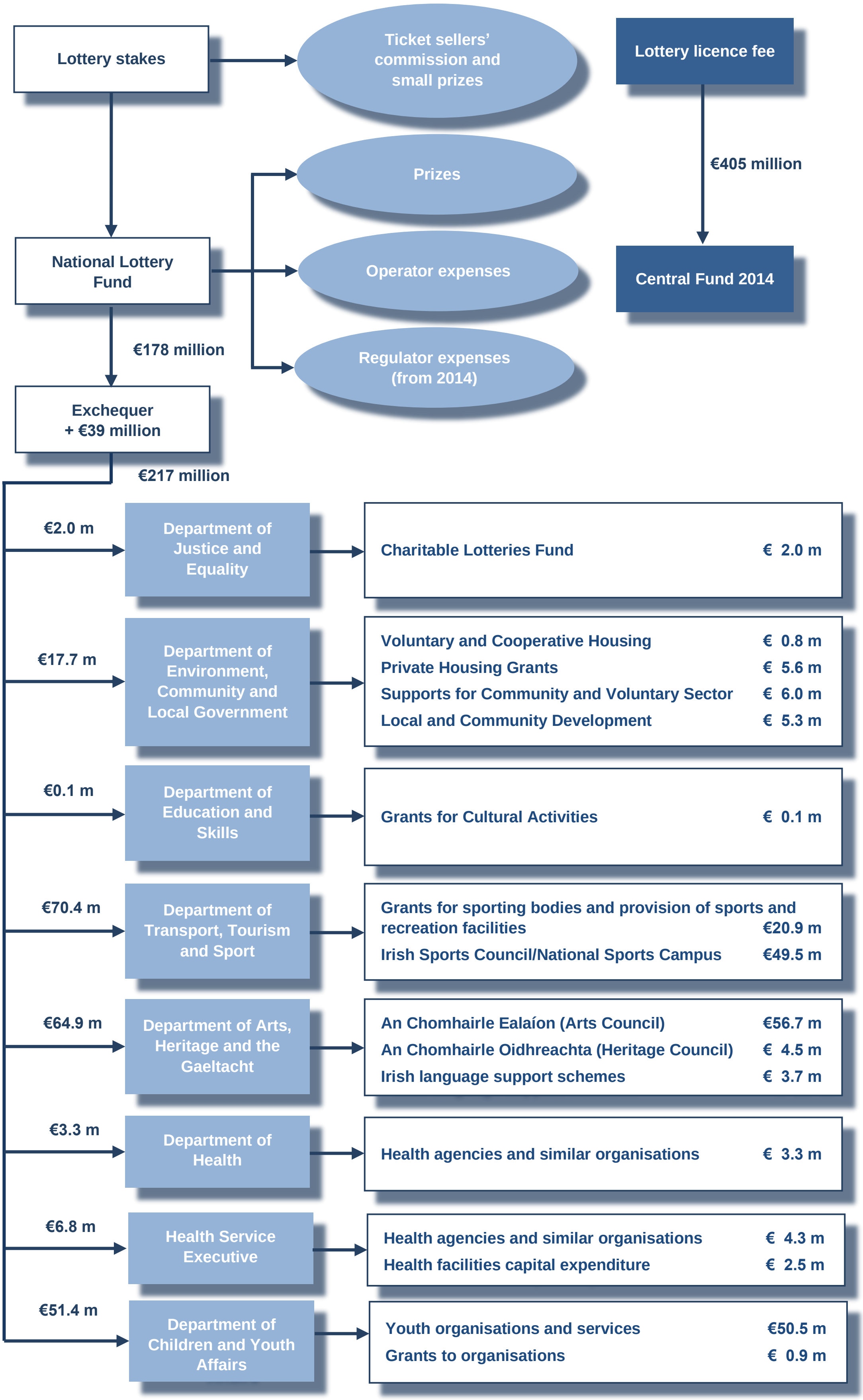
Purpose	Allocated funding	Funding provided in 2014 estimates	Total spent in 2014	Funding allocated for 2015
	€000	€000	€000	€000
Road maintenance	50,000	50,000	50,000	–
Wild Atlantic Way	8,000	8,000	4,000	4,000
Sports capitals grants (in addition to the existing provision)	11,500	11,500	8,500	3,000
National Sports Campus (capital works – national indoor training arena)	13,000	13,000	1,450	11,536
Better Energy programme	25,000	25,000	25,000	–
National Trading Online Voucher	5,000	5,000	700	700
Private house grants for older people and people with a disability	10,000	10,000	10,000	–
National City of Culture programme	6,000	6,000	6,000	–
Cork Events Centre	10,000	10,000	–	1,000
Social housing	30,000	30,000	30,000	–
1916 commemoration projects	6,000	6,000	4,337	1,466
Infrastructure at the Irish Maritime and Energy Resource Cluster	1,300	1,300	1,300	–
Traditional skills and buildings at risk jobs scheme	5,000	5,000	5,000	–
Unfinished housing estate resolution pilot project	10,000	10,000	7,026	2,974
Book rental scheme	5,000	5,000	5,000	–
National Paediatric Hospital	200,000	–	–	–
Total allocated funding	**395,800**	**195,800**	**158,313**	**24,676**

Source: Department of Public Expenditure and Reform

Conclusion

7.20 The National Lottery Fund supports a wide range of programmes addressing purposes set out in the National Lottery Act 2013. Exchequer and National Lottery funding is combined under the various programmes with the National Lottery Fund providing 92% of the funding to the programmes supported in 2014. The Estimates do not set out the proportion of funding provided by the National Lottery Fund to each programme.

Annex 1 Programmes Supported by National Lottery Funding



Source: Office of the Comptroller and Auditor General

8 Control and Management of Movable Heritage Assets

8.1 Heritage assets are tangible assets that have historical, artistic, scientific, technological, geophysical or environmental qualities and are held and maintained principally for their contribution to knowledge and culture. There are two broad categories of heritage assets – immovable assets (including buildings and monuments), and movable assets. Examples of movable heritage assets include paintings, maps, books, manuscripts, antique furniture, historical artefacts and equipment, and collections of scientific specimens or instruments.

8.2 The State, through its agencies, maintains a large number of heritage assets at various locations. The manner in which such collections are managed, developed and made available for viewing by visitors, and for research and education purposes, should comply with best practice.

8.3 An organisation requires appropriate systems and procedures to ensure all its assets are safeguarded, monitored and managed for the benefit of the organisation. This is particularly true of heritage assets, which in addition to any monetary value, have an inherent value from an educational, historical or geographical perspective or from being associated with an individual, place or event.

8.4 Due to the special nature of heritage assets, additional consideration needs to be given to how they are controlled, protected and managed. Particular emphasis is required in regard to the environment in which they are held.

8.5 This report focuses on movable heritage assets held by the Department of Arts, Heritage and the Gaeltacht (the Department) and the Office of Public Works (OPW).

- The Department holds heritage assets at two locations which each have public access. In addition, the Department holds certain heritage assets in storage, in particular in the Collections Resource Centre which it shares with the National Museum of Ireland.
- The OPW holds movable heritage assets at 17 of its historic properties. In addition, the OPW manages some 800 national monuments some of which hold movable heritage assets. The OPW also manages the State art collection.

Killarney House Losses

8.6 The Department is responsible for Killarney House. The State acquired Killarney House and the greater part of the adjoining estate in 1978. The former owners continued to live in the house until 1998 when the State took control of the house and remaining land. Since then, the house has remained unoccupied. A programme of restoration was announced in 2011, the estimated cost of which is €8.5 million. It is expected that the house and gardens will open to the public in 2016.

8.7 The contents of Killarney House had been fully catalogued prior to being removed in 1999 pending restoration of the house. Based on an assessment of each item's size, value and condition, some items were placed in private storage while others were placed in storage in nearby Muckross House. The total number of items placed in private storage was 81, which were valued at the time at €920,000.

8.8 The loss of a number of the items was discovered in October 2012 following the appearance in an auction of two paintings that were recognised by Department staff as being among the items that had been placed in private storage. A valuation conducted on behalf of the Department in 1999 estimated the value of each of these paintings at around €32,000.

8.9 Following the discovery of the loss, the items held in private storage were examined by the Department. That examination found that 39 items, including all 26 paintings, were missing. The total value of the 39 items is €552,000. The Department reported the loss to An Garda Síochána and to the Office of the Comptroller and Auditor General. A Garda investigation has been ongoing since 2012. Details of items recovered were requested as part of this examination. The Department stated that, on the advice of An Garda Síochána, it was not in a position to provide this information.

8.10 Following the discovery of the losses, all other Killarney House items that were in private storage were relocated to the Department's storage facility at the Collections Resource Centre.

Focus of this Examination

8.11 On foot of the results of internal audit reviews and reported incidents of loss, this examination was undertaken to review policies, practices and procedures in place in the Department and in the OPW for the control and management of movable heritage assets. In particular, the examination focused on

- documented policies in relation to collections
- procedures for acquisition, disposal and lending of heritage assets
- recording and cataloguing of heritage assets
- collection care, including inventory checking and condition monitoring, and disaster planning.

8.12 Five locations were selected for examination to test those procedures. Four locations examined are managed by the OPW – Emo Court, Farmleigh House, Glebe Gallery, and Kilkenny Castle. The remaining site visited was Glenveagh Castle, which is managed by the Department.

8.13 Controls in place at the Department's storage facility in the Collections Resource Centre were also reviewed.[1] Records of the National Monuments Service and the Archaeological Survey of Ireland are stored at this facility. Access to those records is provided to researchers by advance appointment. In addition, artefacts found on excavations are stored temporarily pending cataloguing, completion of reports and onward transfer to the National Museum of Ireland.

Museum Standards Programme for Ireland

8.14 The Heritage Council's museum standards programme for Ireland aims to benchmark and raise professional standards in not-for-profit museums, galleries and collecting agencies. The programme provides a set of minimum standards to be achieved relating to the control, care and management of museums and their collections. There are 34 standards in the programme. Interim accreditation can be achieved when the first 25 standards are reached. Those working towards interim accreditation are considered to be participating in the programme.

1 The Department occupies some 14% of the space in the facility.

8.15 Figure 8.1 sets out the historic properties under the control of the OPW and the Department that have collections and indicates for each the status in relation to the museum standards programme. Six OPW locations and one Department location are participating in the programme.

Figure 8.1 Historic properties with collections managed by the OPW[a] and the Department 2015

Museum standard status	Property	Managed by
Full accreditation – all 34 standards have been met	Castletown House	OPW
	Farmleigh House	OPW
	Pearse Museum	OPW
	Muckross House	Department
Interim accreditation – first 25 standards have been achieved and working towards achieving the remaining nine standards	Dublin Castle	OPW
Participating – has joined the programme and is progressing towards interim accreditation	Kilkenny Castle	OPW
	Rathfarnham Castle	OPW
Not participating in the programme	Altamont Gardens	OPW
	Blasket Islands	OPW
	Botanic Gardens[b]	OPW
	The Casino, Marino	OPW
	Derrynane House	OPW
	Emo Court	OPW
	Garnish Island	OPW
	Glebe House and Gallery	OPW
	Kilmainham Gaol	OPW
	Oldbridge	OPW
	Royal Hospital Kilmainham	OPW
	Glenveagh Castle	Department
	Killarney House[c]	Department

Source: Office of Public Works and Department of Arts, Heritage and the Gaeltacht

Notes:
a In addition to the properties listed above, the OPW has ten properties which do not have associated collections of heritage assets. These are Arbour Hill Cemetery; Doneraile Park; Fota Arboretum and Gardens; Garden of Remembrance; Grangegorman Military Cemetery; Heywood Gardens; Iveagh Gardens; National War Memorial; Phoenix Park; St Stephen's Green.

b The majority of heritage assets at the Botanic Gardens are plant species. However, artworks, books and furniture are also held there.

c The associated collection was removed in 1999 and placed in storage.

Documented Policies

8.16 A comprehensive set of museum collection policy documents would state the purpose of a collection and how, and by what methods, the stated purpose will be achieved. The management of each site at which heritage objects are exhibited should set out its specific role in providing objects for viewing and/or for research.

8.17 In addition to a mission statement, the long-term strategic direction and broad policy objectives for the collection should be set out in a statement of strategy. This document should provide guidance for the operational strategies and plans that need to be prepared to ensure the proper care of the collections at each location.

Overall Strategy

8.18 The Department's statement of strategy 2015 – 2017 includes in the mission statement the objective 'to promote and protect Ireland's heritage and culture'. Its high level goals include 'to conserve and manage our unique heritage for the benefit of present and future generations'. Its strategies to achieve this goal include having policies and legislation to meet EU and international heritage obligations, and effective implementation and enforcement of heritage policies.

8.19 The OPW sets out its high level obligations in relation to heritage properties in its statement of strategy and a draft strategy for heritage services is under consideration.

Site-Specific Strategies

8.20 The extent to which each examined location had documented policies in place is set out in Figure 8.2.

Figure 8.2 Documented policies in place

Policy	Farmleigh House	Kilkenny Castle	Emo Court	Glebe Gallery	Glenveagh Castle
Mission statement	✓	✓	✗	✓	✗
Strategic management plan	✓	✓	✗	✓	✗
Documentation procedural manual	✓	✓	✗	✓	✗
Care of collection strategy	✓	✓	✗	✓	✗
Collection policy	✓	✓	✗	✓	✗
Education policy	✓	✓	✗	✓	✗
Exhibition policy	✓	✓	✗	✓	✗

Source: Office of the Comptroller and Auditor General

8.21 As regards the Department's storage facility, while not all of these policy documents apply, there are some that are relevant. The Department has stated that there are draft policies and procedural documents including transfer documents, retention schedules and finding aids.

Acquisition, Disposal and Lending

8.22 Procedures for acquiring and disposing of objects should be fully documented. This will help ensure that decisions to expand or contract a collection are taken in accordance with the approved collections policy. Such procedures also assist in controlling movements of assets.

8.23 In general, the collections at each location visited relate specifically to the location and as a result, additions and disposals are infrequent. Additions that do occur are generally items that relate to the location or its previous occupants. Procedures should be in place to assess any potential acquisition and to approve the purchase or loan inwards of the item(s).

8.24 Three of the five locations visited had an acquisition and disposal policy in place (see Figure 8.3).

8.25 As part of the normal course of its business in putting on exhibitions, a location may receive heritage objects on loan to make up part or all of an exhibition. Similarly, objects may be loaned by the location to other State agencies or private agencies within the State or overseas to supplement an exhibition. In each situation, it is important to ensure that all objects are transported, handled, displayed and returned with appropriate care by the receiving party.

8.26 Loan agreements should be put in place providing for the care, transport and all relevant issues relating to the objects on loan. Three of the five locations had a loan policy in place and used loan agreements (see Figure 8.3).

Figure 8.3 Acquisition, disposal and lending policies

	Farmleigh House	Kilkenny Castle	Emo Court	Glebe Gallery	Glenveagh Castle
Acquisition policy	✓	✓	✗	✓	✗
Disposal policy	✓	✓	✗	✓	✗
Loan policy	✓	✓	✗	✓	✗

Source: Office of the Comptroller and Auditor General

8.27 Procedures are in place at the Department's storage facility for receipt and storage of items and for transfer of items to the National Museum of Ireland.

Recording and Cataloguing Heritage Assets

8.28 An asset register is an important control in recording and managing the fixed assets of an organisation. The register should show the name/description of the item, date of acquisition, cost, current value and class of asset. A brief description of the asset (including its condition and any distinguishing features) and a serial number or asset tag should also be recorded.

8.29 In the context of heritage objects, the quality and value of information about an object is enhanced by recording other details such as the source, producer, previous owners, full description of the item and its history/provenance, and its significance to the collection.

8.30 The Department has a central fixed asset register, recording assets with a value in excess of €1,000, comprising land, buildings, furniture and fittings. While it does record some heritage assets, the majority are not recorded on the central register. The Department has indicated that, for example, all of the contents of Killarney House which are in its central store are recorded on the central register while the items stored at Muckross House are not. However, records of heritage assets are maintained locally at each site.

8.31 The OPW also maintains a central fixed asset register, in this case recording all assets with a value in excess of €300. Heritage assets acquired since 2008 are recorded in the register. Those acquired prior to 2008 are not recorded in the register. A central register of all items in the State art collection (including the assigned location of the asset) is maintained.

8.32 Records of heritage assets are maintained at each OPW location. Locations seeking accreditation to the museum standards programme for Ireland have adopted a software package which facilitates recording details of each item including description, movement, condition, photographs, etc. Other locations record their assets on a spreadsheet and manage movements by updating the spreadsheet.

8.33 During this examination, sample checks of the records at each of the locations visited indicated that the asset records maintained locally were accurate.

Collection Care

8.34 Proper collection care minimises the potential for loss or damage to items in the collection. The principal areas of concern are maintenance, environment, pest control, and response to emergencies. This is achieved by having comprehensive and coordinated collections management policies, procedures and practices.

Inventory Check and Condition Monitoring

8.35 As with all assets, periodic checks of heritage assets should be carried out to verify the asset is still in place. Due to the nature of the assets in many collections, it is important that the condition of the asset is monitored and assessed on a regular basis. Many heritage assets may be vulnerable, for example, to environmental factors such as temperature, humidity, insects, etc. The specific vulnerabilities need to be identified and recorded with an appropriate response devised to minimise potential adverse impacts.

8.36 In all locations visited, inventories are conducted at varying intervals ranging from daily to annual checks.

8.37 The Department completed a physical verification of all its assets, including heritage assets, in 2012 and 2013. In 2014, tagging of all assets at each location commenced. Following completion of tagging, all assets are subject to spot checks from 2015. Sensitive assets, including art works, are subject to annual verification.

8.38 As part of the accreditation process for entry to the museum standards programme, internal OPW reviews have been carried out at four locations.[1] In addition, internal audits have been carried out at the Botanic Gardens.

8.39 The OPW has stated that incidents identified where objects have been lost or damaged were

- Damage to the Burgoyne Bell held at the Royal Hospital Kilmainham was identified following the use of the location for an event. The cost of repairs has since been recovered.
- A letter holding rack had been stolen from display at the Pearse Museum in 2012 and a photograph had been misplaced or stolen from the same museum prior to 2012. These incidents were identified from routine checks.
- There was damage to a small number of books on loan at the Botanic Gardens and part of an outdoor sculpture was stolen.

State Art Collection

8.40 The State art collection comprises over 16,000 works. The collection comprises historical and contemporary paintings, original prints, sculpture, decorative objects, music, mixed media installations and poetry. Almost the entire collection (around 92% of the items) is on permanent display in over 400 State buildings.

8.41 Policies and procedures for the management of the collection, for both OPW staff and borrowing departments, are set out in an art management handbook. These include policies in relation to acquisition, disposal and lending as well as care of the collection. The OPW has stated that it undertakes regular inventory checks and monitors the condition of artworks.

8.42 Between January 2012 and December 2014, surveys of items located in 184 locations were undertaken. The OPW recorded 173 items of art on loan as missing, of which 36 have been recovered. The estimated value of the 173 items is €49,000 and the value of the items yet to be recovered is €37,000. Figure 8.4 summarises the incidents by borrowing department.

1 Dublin Castle, Castletown House, Rathfarnham Castle, Farmleigh House.

Figure 8.4 State art collection – items identified as missing

	Number of items		
Borrowing Department/Office	**Total with borrower**	**Identified as missing**	**Recovered**
OPW (including heritage properties)	6,745	5	–
Houses of the Oireachtas	707	44	24
Education and Skills	754	20	5
Foreign Affairs	779	17	–
Finance	325	16	2
Jobs, Enterprise and Innovation	159	13	–
Garda Síochána	853	11	1
Courts Service	310	9	–
Taoiseach	404	9	–
Transport, Tourism and Sport	142	7	–
Revenue Commissioners	646	6	1
Social Protection	533	5	2
Others	1,312	11	1
Total		**173**	**36**

Source: Office of Public Works

8.43 The OPW has stated that it is pursuing recovery of missing items. All newly acquired artworks are registered, photographed and marked as State property. Older works are marked as State property on an on-going basis.

8.44 In 2012, the OPW revised its procedures for the management of the State's art collection. It introduced a formal loan contract to be agreed with organisations seeking to borrow artworks from the collection. The contract sets out the duties and responsibilities of the borrower in relation to borrowed art works.

8.45 The OPW has stated that its art management handbook is currently being updated. When this is completed, it plans to organise meetings with relevant staff in borrowing departments to inform them of their responsibilities in displaying artwork.

Disaster Planning

8.46 Risks pertaining to individual assets and to the location in which they are held, whether on display or in storage should be established and steps taken to ensure the risks are mitigated as far as possible. Comprehensive plans should be in place to ensure that in the event of fire, flood, etc. all necessary steps are taken to safeguard the heritage objects. Three of the five locations had disaster plans in place (see Figure 8.5).

Figure 8.5 Disaster policy in place

	Farmleigh House	Kilkenny Castle	Emo Court	Glebe Gallery	Glenveagh Castle
Disaster policy	✓	✓	×	✓	×

Source: Office of the Comptroller and Auditor General

8.47 There is no disaster response plan in place for the Department's storage facility. However, the Department has had discussions with the National Museum of Ireland which is the lead tenant for the Collections Resource Centre, in relation to the formulation of a plan.

Conclusions and Recommendations

8.48 Appropriate policies, procedures and practices are required to ensure that heritage assets are protected, controlled and managed properly. The museum standards programme for Ireland provides a set of standards in relation to the control, care and management of collections. Six OPW heritage locations are participating in this programme with three having achieved full accreditation. One Department location has also achieved full accreditation. OPW has 11 further properties and the Department has two further properties that have associated collections of heritage assets where participation in the programme has not yet been pursued.

8.49 In two of the properties visited as part of this examination, basic requirements for the preservation, control and management of heritage assets were absent.

Recommendation 8.1

The OPW and the Department should consider the suitability of all locations with collections of movable heritage assets for participation in the museum standards programme.

Response of Accounting Officer of the Department

Agreed. Muckross House already has full accreditation and the Department will undertake an assessment of the benefits that might accrue from participation in the programme by Glenveagh Castle and Killarney House.

Response of Accounting Officer of the OPW

Agreed. Work is continuing towards achieving the standard in appropriate locations. However, for other locations the standard may not be the best approach as the administrative overhead involved would exceed any benefits accruing. Best practice procedures will be adopted at these locations.

8.50 Although both the OPW and the Department maintain centralised fixed asset registers, these only record a small number of heritage assets held. Most heritage assets are recorded locally and, therefore, relatively little effort would be required to incorporate the details into central records such as the fixed assets register.

Recommendation 8.2

Heritage assets should be recorded centrally to ensure they are properly controlled and safeguarded.

Response of Accounting Officer of the Department

Agreed. The Department will record those assets in accordance with the requirements of Department of Finance Circular 02/2004.

Response of Accounting Officer of the OPW

Agreed. Heritage assets acquired since 2008 are recorded in the fixed assets register. A number of measures are in place at each location to ensure heritage assets are controlled and safeguarded. The centralisation of the software systems currently in place at various sites to record heritage assets is being considered.

8.51 Since January 2012, the OPW has reviewed heritage assets in the Botanic Gardens as well as in four locations, as part of their accreditation for the museum standards programme. In the Department, heritage assets were reviewed in 2012 as part of an internal audit examination of general fixed assets.

Recommendation 8.3

In order to ensure local control and management procedures operate effectively, a programme of regular and independent reviews and inspections, tailored specifically for heritage assets, should be considered.

Response of Accounting Officer of the Department

Agreed. Annual reviews by local management of heritage assets will continue. Heritage assets will also be subject to independent inspection by the Department's Corporate Services Division on a regular basis through a rolling programme of inspections.

Response of Accounting Officer of the OPW

Agreed. Regular audits and spot checks are undertaken in relation to the State art collection. A similar system of audits and spot checks will be considered for other heritage assets.

8.52 The OPW introduced revised procedures in 2012 for lending of artworks to government offices and public buildings. Formal agreements are entered into between the OPW and the borrower setting out the borrowers' duties and obligations in relation to the items on loan.

Recommendation 8.4

To ensure the maintenance of the State art collection, the OPW should request formal confirmation of the items on loan by borrowers on an annual basis and consider introducing a programme of spot checks.

Response of Accounting Officer of the OPW

Agreed. OPW will request formal confirmation from borrowing departments of items on loan. Following analysis of the responses, an audit programme will be initiated in early 2016.

9 Development of Prison Accommodation in Dublin

9.1 In February 2004, the Government gave approval for the Minister for Justice and Equality to replace the facilities at the Mountjoy complex with a new prison facility on a greenfield site.[1]

9.2 The Department of Justice and Equality (the Department) stated that the development was needed to address the lack of capacity in the prison system and other problems in the Mountjoy complex, and in particular

- the cost of modernising and expanding the Mountjoy complex was considered to be prohibitive and impractical given the limited space available on the site, the age of the buildings and structural conditions
- the need to eliminate the practice of 'slopping out' at Mountjoy male prison
- security issues such as contraband being thrown over prison walls
- the lack of availability at Mountjoy of rehabilitation activities and programmes.

9.3 In January 2005, the Prison Service purchased a site totalling 150 acres at Thornton in north county Dublin, located 1.6 kilometres from the N2 and close to the M50, for €29.9 million.[2] Further adjacent land purchases were made in 2007 as follows

- 6 acres at a cost of €0.8 million, to provide a secure site for other criminal justice facilities, and
- 8.7 acres at a cost of €1.3 million, to provide an access route to the proposed Thornton complex which was provided following representations from the local community in relation to concerns about increased traffic generated during prison construction.

9.4 In June 2008, the Prison Development (Confirmation of Resolutions) Act 2008 was passed by the Oireachtas, approving the development of a prison on the Thornton site.[3]

9.5 Some work on site preparation and off-site work has been undertaken, together with work on road access. However, no prison building work has been undertaken. Currently, the site is partly used for a prison horticultural project, with 120 prisoners participating since this project commenced.

9.6 Currently, there is a working group reviewing the Thornton project and the group was expected to report by summer 2015. There are no formal terms of reference for the group. The Department has stated that the group was asked to look at options which would yield the best possible value for the State in its future use.

9.7 This report reviews the expenditure on the Thornton project and examines the accounting for the value of capital works in the appropriation account of the Prison Service.

1 The annex sets out the key events to date in progressing the project.

2 The 2005 Report of the Comptroller and Auditor General examined the acquisition of the site, which in addition to the land, included the listed Thornton Hall.

3 Under Section 181 of the Planning and Development Act 2000, certain developments by or on behalf of State authorities are excluded from the application of the planning code in the interests of national security or the administration of justice. Therefore, agricultural land that met the Prison Service's requirements could be considered for development.

Thornton Project Costs

9.8 At the time of the Government's decision in 2004 to approve the site acquisition, it was stated that an indicative construction cost for a new prison complex on a greenfield site could be in the region of €150 million (or €150,000 a space[1]) over five years, which would be partially offset by the sale of Shanganagh Castle prison and the Mountjoy complex. In addition, it was expected that annual savings on operational costs of up to €18 million could be achieved.

9.9 In 2006, after the preparation of a detailed business case for a significantly expanded scope and professional costing of the project, the estimate of the project cost increased to €525 million. The figure of €525 million was the estimated capital cost that would be incurred under a Public Private Partnership (PPP) for design/build/off-site utilities/insurance and building inflation for the project but excluding VAT. After considering a number of options, the Government decided to proceed with the project, and sought tenders from interested firms to deliver the project using a PPP model. A preferred bidder was identified in early 2007 following this competition.

9.10 A key element of a PPP model is that the company delivering the project sources most of the required funding from the financial markets. However, the onset of the financial crisis led to difficulties being encountered by the preferred bidder with the cost of financing the PPP. The estimated cost of the annual charge to the Prison Service (unitary payment under PPP) increased by over 30% from the tender submitted by the preferred bidder. The negotiations with the PPP company were subsequently terminated in May 2009. Given the increase in estimated cost, it was decided in 2010 to use the traditional Exchequer funding model. However, due to budgetary constraints, it was not possible to finance the project.

9.11 The following figure outlines the spending by the Prison Service on the development at the site to May 2015.

Figure 9.1 Expenditure on the Thornton project by category, as at May 2015

Expenditure category	**Spending to May 2015**
	€000
Original site	29,900
Other land purchases	2,096
Access road development	3,464
Off-site work [a]	2,671
Site preparation and surveys	3,082
Technical fees	5,991
Legal fees	1,419
Financial fees	460
Landscaping, maintenance and repairs	983
Security	563
Total	**50,629**

Source: Prison Service

Note: a The off-site works at Thornton comprised the provision of water, telecommunications and sewage services. It included laying along the road way (R135) circa 4.8km of public water mains and connections, water meters, valves and chambers, and a foul pumping rising main to serve the proposed prison. This includes associated costs for the culverting of streams, fencing work, drainage and landscaping reinstatement.

1 This implies provision of around 1,000 spaces.

9.12 The Department stated that the Prison Service has advised that the recurrent cost to maintain the lands and property at Thornton in 2014 was €108,776. This expenditure arises from the need to maintain Thornton Hall, which is a protected structure. The house was in a very poor condition at the time of the site acquisition. Significant work was carried out, which included rewiring and installation of a central heating system, replacement of flooring throughout and some structural work including emergency lighting and the installation of fire and security systems. A maximum budget of €40,000 has been provided for the maintenance of the house and lands in 2015.

Accounting for the Capital Investment

9.13 Accounting rules for government departments and offices are set out in Public Financial Procedures and relevant circulars issued by the Department of Public Expenditure and Reform. These rules require that departments disclose in a note to the appropriation account certain assets and liabilities including their value at the financial year end.

9.14 In the case of capital assets including land and buildings, the stated accounting policy requires that the assets are disclosed in the balance sheet note and should be valued at either

- historic cost less the accumulated depreciation from the date of acquisition, or
- current value which is defined as the lower of replacement cost or recoverable amount.

The option of using current value in place of historic cost is to provide information which may be more relevant to users of the accounts in measuring the value of assets and changes in those values in the financial year.

9.15 The appropriation account for Vote 21 Prisons discloses the fact that all land used by the Prison Service but owned by the Minister for Justice and Equality was valued during 2014 by the Valuation Office at either existing use value or market value (if not in use) with the exception of the land at Thornton. In this case, the land continues to be valued at its accumulated historic cost of €50.6 million which includes the investment in infrastructure and services, pending a review of its potential value and benefit to the State.

9.16 A Valuation Office report for the Prison Service in February 2015 put a value of the land at Thornton at €2.4 million.[1] The valuation split the land between

- land not in use and deemed to be surplus to requirements (approximately 140 acres) which was valued at €2.24 million on the basis of its market value in its existing state (and taking account of the available services)
- land not covered by buildings but in use by the Prison Service (approximately ten acres) which was valued at €0.16 million on the basis of its existing use.

Therefore, adopting these values would result in a reduction of up to €48 million in the valuation included in the appropriation account for the Thornton property. However, should an alternative use be identified, then some of the costs invested to date may be reusable by the State.

1 The valuation does not take account of the 14.7 acres acquired in 2007 for €2.1 million.

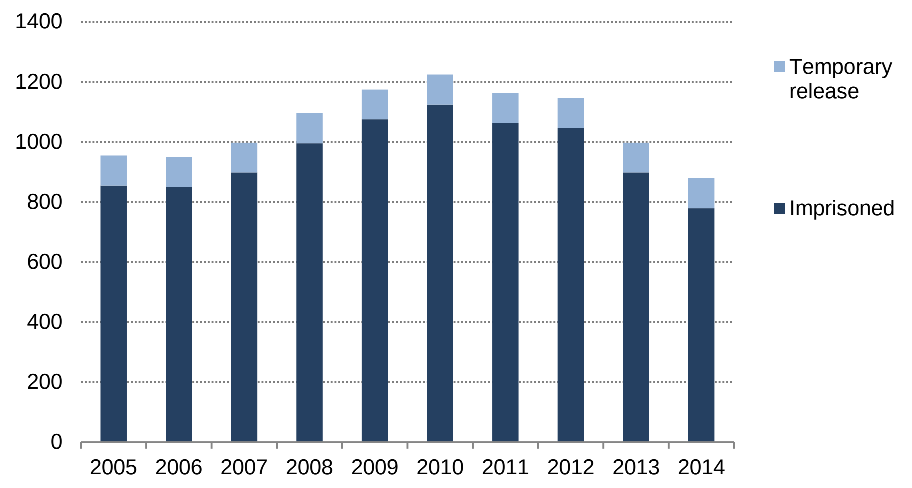
Estimating Prison Capacity Requirements

9.17 The size and extent of the proposed prison complex at Thornton changed over time.

- An original proposal in 2003 was for the development of a new prison with 600 places to replace the Mountjoy (male) prison.
- In seeking a site in 2004, the Department stated that it wished to provide single cell accommodation and facilities for the number of prisoners in the Mountjoy complex (943 at that time) and to allow for expansion of the new prison in the future, as well as relocating the Central Mental Hospital to the site.
- Following the completion of a detailed business case in 2006, the criteria set out in the PPP competition specified that the complex should accommodate 1,400 prisoners in 1,400 cells, and have the operational flexibility (by 'doubling up' cell occupancy) to accommodate up to 2,200 prisoners. This included a new women's prison with a capacity for 170 women. The additional capacity flexibility was to cater for an estimated increase in prisoner numbers of 14% by 2015. The Government also agreed in principle, subject to further study, that the Central Mental Hospital should be transferred to Thornton. At that time, it had an average of 76 patients.
- It was decided in 2010 that the project (1,400 cells holding up to 2,200 prisoners) would be delivered in three phases with the first phase providing 400 cells for up to 700 prisoners.
- In 2011, a review group recommended that the new prison on the Thornton site be developed on a smaller scale than previously envisaged for Phase 1 (300 cells capable of accommodating 500 prisoners and 20 secure step-down facilities capable of accommodating up to 200 prisoners in an open prison type setting).

9.18 The project had envisaged the replacement of the four prisons on the Mountjoy prison campus (Mountjoy male prison, St Patrick's Institution, the Training Unit and the Dóchas centre for women prisoners). The average prisoner population in these four prisons since 2005 is outlined in Figure 9.2.

Figure 9.2 Daily average prisoner numbers in Mountjoy Complex, 2005 to 2014[a]



Source: Prison Service

Note: a As a result of a Government decision, St. Patricks Institution was closed during 2014 and the young offenders were moved to more appropriate accommodation in the Wheatfield prison and Oberstown Campus. There was an average of 200 young offenders in this institution between 2005 and 2012.

Other Measures to Address Issues at the Mountjoy Complex

9.19 In light of delays in progressing the Thornton project, a number of measures were taken to address the problems identified at the Mountjoy complex. From 2010 to 2014, €28.7 million has been spent on capital works in the Mountjoy complex.

9.20 An ongoing programme of wing refurbishment in Mountjoy male prison is due to finish in 2015 at a further cost of €0.6 million. The extent to which these measures address the original concerns regarding the Mountjoy complex is summarised below.

Figure 9.3 Analysis of the extent to which original objectives have been achieved

	Status
Overcrowding in prisons	●
Elimination of ‘slopping out’	●
Security issues	●
Lack of availability of rehabilitation activities and programmes	○
Single cell accommodation and facilities for 900 prisoners	○
Space for expansion	×

Source: Prison Service

Note: ● Fully addressed; ○ Partially addressed; × Not addressed

9.21 The investment to date has allowed for

- A reduction of overcrowding in Mountjoy through the provision of an additional 92 cells. The Prison Service has also stated that pressure on overcrowding across the prison system has reduced as the daily average number of prisoners in custody has continued to decline, falling by 11% since the peak average of 4,390 in 2011.
- The elimination of slopping out, as all 525 cells now have in-cell sanitation.
- Improvements in security through the provision of additional CCTV cameras, the fitting of anti-contraband netting over the exercise yards, and the introduction of automated palm readers to C wing.
- Improved access to rehabilitation activities and programmes due to the reduction in prisoner numbers.
- The introduction of dormitory style accommodation in the Dóchas centre which has partially addressed the accommodation issue. In addition, the Dóchas prison was upgraded to include 20 additional prisoner accommodation spaces.
- The refurbishment of A, B, C and D wings including the replacement of windows throughout all landings/cells, replacement cell doors throughout, demolition of the existing cast-iron stairs, landings and walkways in B and C wing and construction of new steel stairs and floors.
- A new decentralised heating system which is more energy efficient and safer than the old system – the Prison Service estimates the system will achieve annual cost savings of €0.13 million and reduce the carbon footprint.

9.22 In 2012, a new 300 space prison wing in the Midlands prison was built. The wing contains 175 cells with full in-cell sanitation. The project cost approximately €25 million and included new education, catering and visiting facilities, along with a full upgrade of the security systems and an extensive new wall and exercise yard.

9.23 The Accounting Officer stated that this new wing at Midlands prison helped reduce the pressure on Mountjoy prison and thus contributed significantly to the ability to close each wing in Mountjoy to facilitate the extensive refurbishment programme.

Views of the Accounting Officer

Addressing the Problems at Mountjoy Complex

9.24 The Accounting Officer explained that in 2003, the Prison Authority Interim Board (PAIB) recommended the building of a new prison on a greenfield site in the Dublin area to replace Mountjoy prison campus. This recommendation was made against a background of strong criticism regarding prison conditions, including access to drugs within them and overcrowding by the European Committee for the Prevention of Torture and Inhuman or Degrading Treatment or Punishment (CPT) in its reports in 1998 and 2002. Also, the Inspector of Prisons in his annual report for 2003/4 called for the urgent demolition and replacement of Mountjoy prison.

9.25 It was envisaged that the new prison would provide a modern operationally efficient prison regime focussed and underpinned by best practice principles of normalisation, progression and rehabilitation. The PAIB also recommended the disposal of the Mountjoy prison campus and the sale of surplus prison lands at Shanganagh Castle to part fund the development of the new prison campus.

9.26 The Thornton prison campus, in addition to addressing the slopping out problem and security issues such as drugs being thrown into Mountjoy prison, was also expected to result in significant operating cost savings through the introduction of new technologies, sharing of administration and central operational functions, and reduced maintenance costs, which in themselves justified the development of the new prison campus.

9.27 Furthermore, the site would allow the Prison Service to plan for the future, taking into account the projected rise in the prison population at that time. While prison numbers had been relatively stable in the period 2001 to 2005 there was a marked and continuing increase in the prison population between 2005 and 2010 with an increase of over 50%. In addition, Limerick University carried out independent research into prisoner population projections in 2009. A low, medium and high projection was prepared. Their projection for 2010 went from a low of 3,631 in custody to a high of 4,045. The actual figure on 1 June 2010 was 4,256, which meant that their highest projection had already been exceeded.

9.28 He stated that these issues were fully addressed in the report of the Thornton Hall Project Review Group published by the Department in July 2011.

9.29 The Accounting Officer has stated that no formal Government decision has been made to cancel the Thornton project, but a working group was established in January 2015 to examine the options for the future use of the Thornton site, including the options which would yield the best possible value for the State. The group has held a number of meetings to date with relevant bodies and is drafting a report based on the outcome of its consultations which are ongoing.

9.30 In addition to any options identified by the group, it remains the case that the Thornton site is a fully serviced strategic land reserve which remains available for appropriate State use and continues to be an option for the Prison Service should prisoner numbers increase significantly in the future. Moreover, the question of the site being used as the location for a major administrative centre with related ancillary facilities for another justice body which is required to vacate its current city centre location has been raised and remains under consideration.

9.31 The Accounting Officer stated that the Department, in the context of its very wide remit, regards the property as a significant strategic asset at a location in the hinterland of the State's largest population centre. The question of its disposal to private or non-public service interests remains an open one but the priority is to maximise the value of the asset to the State. He said that the Department will be guided in this by the Office of Public Works which oversees the strategic use of the State's estate portfolio.

Estimated Cost of Project

9.32 The Accounting Officer stated that the €150 million figure referred to in 2004 in connection with the proposed prison project was never considered to be the actual cost of completing the project, and was more in the nature of a place holder budget line in the context of the overall capital envelope for 2004. He stated that a more accurate assessment of the capital costs was included in the project business case finalised in 2006.

9.33 In reference to the cost of addressing the problems in the Mountjoy complex, he stated that the report of the Mountjoy Redevelopment Group in 2001 contained a number of specific proposals and recommendations for the future development and use of the existing site in Mountjoy, and to provide for a new 723 place prison in addition to the female prison.

9.34 The option of development of the existing Mountjoy site envisaged the complete demolition of the campus and the construction of a brand new prison on the existing site. An estimate of the capital cost of the construction of the proposed redevelopment, prepared in 2001 by a firm of surveyors on behalf of OPW, came to a total of €336 million. It was subsequently estimated in 2005 that it would cost over €400 million because of rapidly rising building costs and would take seven years to complete.

9.35 He also stated that this development, which clearly envisaged much more than the provision of in-cell sanitation, did not proceed on the grounds of cost but also because it would have resulted in a reduction in the number of prison places, which would have exacerbated the overcrowding problem in the prison system. Furthermore, there was not sufficient capacity in other prisons to house the Mountjoy prison population while it was being redeveloped – the additional space in the Midlands prison was not completed until 2012.

9.36 He stated that a lot has since been achieved in terms of the refurbishment of Mountjoy i.e. the complete refurbishment of A, B, C and D wings of Mountjoy prison. Overcrowding has been addressed and the bed capacity aligned with the Inspector of Prisons' recommended figure of 554. Slopping out has been eliminated, prisoners have improved access to meaningful activities and security considerations are being addressed through the provision of additional CCTV cameras as well as other measures to prevent the entry of contraband into the exercise yards. Furthermore, this work was carried out while building costs were somewhat lower than when original costs of redeveloping Mountjoy were estimated. It has also been facilitated by the partial closure of St. Patricks Institution and its re-designation as part of Mountjoy prison under the Prison Acts.

9.37 He stated that, while significant improvements have clearly been made, it is important to note that even with the extensive refurbishment works undertaken, Mountjoy prison remains a very old and expensive prison to run and nothing like what would have been developed in Thornton with regard to the facilities, regime, work training, education and general living and working environment in a new prison on the Thornton site.

Accounting for Capital Investment

9.38 In relation to the consistency of treatment of prison assets, the Accounting Officer stated that the appropriation account discloses the fact that Thornton is being treated differently, pending a review of its potential value and benefit to the State.

9.39 He stated that the Thornton site is different to the other Prison Service properties. For the most part, the other properties are fully functioning operational prisons. Thornton is effectively a fully serviced site awaiting development or the realisation of future use benefit. As a result, it was felt that the most prudent and transparent way of reflecting Thornton was to continue to incorporate the historic cost of the asset in the statement of capital assets pending the outcome of the review into future use value.

9.40 He stated that there is potential value and benefit to the State from the use of the land. Ultimately, the Thornton site is a fully serviced strategic land reserve which remains available for appropriate State use and continues to be an option for the Prison Service should prisoner numbers increase significantly in the future.

Conclusions

9.41 The purchase of the Thornton site was undertaken to deal with problems of the Mountjoy complex especially the overcrowding, the elimination of the ‘slopping out’ and the security issues. The Government was advised that €150 million would be the construction costs for a new prison complex on a greenfield site to replace Mountjoy, which housed around 950 prisoners. Since 2010, many of the problems at Mountjoy have been dealt with at a much lower cost than that proposed originally to build a new prison on the Thornton site.

9.42 Subsequently, the proposed scale of development at Thornton was expanded to provide 1,400 cells (47% more than in Mountjoy), with flexibility to accommodate up to 2,200 prisoners. The estimated cost of the larger development was €525 million – around 3.5 times the cost indicated when the original purchase of the Thornton site was approved. That decision was underpinned by inadequate analysis of the likely costs of developing a new prison, which appear to have been significantly understated, and the costs of addressing the problems at the Mountjoy complex, which appear to have been overstated.

9.43 The appropriation account presents inconsistent valuations of prison land and buildings, with the property at Thornton being treated differently to similar property held by the Prison Service elsewhere. Relative to other property, the property at Thornton is overvalued in the account.

Annex – Key Milestones in the Thornton Prison Project

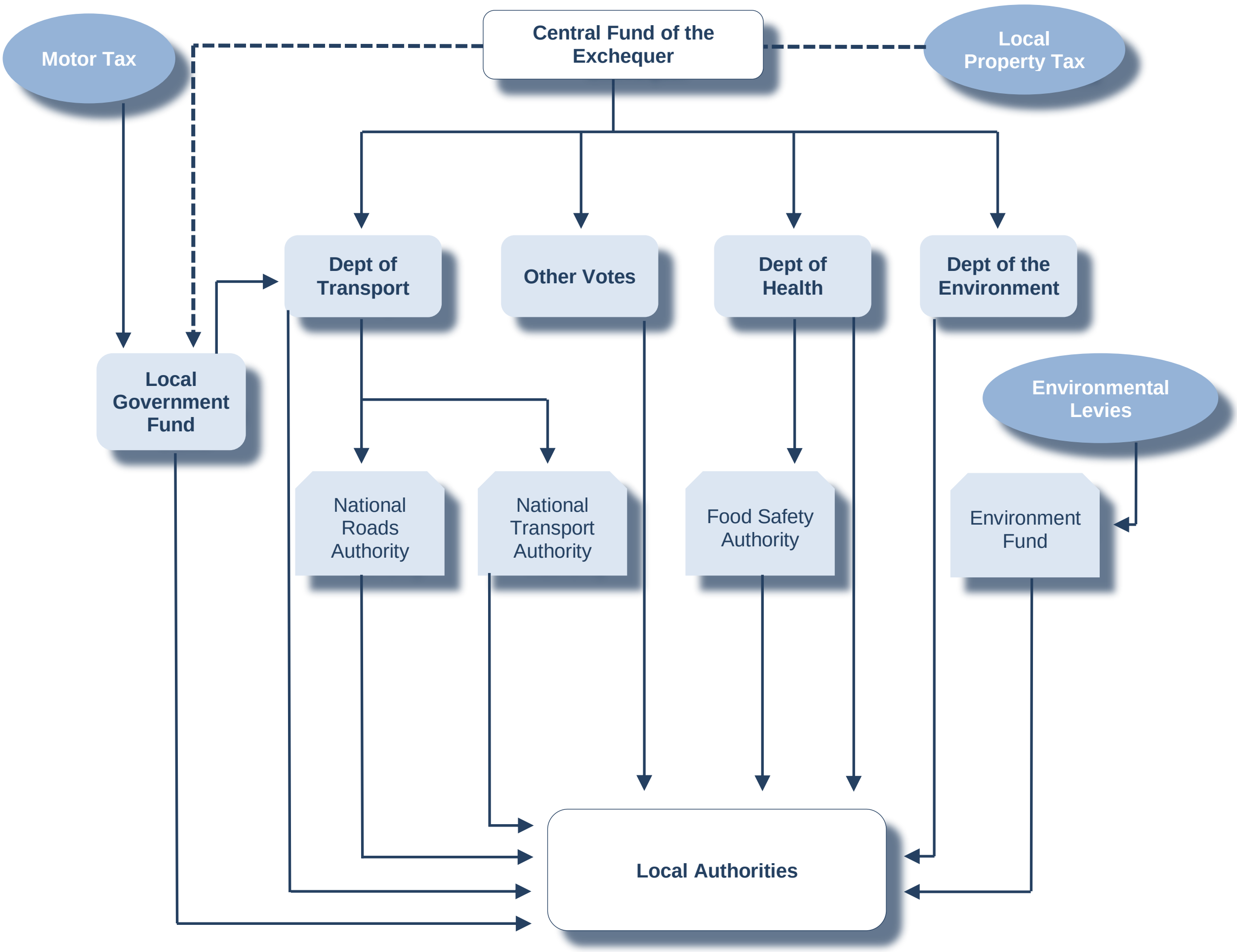
Year	Events
2003	Sub-committee of the PAIB recommends the building of a new prison on a greenfield site in the Dublin area to replace prison facilities at Mountjoy due to the sub-standard conditions.
2004	Government agrees in principle to replace Mountjoy complex. Indicative cost of construction is €150 million.
	Prison Service advertises for suitable land. A site selection committee shortlists three recommended sites.
	Negotiations commence on a preferred site but this site is subsequently withdrawn from sale. Thornton site offered to the Prison Service.
	Partial sale of Shanganagh Castle site realises €9 million.
2005	Site selection committee recommends purchase of Thornton site. Prison Service agrees to purchase for €29.9 million.
2006	Prison Service prepares business case considering a number of options including 'do nothing', redevelop Mountjoy, or replace Mountjoy on a new greenfield site. The preferred option is to replace Mountjoy and build a new prison at Thornton.
	A detailed and costed specification for the Thornton complex sets the planned capacity at 1,400 spaces, and the total capital cost is estimated at €525 million with construction to be completed by 2010.
	The sale of the Central Mental Hospital is expected to yield in excess of €400 million but will not be used to offset the cost of the Thornton project.
	Sale of remaining lands at Shanganagh for €20.6 million.
	Government approves a tender competition for design, build, maintain and finance the new prison complex under a public private partnership (PPP).
2007	Following the tendering process, the Government approves the commencement of negotiations with the preferred bidder.
2008	Planning approval for the development was granted in the Prison Development (Confirmation of Resolutions) Act 2008 enacted in July 2008.
	Following negotiations, a proposal is made by the preferred bidder which estimates the cost of the project at nearly €700 million.
2009	The proposal is rejected as it is not considered affordable due to significant increase in costs.
	In June 2009, the Government agreed that the project would proceed on a phased basis with phase one comprising essential preliminary works to support the prison development i.e. construction of the dedicated access road and underpass, the installation of the off-site services (water, foul main, ICT), and construction of a perimeter wall, using traditional procurement procedures. While phase one was underway, discussions were to be held with the Department of Finance and the National Development Finance Agency in relation to the precise form of procurement for the prison buildings.
2010	The Government decides that the development should proceed on a phased basis using traditional procurement methods and be financed by the capital development programme as opposed to the PPP basis, given the ongoing uncertainty in sourcing commercial finance under this model.
	Following separate tender competitions, contracts for works were awarded in respect of off-site works and in respect of the access road. Whilst a tender competition commenced for the construction of the perimeter wall, a contract was not awarded pending a review of the proposed prison development.

Year	Events
2011	As part of the Government Programme for National Recovery, a review group is established in April to review the proposal to build the new prison and consider alternatives. The review group recommends that a new prison be developed on the site on a smaller scale than that previously envisaged for the first phase. Under the capital appraisal element of the multi-annual estimates programme it was decided that funding would not be available for the project in the medium term.
2015	A working group was established by the Department in January to examine options for the future use of the land and house at Thornton.

10 Central Government Funding of Local Authorities

10.1 Local authorities receive a substantial part of their annual funding from a range of central government departments and agencies, as indicated in Figure 10.1. The primary 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 funds have been provided.

Figure 10.1 Overview of flow of central government funding to local authorities

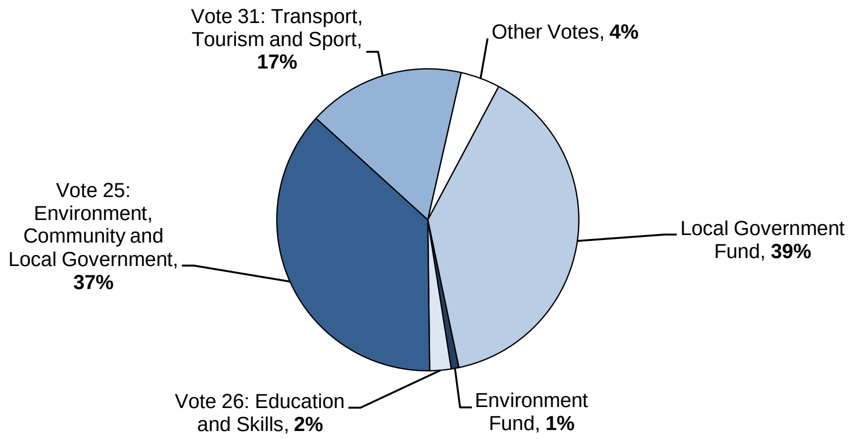


Source: Office of the Comptroller and Auditor General

Central Government Transfers in 2014

10.2 In 2014, funding to local authorities from central government sources totalled €1.7 billion, which represents a decrease of 28% on 2013.[1] 60% of this total originated as Exchequer funding. The balance was provided through the Local Government Fund and the Environment Fund (see Figure 10.2) both of which are administered by the Department of the Environment, Community and Local Government (the Department).

Figure 10.2 Sources of central government financing for local authorities, 2014



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

10.3 In 2014, the Local Government Fund was mainly financed by the €1.2 billion proceeds of motor tax and local property tax (LPT) receipts of €491 million. The LPT, which became payable from July 2013, is administered and collected by the Revenue Commissioners. LPT receipts are paid into the Central Fund. From 2014, the Minister for Finance is required to pay into the Local Government Fund an amount equivalent to the LPT paid into the Central Fund.[2]

10.4 The Local Government Fund provides funding to local authorities mainly for their day to day activities ('general purpose' grants) and for the upkeep of regional and local roads.

10.5 Town councils and borough councils were dissolved in 2014 following the enactment of the Local Government Reform Act 2014. In 2014, general purpose grant allocations from the Local Government Fund are calculated on a city and county basis, whereas separate town council allocations were made in previous years.

10.6 Up to 2014, general purpose grants included an element of funding for recurrent water services expenditure. In 2014, Irish Water received €439 million from the Local Government Fund in respect of the cost of water related services previously provided by local authorities.[3] Water services capital loans held by local authorities did not transfer to Irish Water. The Department provided local authorities with grants totalling €47 million from the Local Government Fund in 2014 in respect of the cost of those loans.

1 Includes identified transfers of greater than €1 million. There may be some additional smaller transfers that have not been included.

2 Section 157 of the Finance (Local Property Tax) Act 2012. From July 2013, any outstanding household charge was converted into an LPT charge and the Revenue Commissioners assumed responsibility for its collection.

3 Details of all central government funding of Irish Water are set out in Chapter 11.

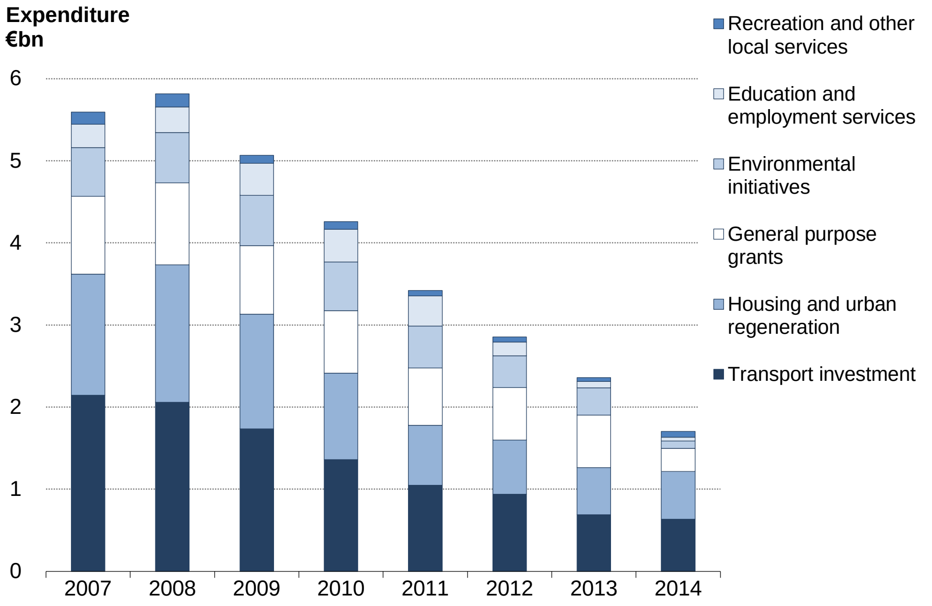
10.7 The Environment Fund is used primarily to support environmental initiatives, campaigns and programmes, many of which are organised at local or regional level under the auspices of local authorities. The proceeds of the plastic bag levy, which is paid by consumers and collected from retailers by the Revenue Commissioners, are paid into the Fund. Receipts from the landfill levy are also paid into the Fund. Disbursements from the Fund are intended to assist projects that aim to protect or enhance the environment.

Application of Central Government Funding

10.8 Most of the funding sourced from central government and provided to local authorities must be used for specific local authority services. These can be grouped into six broad programme categories. Figure 10.3 presents a breakdown of the transfers to local authorities for 2007 to 2014 showing the programmes being supported (a detailed breakdown is at Annex A).

10.9 In 2014, 87% of the total funding provision from central government to local authorities was accounted for by three categories. Those were transport (37%), housing and urban regeneration programmes (34%) and general purpose grants (16%).

Figure 10.3 Central government transfers to local authorities, by expenditure programme, 2007 to 2014



Source: See Annex A

Transport Investment

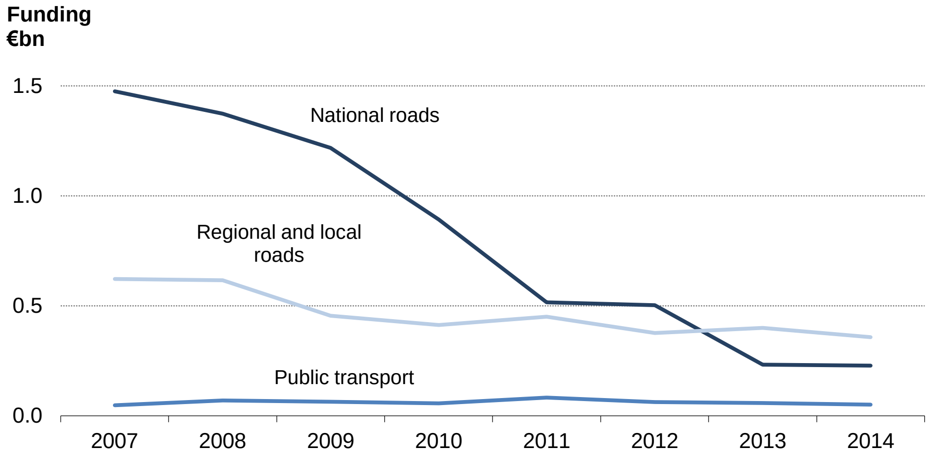
10.10 Improvement and maintenance of national roads is the responsibility of the National Roads Authority, operating under the aegis of the Department of Transport, Tourism and Sport. The National Roads Authority normally uses local authorities as its agents to deliver the projects, and channels expenditure through them.

10.11 The Department of Transport, Tourism and Sport receives an allocation for the upkeep of regional and local roads from the Local Government Fund. It provides funding to local authorities using the National Roads Authority's payment system.

10.12 The National Transport Authority, also operating under the aegis of the Department of Transport, Tourism and Sport, funds local authorities for improvements in the public transport system. Funding objectives include increased accessibility for older people, improved traffic flows, more routes for cyclists and pedestrians and better access for buses and taxis.

10.13 Figure 10.4 shows the trend in the level of funding from central government sources provided to local authorities in respect of the key transport areas.

Figure 10.4 Funding to local authorities for transport infrastructure, 2007 to 2014

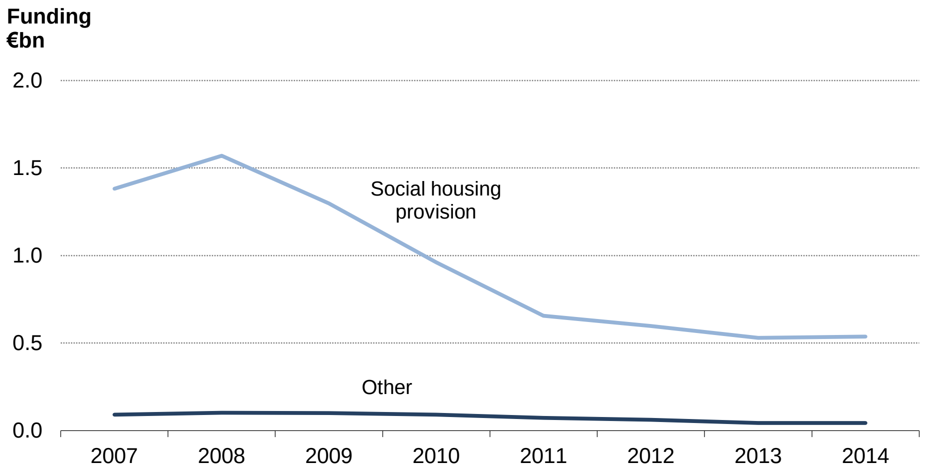


Source: See Annex A

Housing and Urban Regeneration

10.14 The bulk of funding for housing and urban regeneration is provided directly to local authorities by the Department from voted funds. The funding is used by local authorities for the provision of social housing including regeneration and remedial work, traveller accommodation, voluntary and cooperative housing, the Rental Accommodation Scheme, housing adaptation grants, and accommodation for homeless people. Figure 10.5 indicates the trend in the level of funding for housing provision.

Figure 10.5 Funding to local authorities for investment in housing and urban regeneration, 2007 to 2014



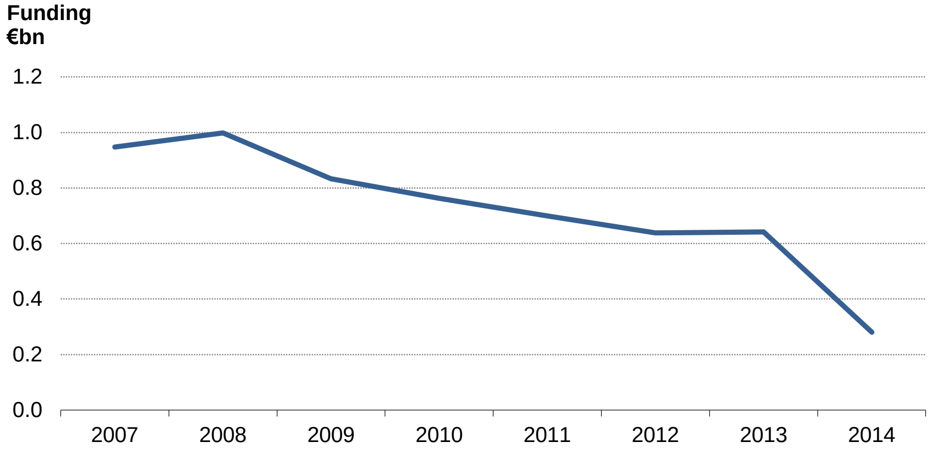
Source: See Annex A

General Purpose Grants

10.15 Funding is provided to local authorities from the Local Government Fund to assist them bridge the gap between their other income sources and the cost of the services they provide, including their own administration costs. Figure 10.6 shows the trend in the level of funding in respect of general purposes grants.

10.16 In 2014, the level of general purpose grants paid to local authorities decreased significantly as a result of the transfer of water service functions to Irish Water. In 2015, general purpose grant payments to local authorities have been discontinued and have been replaced by local property tax allocations.

Figure 10.6 Total general purpose grants to local authorities, 2007 to 2014

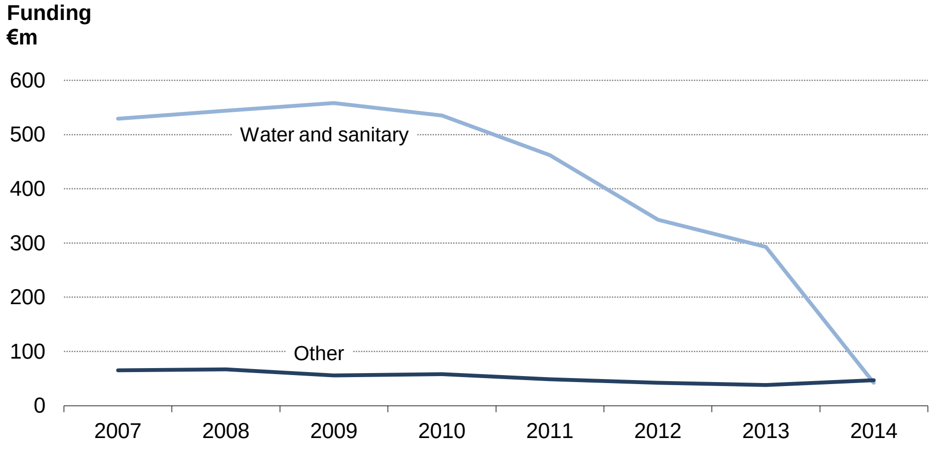


Source: See Annex A

Environmental Initiatives

10.17 Figure 10.7 shows the trend in the level of funding from central government sources provided to local authorities in respect of environmental initiatives. Funding for water and sanitary services investment projects decreased significantly in 2014 due to the transfer of these functions from local authorities to Irish Water.

Figure 10.7 Funding to local authorities for environmental initiatives, 2007 to 2014



Source: See Annex A

10.18 Funding for environmental initiatives in 2014 includes funds for flood relief works provided by the Office of Public Works and the Department of Agriculture, Food and the Marine.

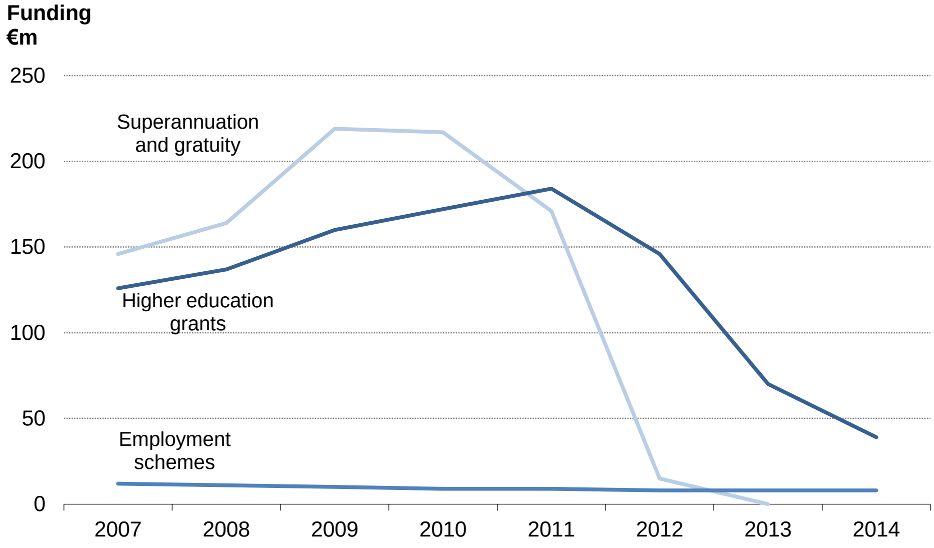
Education and Employment Services

10.19 Prior to 2012, higher education grants were awarded by either the relevant vocational education committee (VEC) or local authority. The Department of Education and Skills reimbursed the cost of grants awarded by local authorities. With effect from the academic year 2012/2013, all new students must submit applications for support under the student grants scheme to a national grant awarding authority (Student Universal Support Ireland). As a result, the amount of funding provided to local authorities for higher education grants has fallen significantly (see Figure 10.8). In time, this line of funding to local authorities will disappear.

10.20 The Department of Education and Skills also reimbursed local authorities in the past in respect of superannuation benefits and gratuity costs for retired teaching and non-teaching staff of VECs and institutes of technology, who are members of the Vocational Teachers' Superannuation Scheme or the Education Sector Superannuation Scheme respectively. From the end of 2012, responsibility for these superannuation and gratuity payments transferred from local authorities to the PMG Pensions Section in the Department of Finance. The pension costs are borne by the Education and Skills vote.

10.21 The Department of Social Protection reimburses local authorities for expenditure incurred on certain community employment and jobs initiative projects.

Figure 10.8 Funding to local authorities for education and employment services, 2007 to 2014

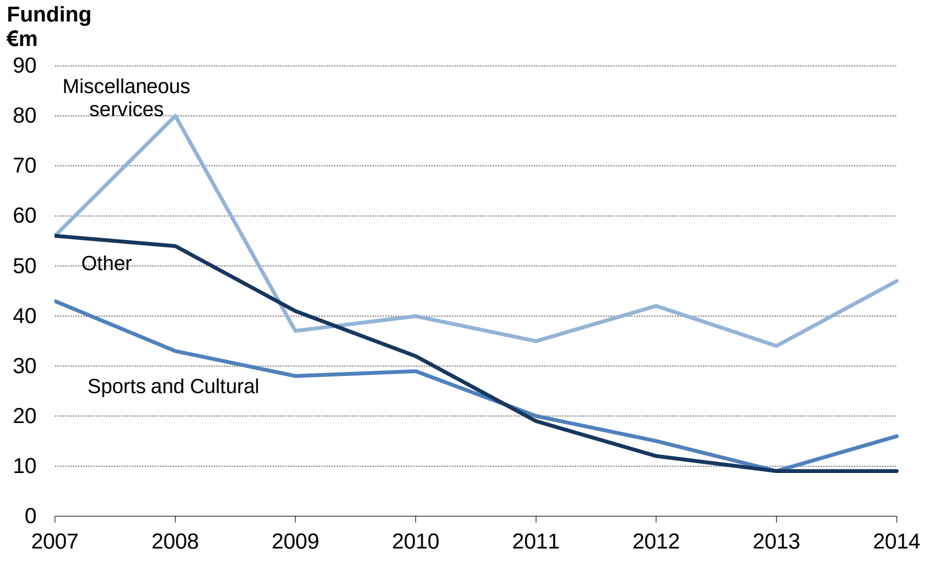


Source: See Annex A

Recreation and Other Local Services

10.22 Central government bodies also fund local authorities to assist in providing services such as sports and cultural projects, fire and emergency services, heritage services and library and archive services. Figure 10.9 shows the trend in the level of funding in respect of such services.

Figure 10.9 Funding to local authorities for recreation and other local services, 2007 to 2014



Source: See Annex A

Note: Other category includes fire and emergency services, library services and disability services.

Trends in Local Authority Expenditure, 2006 to 2014

10.23 Aggregate expenditure by local authorities in 2013 (the last year for which full audited information is available) was €5.8 billion.[1] This comprised around €1.5 billion in capital expenditure, and around €4.3 billion in current expenditure (see Figure 10.10). Estimated expenditure for 2014 is €5.3 billion – €1.1 billion capital and €4.2 billion current.[2]

10.24 Local authority capital spending is spending that results in the creation or acquisition of assets that have a use beyond the year in which they are provided e.g. road construction, building or purchase of houses, creation of local amenities, etc. Local authority capital programmes are financed largely by State grants from various sources, with some funding from borrowings, development levies, own internal resources and property sales.

10.25 Current expenditure (sometimes referred to as revenue expenditure) covers the day-to-day running of local authorities, including staff salaries, housing maintenance and pensions. Current expenditure is funded from three main sources. In 2013, these included Exchequer and Local Government Fund grants (about 33% of the total),[3] local authority rates (about 33%) and charges for goods and services such as commercial water charges, housing rents and parking charges (about 26%).[4] The contribution to current expenditure from the different income sources varies between authorities.

1 Includes expenditure by the 29 county councils, five city councils, five borough councils and 75 town councils.

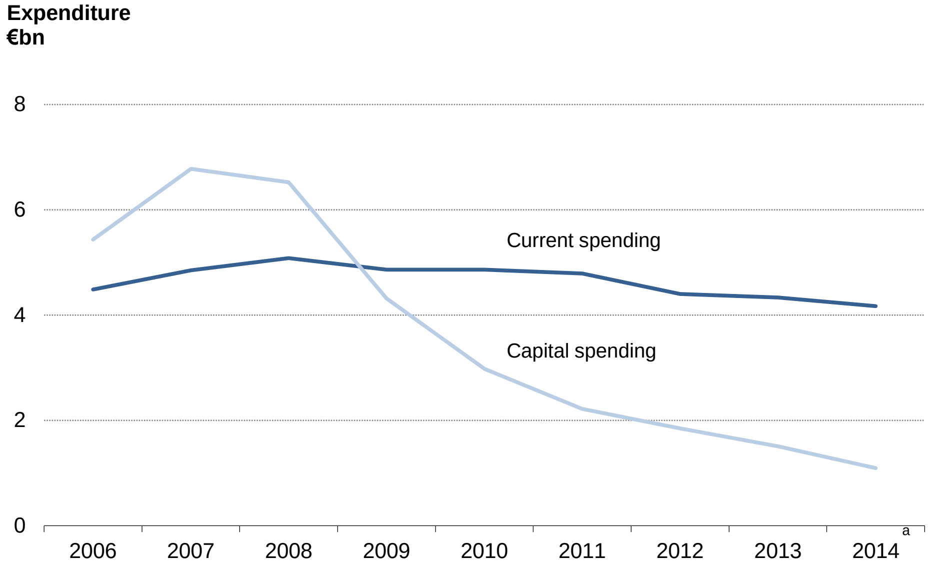
2 Collation of local authority expenditure outturns for 2014 had not been finalised by the Department of the Environment, Community and Local Government at the time of this report.

3 Pension-related deductions from staff salaries retained by the local authorities account for a further 2% and replace an equivalent amount of grant funding.

4 The remaining funding (6%) derives from contributions and charges between local authorities.

10.26 As shown in Figure 10.10, capital expenditure by local authorities has been declining year on year since reaching its peak level of €6.8 billion in 2007. Capital expenditure decreased by 18% in 2013, while local authority current expenditure was marginally down.

Figure 10.10 Local authority expenditure by type, 2006 to 2014



Source: Department of the Environment, Community and Local Government

Note: a Figures for 2014 are estimates. For all earlier years, audited figures are used.

Local Authority Audit and Oversight Arrangements

10.27 The Local Government Act 2001 requires each local authority to prepare annual financial statements in accordance with the accounting code of practice issued by the Minister for Environment, Community and Local Government (the Minister).

Disclosure of Funding Sources

10.28 The financial statements of local authorities provide an analysis of income from grants and subsidies in an appendix. In relation to grants from the Department of the Environment, Community and Local Government, an analysis of the grant income by category is provided. However, grants from other departments and agencies are only analysed by category in aggregate – amounts provided by each department or agency are not disclosed.

10.29 Recent revisions to public financial procedures require that grant-giving departments and agencies make it a condition of funding that grant-receiving bodies report in their financial statements[1]

- the name of the department or agency providing the funding
- the name of the grant programme
- the amount and term of the grant and the amount accounted for in the current financial statements (if less than the entire amount received)
- the amount of any capital grant and the reporting policies for current and future instalments
- details of any restrictions on the grant.

10.30 It is primarily a matter for grant-giving departments and agencies to ensure that those in receipt of grants make the required disclosures in their annual financial statements.

10.31 A working group is currently reviewing the additional reporting requirements arising from the revised framework for the management and accountability for grants from Exchequer funds as set out in circular 13/2014. The working group comprises representatives from the Department, the Local Government Audit Service (LGAS) and some heads of finance from local authorities.

Local Government Audit Service

10.32 The financial statements of each local authority are audited by the LGAS. The audit opinion and any matters arising from the audit are reported to the relevant local authority. A copy of each audit report is sent to the Minister and published on the Department's website. The Department has indicated that sector wide issues identified in audit reports are followed up and that it engages with a local authority in the event it requires information on a particular issue.

10.33 The LGAS also carries out value for money audits of local authority operations. The results of those audits are reported to the Minister.

1 See Department of Public Expenditure and Reform circular 13 of 2014. Chapter 5 provides further detail on the provisions of this circular.

10.34 An LGAS activity report is published annually. It summarises the audit findings in respect of the annual financial statements of each local authority. The latest annual activity report was published in March 2015 and includes the results of the audits of the 2013 financial statements.[1] The report highlights both sectoral and authority specific issues such as income and expenditure for the sector, the cumulative revenue position of each local authority, and revenue collection performance. The report notes the following general issues in relation to the 2013 audits.

- **Financial position at year end** – a number of local authorities had significant debit balances, including Sligo County Council (€21.7 million) and Donegal County Council (€17.8 million).
- **Income collection** – there were cases of deteriorating collection performance.
- **Internal audit** – instances where the internal audit function was under-resourced, which has serious implications for the effectiveness of audit committees.
- **Capital balances** – balances where a source of funding has yet to be identified totalled €412 million at the end of 2013. Future sources of funding identified in responses to auditors' reports in respect of these balances included development levies, transfers from revenue account, sales of related assets and recoupments from the Department.
- **Capital projects** – issues in relation to contractor claims for additional costs; project delays; outstanding loans; and adverse balance for unsold affordable housing units.
- **Development contributions** – the split between long-term and short-term debtors; the likelihood of some developments progressing and the need for regular inspections; the need for regular review of debtor balances and the adequacy of bad debt provisions.
- **Procurement** – need to update guidelines, need to expand or improve procurement units, instances of non-compliance with guidelines and identification of areas requiring particular attention such as procurement of legal services.
- **Fixed assets** – incomplete fixed assets registers; land and properties not registered.
- **Local authority companies** – need to improve governance arrangements, accumulated losses (including €14 million for Kilkenny County Council) and unavailability of audited financial statements.
- **Loans payable** – interest rolled up on loans for land purchases, including Cork City Council (€37 million), Dublin City Council (€33 million) and Wicklow County Council (€25 million).
- **Delays** – delays in the submission of financial statements for audit in the case of some local authorities. For the 2013 year of account, 12 of the 32 were submitted by the date specified in the accounting code of practice (31 March 2014).

1 Local Government Audit Service, ***Overview of the Work of the Local Government Auditors***, March 2015.

Local Authority Audit Committees

10.35 Section 59 of the Local Government Reform Act 2014 requires each local authority to establish an audit committee. The functions of the audit committee include reviewing the respective local authority's financial management, internal audit, risk management and value for money. It also considers the LGAS report and assesses actions taken in response to that report. The audit committee is required to consider the audit report as soon as practical following its receipt. The auditor who conducted the audit is required to attend that meeting. The committee is then required to report formally to the council on its findings. Guidance for local authority audit committees indicates that in the report, the committee should identify matters where it considers actions or improvements are needed, how management has responded to any issues arising, and make recommendations as to the steps to be taken.[1]

National Oversight and Audit Commission

10.36 The National Oversight and Audit Commission (the Commission) was established in July 2014.[2] The Commission has a wide range of functions which are focused on the scrutiny of local government performance, including their financial performance.

10.37 The Commission has stated in its strategy that it will independently scrutinise local authority performance by means of thematic reports and, where warranted, oral hearings, on matters within its remit. It will focus on the wide range of service delivery systems in local authorities and regional assemblies. Its key outputs will be published reports which will also be presented to relevant Oireachtas Committees. It intends to monitor the outcome of its work in terms of the implementation of its recommendations.

10.38 The Commission's first annual report sets out its strategy and reports on its activities to date.[3] Its initial work included

- Reviewing the performance indicators used to report on local authority activity – it has developed a revised list of indicators for use in reporting on 2014 activity and as a basis for 2015. It continues to work on developing more qualitative and outcome-focused indicators, informed by the various thematic reviews it will undertake.
- A thematic review of housing – the review will focus on four areas. Reviews of maintenance and management of local authority housing, and local authorities' inspections of private rented housing are to be carried out in 2015. A review of social housing assessment and allocation is to commence in 2016. A review of delivery of housing supply is expected to take a number of years to complete.
- A local authority customer awareness survey – the first phase of the survey was completed in 2014 and the results will be used to determine the scale and details of national surveys, representative of each local authority, and to assist in designing the sample framework.

10.39 The Commission's work is funded by the Local Government Fund. Expenditure in 2014 was €47,000 and mainly comprised member fees. Its allocation for 2015 is €200,000. The Commission secretariat comprises three staff provided by the Department. The cost of these staff, which is met from the Department's vote, was €88,000 in 2014.

1 Guidance for Audit Committees in Local Authorities, Department of the Environment, Community and Local Government, June 2014.

2 The establishment of the Commission was provided for in the Local Government Reform Act 2014. The Commission was formally established by Statutory Instrument 297 of 2014.

3 National Oversight and Audit Commission Annual Report 2014

Conclusions

10.40 Central government funding to local authorities presents a highly complex picture, with transfers coming from a number of departments and for a variety of purposes. Some streams of funding are delivered directly from funding departments to local authorities, while others are routed through departmental agencies.

10.41 Transfers of funding from central government sources to local authorities in 2014 totalled around €1.7 billion. This compares with transfers of €5.8 billion in 2008. A substantial part of the fall in funding levels has occurred as a result of the transfer of responsibilities from local authorities to other agencies.

10.42 Significant new arrangements for oversight of local authorities have been implemented in 2014, supplementing the existing LGAS. It is too early to determine the impact of those arrangements on the accountability for and transparency of local government financing.

Annex A Central government transfers to local authorities, by expenditure programme, 2007 to 2014

Expenditure Category	2007 €m	2008 €m	2009 €m	2010 €m	2011 €m	2012 €m	2013 €m	2014 €m
Transport investment								
National roads improvement	1,476	1,374	1,218	893	516	503	232	228
Regional and local roads improvement	622	616	455	412	451	376	399	357
Public transport (capital payments)	48	70	63	56	83	62	57	51
	2,146	**2,060**	**1,736**	**1,361**	**1,050**	**941**	**688**	**636**
Housing and urban regeneration								
Social housing provision	1,382	1,571	1,297	961	655	598	529	536
Affordable housing, etc.	64	89	94	84	68	58	43	39
Other housing supports	6	7	4	6	4	3	1	5
Urban regeneration	20	5	1	–	–	–	–	–
	1,472	**1,672**	**1,396**	**1,051**	**727**	**659**	**573**	**580**
Environmental initiatives								
Water and sanitary services	529	544	558	535	462	343	293	42
Flood relief works	14	3	5	17	8	22	10	27
Waste management	28	27	8	11	11	5	9	5
Recycling	12	22	14	14	12	4	8	2
Other environmental measures	11	15	29	16	18	11	11	13
	594	**611**	**614**	**593**	**511**	**385**	**331**	**89**
Education and employment services								
Higher education grants	126	137	160	172	184	146	70	39
Superannuation and gratuity costs	146	164	219	217	171	15	-	-
Employment schemes	12	11	10	9	9	8	8	8
	284	**312**	**389**	**398**	**364**	**169**	**78**	**47**
Recreation and other local services								
Swimming pools	28	20	11	3	10	8	5	–
Fire and emergency services	24	24	20	19	12	6	5	7
Library services	17	15	9	6	7	6	4	2
Sports grants, playgrounds and cultural projects	8	5	11	21	9	6	3	11
Heritage services (architectural heritage)	7	8	6	5	1	1	1	5
Disability services	15	15	12	7	–	–	–	–
Miscellaneous capital services	24	40	14	18	11	16	11	9
Miscellaneous services[a]	32	40	23	22	24	26	23	38
	155	**167**	**106**	**101**	**74**	**69**	**52**	**72**
General purpose grants	948	999	833	763	700	638	642	281
Total funding provided to local authorities	**5,599**	**5,821**	**5,074**	**4,267**	**3,426**	**2,861**	**2,364**	**1,705**

Source: The Office of Public Works; Department of the Environment, Community and Local Government; Department of Education and Skills; Department of Transport, Tourism and Sport; Department of Arts, Heritage and the Gaeltacht; Department of Health; Department of Children and Youth Affairs; Department of Justice and Equality; Department of Agriculture, Food and the Marine; Department of Social Protection; Department of Defence; Health Service Executive; Local Government Fund and Environment Fund financial statements (2014 audits not yet completed).

Note: a Adjustments have been made to the previously reported pre-2014 amounts to reflect amounts not previously included.

11 Central Government Funding of Irish Water

11.1 The Government decided in December 2011 to establish a public water utility to take over the delivery and operation of water services from local authorities.[1] An independent assessment of the planned transfer concluded that a public utility could achieve greater efficiencies and economies of scale than alternative delivery models and would reduce, and ultimately eliminate, the burden on the Exchequer of continuing to fund water services.[2] The assessment stated that a key factor in evaluating the merits of the utility was the possibility that its borrowings would be outside the general government debt.

11.2 In 2013, Irish Water was established as a commercial semi-state company and as a subsidiary of Ervia (formerly Bord Gáis Éireann). Under Irish Water's shareholding structure, Ervia holds one 'A' share with full voting rights but no economic rights, while the Minister for the Environment, Community and Local Government and the Minister for Finance each hold one 'B' share with full economic rights but no voting rights.

11.3 With effect from 1 January 2014, responsibility for the provision of water services transferred from 34 local authorities to Irish Water. Following the transfer, each local authority provides services to Irish Water under an individual service level agreement.[3]

11.4 The primary governance arrangements for Irish Water are set out in the Water Services Acts 2007-2014, and the company's memorandum and articles of association. The Code of Practice for the Governance of State Bodies also applies to Irish Water. In September 2013, the Department of the Environment, Community and Local Government agreed a memorandum of understanding with Irish Water dealing with its establishment and development. A separate memorandum of understanding was agreed in July 2013 in relation to the metering programme.[4]

11.5 The Water Services (No. 2) Act 2013 provides that the Commission for Energy Regulation (CER) will be the economic regulator of the public water and wastewater sector. CER's role includes protecting the interests of water customers, ensuring water services are delivered in a safe, secure and sustainable manner and that Irish Water operates in an economic and efficient manner. CER's responsibilities include reviewing plans submitted by Irish Water for water charges, by reference to the costs likely to be incurred by Irish Water and its investment plans. CER can then either approve the water charges plan (with or without modification) or reject it.

11.6 Funding was provided to Irish Water from a number of central government sources during 2014, and some payments are expected to continue for a number of years. Because of the significant changes in funding and accounting involved, this report was compiled to provide an overview of that funding, and of the controls being applied.

1 In this report, the term 'water services' refers to water treatment and supply, and removal of sewage/waste water.

2 Irish Water: Phase 1 Report, PwC, November 2011

3 The terms of the service level agreement (SLA) require Irish Water to remunerate each local authority for staff costs arising under the SLA, while local authorities provide water functions (operational and maintenance) on behalf of Irish Water.

4 The Department has indicated that these will be replaced by a new performance framework following the finalisation of a revised Code of Practice for the Governance of State Bodies, which is currently in draft.

Transfer of Assets and Liabilities

11.7 The Water Services (No. 2) Act 2013 provided for the transfer of assets and liabilities of local authorities to Irish Water on date(s) specified by the Minister for the Environment, Community and Local Government. The Minister has made a number of orders in relation to the transfers. From 2014, the capital commitments previously funded by the Department of the Environment, Community and Local Government under the Water Services Investment Programme became the responsibility of Irish Water.

Value of Infrastructure

11.8 To date, Ministerial Orders have transferred all underground assets and 634 treatment plants. The process of identification and transfer of assets is continuing.

11.9 The physical water-related assets in local authority accounts at the end of 2013 had a net book value of €11.4 billion. This included some surface water drainage assets (road drains) which are not transferring to Irish Water. Local authorities are required to submit annual financial statements to the Department of the Environment, Community and Local Government by 31 March of the year following the year of account. The Department was asked to provide information in relation to the net book value of each local authority's water services assets at the end of 2014 from these financial statements or, from audited financial statements, if available. The Department was not in a position to provide this information. Annex A sets out details of the net book value of each local authority's water services assets at the end of 2013. The residual amounts at the end of 2014 are shown for those local authorities where audits of financial statements have been completed.

11.10 Irish Water's financial statements value the property, plant and equipment transferred from local authorities at €128 million. These assets have been recognised by Irish Water at 'fair value' in accordance with international financial reporting standards. Irish Water's financial statements set out the basis for the valuation as follows.

- Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date determined using discounted cash flows, market values, or replacement values.
- CER decisions prescribe the elements on which Irish Water's regulated revenues are based. Those revenues determine the profitability of the Irish Water business. As the value of Irish Water's assets is derived from expected economic returns in the future, this regulatory regime is critical to valuing the transferred assets.
- The value attributed to opening property, plant and equipment is based on the future return provided for in the regulatory regime - which consists mostly of liabilities linked to the opening assets assumed by Irish Water, for which the regulator has allowed a future return.

Financial Assets

11.11 Financial assets to be transferred to Irish Water mainly comprise unallocated development levies collected by local authorities. The Water Services (No. 2) Act 2013 provides for development levies received by local authorities for the purpose of investment in water services to be transferred to Irish Water. A Ministerial Order provided for the transfer from the local authorities to Irish Water of development levies received or due to be received.[1] Due diligence work is underway to determine the amounts to be transferred. Amounts have been agreed with some local authorities and Irish Water is engaging with the remaining local authorities.

Water Services Related Loans

11.12 Most local authorities had borrowed funds to invest in water services. Such loans were not transferred to Irish Water. The Local Government Fund provided local authorities with €47 million in respect of the service cost of those loans in 2014.

11.13 The Water Services Act 2014 provided that payments of up to €460 million may be made to local authorities from the Central Fund of the Exchequer for the purpose of repaying water related loans outstanding with the Housing Finance Agency.

11.14 At July 2015, Housing Finance Agency water related loans held by local authorities were in the process of being repaid (€427 million including interest). The redemption of these loans will be reflected by local authorities in their 2015 accounts.

11.15 A further €140 million in water related loans from commercial lenders are held by local authorities. The servicing of these loans is being funded by the Department of the Environment, Community and Local Government.

Central Government Funding of Irish Water

11.16 Irish Water is funded by a combination of

- central government grants (in the form of an operating subvention), capital contributions and loans
- receipts from domestic and non-domestic customers
- commercial borrowings.

11.17 The Water Services (No.2) Act 2013 provides that the Minister for the Environment, Community and Local Government may make grants to Irish Water from moneys provided by the Oireachtas and that the Minister for Finance may make advances to Irish Water from the Central Fund, subject to such conditions as may be determined. The Act also provides that Irish Water may borrow up to €2 billion subject to the approval of relevant Ministers.[2]

11.18 In 2013 and 2014, Irish Water received a total of €1.2 billion in grants, loans and capital contributions from central government. Further funding of €1.4 billion is anticipated in 2015 and 2016 (see Figure 11.1).

1 SI No. 112 of 2015

2 The Minister for the Environment, Community and Local Government, the Minister for Communications, Energy and Natural Resources, the Minister for Finance and the Minister for Public Expenditure and Reform.

Figure 11.1 Central Government Funding of Irish Water, 2013 to 2016

	Actual		Estimated	
	2013	**2014**	**2015**	**2016**
Grants and capital contributions	**€m**	**€m**	**€m**	**€m**
Local Government Fund subventions	–	439	399	479
Vote for Environment, Community and Local Government	1	–	–	–
Central Fund capital contributions	–	407[a]	–	184
	1	846	399	663
Loans				
Convertible loan	–	54	–	–
Central Fund loans	–	–	96	58
National Pensions Reserve Fund/Ireland Strategic Investment Fund[b]	250[c]	50[c]	150[d]	–
	250	104	246	58
Total	**251**	**950**	**645**	**721**

Source: Department of the Environment, Community and Local Government

Notes: a €222 million of this amount relates to capital spending to be incurred in 2015.

b National Pensions Reserve Fund loans were transferred to the Ireland Strategic Investment Fund with effect from 22 December 2014 pursuant to the National Treasury Management Agency (Amendment) Act 2014.

c The aggregate €300 million facility provided in 2013 and 2014 was refinanced and replaced by a new €300 million facility in September 2015.

d Anticipated additional loan facility.

Local Government Fund Subvention

11.19 The Local Government Fund provides local authorities with general purpose grants for funding day-to-day activities. Up to 2013, the funded activities included water services but the water-related element of the grants was not specified. The total general purpose grants paid to local authorities in 2014 decreased by €360 million compared to 2013, mainly due to the transfer of responsibility for water services to Irish Water.[1]

11.20 In 2014, Irish Water received a subvention of €439 million from the Local Government Fund.[2] The amount was determined by reference to resources which would have been allocated from the Local Government Fund to public water services under previous funding arrangements. The conditions attached to the funding required that Irish Water would provide the Department with

- copies of the budgets agreed between Irish Water and local authorities for 2014
- bi-monthly expenditure reports and estimated expenditure to year end
- bi-monthly cash flow reports with projections to year end
- confirmation (at the time of each report) that
  - all expenditure had been properly accounted for and was in line with budget
  - all procurement was in accordance with public procurement rules and that the (Department of Public Expenditure and Reform's) Public Spending Code had been followed.

1 General purpose grants were replaced by local property tax allocations in 2015.

2 Section 6 (2CA) of the Local Government Reform Act 2014 provides for payments from the Local Government Fund to Irish Water.

11.21 From 2015, the Local Government Fund subvention, which is to be paid quarterly in arrears, funds the following in relation to domestic customers

- ***product subsidy*** – a volume-based payment such that the amounts charged to domestic customers per 1,000 litres do not exceed those set out in the Water Services Act 2014
- ***capping cost*** – the cost of purchasing water in order for the maximum annual charges per household set out in the Water Services Act 2014 to apply
- ***child allowances*** – the cost of purchasing an allowance of 21,000 litres for each child under eighteen years of age.

11.22 Requests from Irish Water to the Department for drawdown of funding are required to identify the amounts attributable to each category. The actual amount of funding provided will be dependent on the actual volume of water, the number of households and the number of children. However, the funding to be provided is not to be greater than the approved amounts for each year (i.e. €399 million for 2015 and €479 million for 2016).

11.23 In 2015, just over half (€211 million) of the maximum €399 million subvention is expected to be in respect of the product subsidy, around a third (€128 million) in respect of the capping cost and the remaining 15% (€60 million) in respect of a child allowance.

11.24 The estimated 2015 subvention was calculated on a customer database of 1.5 million households. An analysis of Irish Water's domestic customers as at 31 August 2015 is shown in Figure 11.2.

Figure 11.2 Irish Water – household registrations at 31 August 2015

	Number of households
Customers of Irish Water	
Registered with Irish Water	1,099,545
Unregistered	422,455
Total Irish Water customer base	**1,522,000**
Households with own/group water supply and own wastewater treatment	
Registered with Irish Water	284,327
Unregistered (estimated)	101,857
Total	**1,908,184**

Source: Department of the Environment, Community and Local Government

Loans from National Pensions Reserve Fund

11.25 When proposals to establish a water utility were initially developed, the National Pensions Reserve Fund (NPRF) agreed (in 2010) to provide a loan facility to the proposed utility to fund metering installation, subject to certain pre-conditions including the establishment of a regulatory regime.

11.26 As the Irish Water programme developed, a need emerged for funding for establishment costs prior to the introduction of domestic charges. Discussions were progressed with the NPRF on the basis of funding both the metering programme and establishment costs.

11.27 In July 2013, Irish Water entered into a €250 million bridging loan facility with the NPRF. In November 2014, the facility was increased to €300 million. The €300 million facility was fully drawn down and was repayable on 2 September 2015. Under the terms of the NPRF facility, interest and commitment fees were capitalised. The rate of interest payable on each tranche was 2% over the Euribor rate at the drawdown date. The Minister for Finance provided a guarantee to the NPRF in respect of the loan. This is recognised in the Finance Accounts. Irish Water agreed to pay the Exchequer a guarantee fee of 2% per annum of the drawn facility. The total guarantee fee to be paid is €10.3 million, and the final instalment is payable in October 2015.

11.28 The €300 million guaranteed facility was repaid on maturity date and refinanced with a €300 million unguaranteed Ireland Strategic Investment Fund (ISIF) facility at 1.9%.

11.29 It is anticipated that an additional loan facility for €150 million at 2.4% will be provided by ISIF in 2015.

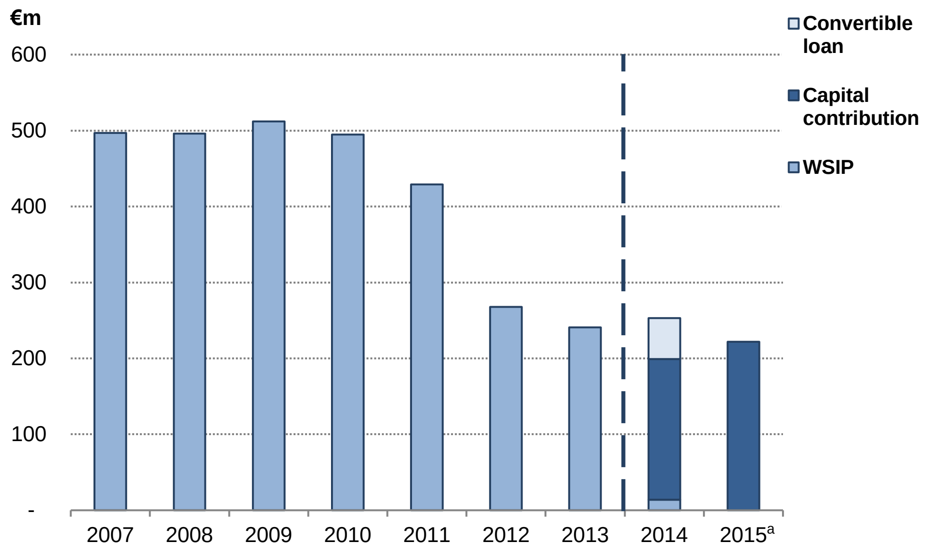
Central Fund Capital Contributions and Loans

11.30 The Exchequer is also providing capital contributions and loans to Irish Water.[1]

11.31 Prior to the establishment of Irish Water, local authorities were responsible for the delivery of water services capital infrastructure for which the Department provided funding under the Water Services Investment Programme (WSIP). The total cost of the programme from 2007 to 2013 was €2.9 billion including expenditure of €241 million in 2013 (see Figure 11.3). The WSIP included some funding for projects and infrastructure on activities not transferred to Irish Water such as river basin management plans and water sector reform programme projects. The Rural Water Programme provided some funding for smaller water and sewerage schemes.

1 A capital contribution is an irrevocable, non-refundable and unconditional payment from a shareholder to the company in which it holds shares.

Figure 11.3 Water services investment, 2007 to 2015



Source: Department of the Environment, Community and Local Government

Note: a A capital contribution of €222 million was paid in 2014 in relation to 2015 capital investment.

Capital Contributions

11.32 The total Exchequer capital contribution in 2014 was €407 million. Of this, €185 million was based on the level of capital funding provided to the water sector in 2013 (when taken together with a convertible loan of €54 million – see below). The remaining €222 million, which was provided in December 2014, was calculated as the gap between Irish Water's projected available funding for 2015 capital investment (from operating cash flow and projected debt drawdowns) and its total funding requirement, based on financial assumptions on costs and revenues. A further capital contribution of €184 million is reflected in the Irish Water funding model for 2016.

Loans

11.33 In 2014, Irish Water was provided with a €54 million convertible loan note at a rate of return of 2.5% per annum. The loan is convertible into equity at the discretion of the Minister for Finance and is an unsecured obligation of Irish Water.

11.34 In addition, exchequer loans have been approved to provide working capital in the light of the timing difference between costs arising and revenue being received from water charges in the early years of operation. The amounts notified to Irish Water for this purpose are €96 million for 2015 and €58 million for 2016.

Allowed Revenue

11.35 When approving the level of water charges, CER determines the ‘efficient level’ of costs (including depreciation and return on capital employed) that Irish Water incurs in carrying out its activities. The total amount to be recovered is known as the allowed revenue. This is recovered through a mixture of charges to customers (which are approved by the CER) and subvention from Government.

11.36 In September 2014, CER approved allowed revenue of €2.1 billion (in present value terms) for Irish Water for the period 1 October 2014 to 31 December 2016, an 8.2% reduction on Irish Water’s proposed cost recovery of €2.3 billion for the period.

11.37 As a result of the Water Services Act 2014, Irish Water made certain changes to the approved water charges plan. A revised water charges plan was approved by CER in March 2015. The Water Services Act 2014 exempted Irish Water from commercial rates on water infrastructure.[1] This had the effect of reducing its annual costs by some €59 million. This resulted in a revised total allowed revenue of €2 billion for the period October 2014 to December 2016, representing a reduction of 8.5% on Irish Water’s proposed cost recovery.

Water Conservation Grant

11.38 Measures in relation to water services announced by the Government in November 2014 include an annual €100 water conservation grant which is payable in respect of all primary residences to households who registered with Irish Water by 30 June 2015. The grant is being administered by the Department of Social Protection, on behalf of the Department of the Environment, Community and Local Government. The water conservation grant is expected to be operational by September 2015. The Environment, Community and Local Government vote estimate for 2015 includes a provision of €130 million for the water conservation grant. The funding provision is based on an estimate of up to 1.3 million households potentially applying for the grant.

Market Classification of Irish Water

11.39 A significant component in the strategy to establish Irish Water is that it would be classified as a market corporation under Eurostat rules, with operating funding (other than any government subvention) and third party debt excluded from the general government balance calculation.[2] Such classification would allow Irish Water to borrow for investment from commercial lenders, in a manner similar to other commercial state bodies, without impacting on the general government balance or debt.

11.40 A Eurostat ruling on the market classification of Irish Water was received in July 2015. This stated that, on the basis of available information, Eurostat considers that Irish Water should be classified within the government sector. The CSO is engaging with Eurostat to clarify interpretation issues relating to the ruling. The classification ruling will be reviewed again in 2016 as part of the European Union’s excessive deficit procedure process, using the most up-to-date data.

1 Local authorities will be compensated through the Local Government Fund for this loss of revenue.

2 Eurostat is the statistical office of the European Union. Its task is to provide statistics that enable reliable comparisons between countries and regions.

Conclusion

11.41 The most significant element of central government funding of Irish Water is a subvention from the Local Government Fund. The 2014 subvention of €439 million was based on the amount previously provided to local authorities for the provision of water services which have transferred to Irish Water. The audit of the 2014 Local Government Fund is examining whether the conditions attached to that funding were met.

11.42 The total subvention from the Local Government Fund in 2015 and 2016 is expected not to exceed €878 million. The calculation of the actual amount of the subvention in each year will be complex as it will depend on the actual volume of water used by Irish Water's domestic customers, the number of customer households and the number of children in respect of whom a water allowance is due. The payment of the subvention will be examined as part of the audit of the Local Government Fund from 2015.

Annex A Net book value of local authority water services assets, 2013 to 2014

Local Authority	Net book value at 31 December 2013	Net book value at 31 December 2014
County Councils	**€m**	**€m**
Carlow	123.1	n/a
Cavan	144.8	–
Clare	407.5	n/a
Cork	829.5	n/a
Donegal	342.6	–
Fingal	778.8	109.9
Dun Laoghaire Rathdown	282.3	85.7
Galway	222.8	n/a
Kerry	471.2	–
Kildare	420.0	n/a
Kilkenny	128.0	n/a
Laois	77.3	n/a
Leitrim	107.5	n/a
Limerick	277.6	n/a
Longford	126.6	n/a
Louth	161.5	n/a
Mayo	566.0	n/a
Meath	318.0	n/a
Monaghan	122.6	n/a
North Tipperary	163.7	n/a
Offaly	219.7	–
Roscommon	203.9	n/a
Sligo	269.8	n/a
South Dublin	635.4	n/a
South Tipperary	247.3	n/a
Waterford	170.1	n/a
Westmeath	248.9	n/a
Wexford	232.0	n/a
Wicklow	191.4	n/a
City Councils		
Cork	360.0	n/a
Dublin	2,000.0	456.6
Galway	150.4	–
Limerick	263.7	n/a
Waterford	139.2	n/a
Total	**11,403.2**	**n/a**

Source: Department of the Environment, Community and Local Government

Note: n/a The Department was not in a position to provide this information.

12 Tax Settlements on Certain Payments to Teachers and Others

12.1 In 2015, payments of €12.25 million were made from the Vote for Education and Skills in order to settle tax liabilities incurred by the State Examinations Commission (the SEC) and the Department of Education and Skills over the period 2010 to 2014. This report outlines the background to those payments. It also considers a related issue regarding the provision of classroom-based tuition by specialist providers.

12.2 Employers are required to make appropriate tax deductions in relation to payments they make to employees. Revenue undertakes audits where cases are selected either on the basis of risk profiling or randomly. Where returns made by the taxpayer are not accepted, the Revenue auditor quantifies the amount of the assessed undercharge and seeks to agree a settlement amount to cover the taxpayer's liability, including appropriate interest charges and penalties.

12.3 Taxation legislation provides for the application of interest for the late payment of tax, and for penalties where tax due has not been paid. There is no provision for late payment interest to be mitigated. In contrast, Revenue has discretion to mitigate penalties by up to 50%. No penalties are applied in circumstances where additional tax is due to a technical adjustment or an innocent error that is corrected at the first opportunity.

12.4 Revenue undertook separate audits of payments by the SEC and by the Department. The key issues which emerged were in relation to

- payments made by the SEC to contract staff in respect of the cost of travelling associated with State examinations
- payments made by the Department in respect of home tuition, and fees paid by the Department to various board and committee members.

12.5 The tax settlements were funded from a specific once-off allocation included in the 2015 Revised Estimates for Public Services.

State Examinations Commission Tax Settlement

12.6 Revenue's audit of the SEC began in May 2012, with an initial focus on the financial year 2010, and formally concluded in May 2015. The audit reviewed 37 categories of contract staff, such as examination paper drafters, setters, superintendents and examiners, engaged by the SEC in the delivery of the Junior and Leaving Certificate examinations.

12.7 The contract staff receive fees which are subject to the deduction of taxes at source. Where they carry out contracted duties away from their normal place of work, they are paid expenses by the SEC in line with standard public service travel and subsistence rates.

12.8 The SEC took the view that the normal place of work for contract staff already employed as teachers is the school at which they teach or, in the case of unemployed, substitute or retired teachers, their home.

12.9 However, Revenue found that contract staff are employed by the SEC under separate contracts of employment to their core teaching roles, and that for superintendents and oral and practical examiners, the normal place of work when undertaking examination duties is the school(s) to which they are assigned by the SEC, or SEC offices. On that basis, Revenue determined that payments to these contract staff to cover the costs incurred in travelling to and from SEC offices in Athlone or the school(s) where they are sent by the SEC to carry out examination work are taxable expenses subject to deduction of PAYE, PRSI and USC.

12.10 Expenses paid to attend training conferences, to bring material to post offices, to collect examination papers from Garda stations, and travel between schools are not taxable. The percentage of expenses regarded as taxable was 83.5% for superintendents, 85.55% for oral examiners, 72.94% for practical examiners, and 100% for practical examiners assigned to Athlone.

12.11 At the end of the audit, the Revenue auditor reckoned the tax liability for the years 2010 to 2013. The liability for 2014 was estimated by the SEC at the request of Revenue, based on the workings used by Revenue for the earlier years. The final agreed liability for the period 2010 to 2014 was €10.89 million, including statutory interest of €1.4 million for the years 2010 to 2013. No penalty was applied as Revenue was satisfied that due care had been taken by the SEC and the treatment concerned was a technical adjustment arising from a mistaken interpretation of the law.

Views of the Chief Executive Officer of the SEC

12.12 The Chief Executive Officer stated that the SEC disputed Revenue's audit decision. In its interactions with Revenue, it stressed the importance of assigning superintendents and examiners to schools other than their normal place of work or their home location, in order to maintain the integrity and fairness of the examination system.

12.13 The SEC believes that the expenses paid are wholly, exclusively and necessarily incurred in the performance of the duties associated with the nature of the assignment. The examination roles undertaken are inextricably linked with teachers' work. Furthermore, the examination roles are a subsidiary and supplementary role for a short period of time (maximum of 13 days) during the school year to the core role of teaching for 179 days each year. Contract staff, as appropriate, must receive the formal approval of their school management to their absence for engagement on examination duties.

12.14 In considering the Revenue finding, the SEC sought professional taxation consultancy advice. In addition, and in recognition of the impact on the crucial issues of the ongoing delivery of the State examinations and funding, the SEC engaged with the Department, and with the Department of Public Expenditure and Reform and the Department of Finance.

12.15 When it became apparent that the SEC could not persuade Revenue of the merits of its case, the only options remaining were to accept Revenue's decision or formally submit an appeal. The SEC received advice that, in the context of the operation of the state examinations, there was merit in its longstanding approach to the payment of expenses in respect of assigning teachers away from where they work and live, but it would have a difficult case to argue in support of making these on a tax-free basis in the context of taxation legislation. It was also obvious that any challenge through the appeals process would incur significant legal costs. The decision of Revenue was accepted on that basis and the settlement agreed.

12.16 Given that the audit was not finalised until May 2015, the SEC was unable to make the necessary changes, both to systems and to terms and conditions for recruiting contract staff, in time for the 2015 examinations. Accordingly, the SEC intends to pay the relevant tax liability in respect of the 2015 examinations, which is estimated to be a further €1.9 million to €2 million.

Department of Education and Skills Tax Settlement

12.17 In 2011, a Revenue audit commenced on the application of taxation rules to the deduction of PAYE, PRSI, VAT, relevant contracts tax (RCT), and professional services withholding tax (PSWT) by the Department. The audit covered the years 2010 to 2013, and found that a tax liability existed in respect of payments to individuals delivering home tuition services, and of fees paid to members of boards and committees, and a small number of other individuals.

12.18 Following extensive engagement with Revenue, the Department agreed a settlement amount of €1.359 million, including interest of €222,000, which was discharged by payment in March 2015. The settlement was treated by Revenue as a technical adjustment, on the basis of a difference in the interpretation or the application of legislation. Accordingly, no penalty was applied.

Home Tuition Assistance

12.19 The Department provides funding under a number of schemes providing assistance with tuition for

- pre-school children with autism
- children with special educational needs who are awaiting school placement
- children without a special educational need but who find themselves temporarily without a school place and where the parents are actively seeking school placement
- students who experience significant disruption to school attendance due to medical conditions or maternity-related absences.

12.20 Tuition is most often provided on a one-to-one basis in the family home, where parents engage tutors based on criteria specified by the Department. The parents pay fees to the tutors out of grants paid to them by the Department.

12.21 Under two of the home tuition schemes, the Department pays the tutors directly. These are the schemes for maternity-related absences and for children without a special educational need who are temporarily without a school place. Until January 2015, these payments were made by the Department without the deduction of taxes at source. Since January 2015, all statutory deductions are being made at source from such payments.

12.22 A small number of home tutors are also employed in schools as primary teachers. For these tutors, the home tuition fees are paid by the Department on the primary teachers' payroll system, with the various statutory deductions made at source.

12.23 Instead of home tuition, some parents of pre-school children with autism avail of tuition offered by specialist providers, where tuition is delivered in classroom settings for groups of three to six children.

12.24 On average, some 1,200 tutors are engaged in the provision of home tuition. In 2014, the total cost was €10.9 million, with around €7 million being paid to home tutors and the balance being paid to specialist providers (see Figure 12.1).

Figure 12.1 Payments under home tuition schemes, 2010 to 2014

	2010	2011	2012	2013	2014
	€000	**€000**	**€000**	**€000**	**€000**
Tuition delivered in the home					
Grants to parents to pay tutors	5,574	7,271	7,388	7,073	6,023
Tutors paid by Department without deduction of taxes	1,102	988	614	599	588
Tutors on the primary teachers' payroll	611	528	391	412	313
Tuition delivered in classroom settings					
Providers paid by Department	2,027	1,561	1,151	2,156	3,991
Total	**9,314**	**10,348**	**9,544**	**10,240**	**10,915**

Source: Office of the Comptroller and Auditor General

Tuition Delivered by Tutors

12.25 Just over 78% of home tuition costs in the five years 2010 to 2014 represent payment for teaching delivered on a one-to-one basis in the home. Only a small percentage of these fees, about 6%, was paid on a payroll system and subject to the routine deduction of taxes at source.

12.26 The Revenue audit found that all payments for one-to-one tuition are liable for deduction of taxes at source, and that responsibility under tax law for making these statutory deductions rests with the Department.

12.27 The Revenue auditor calculated that a sum of €789,000, including statutory interest of €129,000, was due in respect of tutors who were paid around €3.3 million in the years 2010 to 2013, without the deduction of taxes at source by the Department. A liability was not raised in respect of 2014.

12.28 Revenue also did not raise a liability in relation to payments by parents out of funds paid to them for that purpose by the Department in the years 2010 to 2013.[1] However, following a transitional period to allow the Department to make the necessary operational changes, taxes will be deducted at source by the Department from such payments.

12.29 The Accounting Officer stated that, while the Department disputed some of Revenue's interpretation of the categorisation of home tutors, it was considered, on balance, best to conclude the audit and to make the payment required.

12.30 The Department transferred payments for home tutors paid directly by the Department onto the non-teaching staff payroll with effect from January 2015.

1 Over the four years audited, such payments totalled over €27 million.

12.31 Pending the development of a more comprehensive and permanent solution, the Department's IT section is working to develop an interim solution to place tutors paid by parents on the non-teaching staff payroll system as soon as possible. Issues to be dealt with include the employment status of the tutors, which required clarification from the Department of Social Protection and from Revenue, as well as advice from the Office of the Attorney General.

12.32 The settlement agreed with Revenue was a full and final settlement, and included acceptance that, while all home tutors would be placed on the payroll, it would be necessary to do this on a phased basis, with some home tutors not being placed on the payroll until the academic year 2015/16.

Tuition Delivered by Specialist Providers

12.33 Some tuition for pre-school children with autism is delivered by specialist providers in a classroom setting at a cost to the Department of around €4 million in 2014. In areas where such services are available, it is for the parents to choose between tuition provided by a tutor in the home and the classroom-based tuition.

12.34 Tutors are employed by the specialist providers, so taxation of their salary payments is a matter for the providers, and accordingly was not within the scope of the Revenue audit.

12.35 The Department does not engage in a competitive procurement process for the provision of classroom-based tuition by specialist providers. Instead, the Department each year agrees a fee basis with the specialist providers in respect of tuition delivered to children approved for home tuition. The providers invoice the Department directly for the services delivered. The fees agreed with the providers do not exceed the combined cost of one-to-one tuition for an equivalent number of children.

12.36 Each year, the Department provides the Department of Public Expenditure and Reform and the Comptroller and Auditor General with details of procurement contracts above €25,000 that had been awarded without a competitive process. The classroom-based tuition delivered by specialist providers has not been included in the returns submitted.

Payments to Board and Committee Members

12.37 The Revenue audit examined fees plus travel and subsistence payments made in the years 2010 to 2013. For the years 2010 to 2012, payments to an average of 79 persons came within the scope of the audit. Payments to members of the Residential Institutions Redress Board and its Review Committee came within the scope of the audit for 2013. Figure 12.2 lists the boards and committees concerned.

Figure 12.2 Boards and committees which came within the scope of the Revenue audit

Department of Education and Skills Internal Audit Committee
Education Finance Board
Incremental Credit Appeals Board
Post-Primary Appeals Board in relation to Teaching Staff Allocations
Primary Appeals Board in relation to Teaching Staff Allocations
Residential Institutions Redress Board and Review Committee
Review Committee regarding the Suspension and Dismissal of Teachers
Committee regarding Student Exclusion, Suspension, and Non-Enrolment
School Transport Appeals Board
Director for the Redeployment of Teachers and Redeployment Panel Officers
Inquiry Officer under Section 105 of the Vocational Education Act 1930

Source: Office of the Comptroller and Auditor General

12.38 The Department had deducted PSWT and VAT at source from board and committee members' fees and expenses, where appropriate. Instead, the Revenue audit found that PAYE, PRSI and USC should have been deducted from fees and from expenses, where applicable.

Figure 12.3 Fees and expenses paid to board and committee members, 2010 to 2013

Year	Fees	Travel expenses	Total	PSWT deductions
	€000	€000	€000	€000
2010	1,681	132	1,813	309
2011	1,295	111	1,406	256
2012	1,254	176	1,430	246
2013	997	55	1,052	199
Total	**5,227**	**474**	**5,701**	**1,010**

Source: Office of the Comptroller and Auditor General

12.39 The Department agreed to make a settlement payment of €570,000 to cover the tax liability for the four years 2010 to 2013, including statutory interest of €93,000. The net assessed tax liability was computed having regard to the €1.01 million PSWT which had already been deducted at source. From 2013 onwards, fee payments to most board and committee members were subject to statutory deduction of PAYE, PRSI and USC. Payments to members of the Residential Institutions Redress Board and its Review Committee were subject to statutory deduction of PAYE, PRSI and USC from 2014. Revenue has confirmed that the responsibility for ensuring appropriate deduction of tax rests under taxation law with the Department and not with the individual board and committee members.

12.40 In relation to whether or not travel and subsistence payments to board and committee members are exempt from tax, the Accounting Officer noted that the Revenue auditor referred principally to the relevant statement of practice[1] and to section 195A of the Taxes Consolidation Act 1997. Section 195A exempts from tax the reimbursement of the expense of travel and subsistence to certain members of boards and governance bodies of non-commercial entities, in both the public and private sector, in respect of attendance at meetings of such entities. To qualify for the exemption, a member's annualised emoluments from the entity must not exceed €24,000 in the case of the chairperson or €14,000 in the case of other members. The exemption covers expenses up to the standard civil service rates.

12.41 Given the different arrangements in place regarding the various boards and committees that are under the Department's umbrella, the Revenue auditor recommended that, in cases of uncertainty, specific guidance should be sought from Revenue regarding the appropriate treatment of travel and subsistence payments. The Department now ensures that sections of the Department with oversight responsibility for the different boards and committees seek advice from Revenue in cases where the appropriate tax treatment is unclear.

Conclusions and Recommendations

12.42 Revenue audits have resulted in additional Vote expenditure of €14.25 million, €12.25 million of which has already been paid, with a further payment of €2 million expected. The SEC accounts for €12.89 million of this, with the Department accounting for €1.36 million.

12.43 The SEC and the Department have accepted liability for the underpayment of taxes in the past. The settlement amounts will not be recovered from the individuals concerned.

12.44 The Department does not have a process in place to procure classroom-based tuition for pupils with special educational needs on a competitive basis. There are risks that best value may not be obtained where competitive procedures are not followed, and that certain suppliers are favoured.

Recommendation 12.1

The Department should seek advice on whether the provision of classroom-based tuition services by specialist providers to children with special educational needs come within the definition of procurement under national guidelines. The Department should explore the use of procurement frameworks which allows for agreement of a pricing structure, but with flexibility in relation to volume and drawdown of service.

Accounting Officer's response

Agreed. The Department accepts the recommendation and is actively seeking advice on whether arrangements regarding classroom-based tuition for pupils with special educational needs come within the definition of procurement under national guidelines. It is also exploring the use of procurement frameworks in this regard.

1 Revenue Commissioners' Statement of Practice SP IT-2-07 regarding the tax treatment of the reimbursement of expenses of travel and subsistence to office holders and employees.

13 The Development of Eircode, the National Postcode System

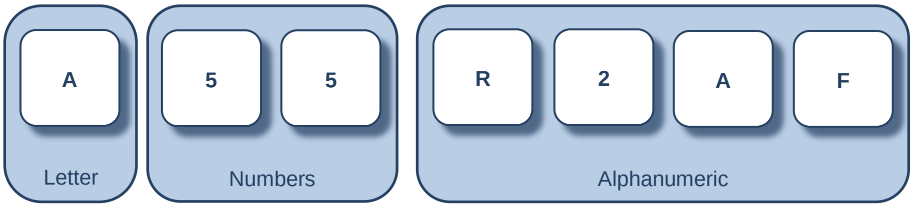
13.1 A postcode is defined as 'a code consisting of numbers or other characters, or both numbers and other characters, that identifies the locality of an address and, where appropriate, the geographic location of an address'.[1]

13.2 Although the Department of Communications, Energy and Natural Resources (the Department) has estimated that over 35% of Irish addresses share an address with at least one other property (i.e. are non-unique), Ireland was one of the few developed countries that did not have a system of postcodes. Work on the development and implementation of a system of postcodes commenced in 2005.

13.3 The Communications Regulation (Postal Services) Act 2011 made provision for the Minister for Communications, Energy and Natural Resources (the Minister) to enter into a contract for the development, implementation and maintenance of a national postcode system. At the end of 2013, a contract was entered into for a ten-year period (with an option to extend this for a further five years) with Capita Business Support Services Ireland Limited which was appointed as the postcode management licence holder (the licence holder).[2] The new postcode system, referred to as Eircode, was officially launched in April 2014 and dissemination of eircodes commenced in July 2015. It is expected that every address in Ireland should now have received its unique eircode.

13.4 An eircode is a seven character code and is unique to each address. The structure of an eircode is shown in Figure 13.1. The code is non-sequential which is intended to allow for further expansion and to avoid the need to change assigned codes in the future. The use of an eircode is voluntary.

Figure 13.1 Structure of an eircode number



Source: Eircode

1 The Communications Regulation (Postal Services) Act 2011.

2 The licence holder contracts elements of the project with a number of project partners and subcontractors.

Figure 13.2 Key characteristics of postcodes in some European countries

	UK	Denmark	Germany	Switzerland	Austria
Format of postcode	5 – 7 characters	4 digits	5 digits	4 digits	4 digits
Level of disaggregation	A number of addresses	Locality	Section of street	Locality	Locality
Publically available	Yes	Yes	No	Yes	Yes
Date introduced	1959	1967	1963	Early 1960s	Early 1960s
Database maintained by	Royal Mail	Post Denmark	Deutsche Post	Swiss Post	Austria Post

Source: 2005 Working Group Report

13.5 Ireland is a late adopter of postcodes. Many other European countries have had postcodes in place since the 1960s.

13.6 The key characteristics of the postcodes used in a number of other European countries are set out in Figure 13.2. Eircode will differ from the postcodes in these countries as it has a one-to-one relationship with an address. In addition, Ireland's postcode database will not be maintained by the national postal service.

13.7 Stakeholders have expressed divergent views regarding Eircode in correspondence to the Joint Oireachtas Committee on Transport and Communications. For example, the delivery firm, Nightline has stated that Eircode is workable and suited to the particular circumstances in Ireland. However, the Freight Transport Association has stated that, while Eircode is useful as an address identifier, it is not capable of performing in the manner expected of a 'modern postcode'.[1]

13.8 This report reviews

- the project management structure and project timescale
- project expenditure
- the development of the business case for the project, and in particular, the assessment of the costs and benefits
- the various procurements associated with the project.

The report does not examine the relative merits of the different postcode models that could have been implemented.

1 The Freight Transport Association is a not-for-profit membership trade association for Irish freight and logistics companies.

Project Management

13.9 The cost of developing, implementing and maintaining the Eircode system is borne by the Vote for Communications, Energy and Natural Resources. Therefore, the overall responsibility for governance and oversight of the system rests with the Accounting Officer for that Vote.

13.10 The management advisory committee of the Department did not make decisions relating to the day-to-day management of the project, but was updated regularly on the status of the project and was involved in approving funding proposals for the project as part of the estimates process.

2005 to 2009 – Project Development

13.11 A national postcode project board (the Project Board) was established in 2005 to bring the proposal to introduce a postcode to the point where there was a technical specification, a cost benefit analysis, a project plan and an agreed structure for the ownership, management and funding of the system. In a report to the Minister in 2006, the Project Board set out recommendations of how to proceed with the project. Following this, the Department assumed responsibility for the project.

2010 to 2013 – Project Planning

13.12 A project steering group was established and first met in February 2010. This group was made up of a number of department employees and two external members – an employee of ComReg and a business consultant. In 2010, following the engagement of PA Consulting to provide project management services, two representatives of that company were appointed to the steering group. An interdepartmental postcode group was established in November 2010. This group had a discussion capacity only.

13.13 The steering group was the implementation and decision-making forum for the project during the period February 2010 to September 2013. It provided strategic direction, guidance and monitoring of the progress of the project, and sought approvals of the Secretary General of the Department or the Minister, where appropriate.

2014 to Date – Project Implementation

13.14 Following the appointment of the licence holder in December 2013, a revised governance structure was put in place. A new steering group was established in February 2014, made up of representatives from the Department, ESB, the Office of the Revenue Commissioners (Revenue), DX Delivery, ComReg, Irish Rural Link and An Post. This group acts in an advisory capacity only and assists in resolving project issues and conflicts.

13.15 A programme board was set up in March 2014 comprising representatives from the Department and the licence holder. The programme board approves project work-plans, monitors progress, assesses achievement of milestones and agrees revisions to the scope of the project. Two project teams, comprising representatives from the Department and the licence holder, were also established.

Stakeholder Engagement

13.16 In 2006, the Project Board consulted stakeholders in a number of sectors (public and private postal, insurance, banking and utilities). It found that almost 90% of those consulted were in favour of the introduction of a postcode system.

13.17 In 2008, PA Consulting was engaged to assist in evaluating the project proposal. They consulted six departments that were identified as being likely to have the largest potential benefits in order to understand and quantify the benefits to the public sector.[1] That consultation found that

- all but one department supported the introduction of postcodes
- two departments had concerns as to whether the postcode model proposed was the most appropriate
- concerns were raised in relation to the funding of any departmental implementation costs.

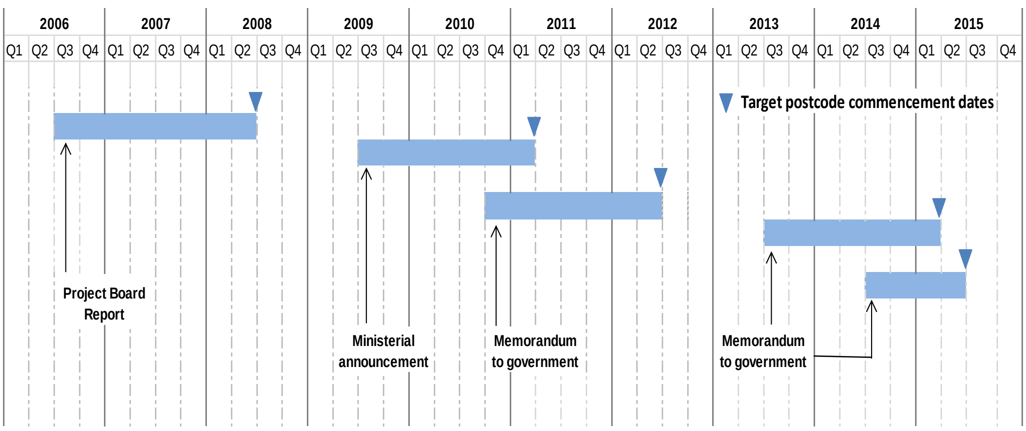
13.18 In November 2010, prior to the commencement of the procurement process for the licence holder, PA Consulting conducted another stakeholder engagement exercise. The sectors consulted were the public service, postal delivery/courier services, financial services, retail, telecoms and utilities. The consultants recorded that overall, the introduction of postcodes was viewed as positive, and reported that the main feedback points were

- a postcode with a location-based code capability should be developed, and the more precise the postcode the greater the assessed potential benefits
- a postcode should facilitate improved postal service operations
- members of the public should be educated on the use of postcodes
- the postcodes address database should be publicly available.

Project Timescale

13.19 During the life of the project, a number of target dates for the commencement of the postcode system were set (see Figure 13.3).

Figure 13.3 Target postcode commencement dates, 2006 to 2015



Source: Department of Communications, Energy and Natural Resources

1 The Department of the Environment, Heritage and Local Government; Department of Agriculture, Food and the Marine; Department of Health and Children; Department of Transport, Tourism and Sport; Department of Social Protection; and the Office of the Revenue Commissioners.

13.20 Progress to completion within the target timeframes set was interrupted or delayed due to

- a cost benefit analysis in 2006 that indicated the project would have an overall net cost of €96 million, leading to a government decision not to progress the project at that stage
- difficulties in agreeing terms and conditions with GeoDirectory
- a requirement to enact data protection legislation
- difficulties with tendering/procurement of a licence holder.

Access to GeoDirectory

13.21 GeoDirectory is a database maintained by An Post GeoDirectory, a company established by An Post and Ordnance Survey Ireland that holds the address and location of every residential and commercial property in the State. In 2006, the Project Board recommended the use of GeoDirectory as the base data for the development and introduction of postcodes.

13.22 In 2010, the Department and An Post began discussions relating to the use of GeoDirectory by the licence holder for the purpose of establishing a postcode address database and rolling out a national postcode.

13.23 Discussions and negotiations were ongoing during the procurement process for the licence holder. As the terms on which GeoDirectory would be available to the licence holder were an important component of the procurement process, the prolonged negotiations were a factor in the length of time taken to complete that process. Although the use of GeoDirectory by the licence holder was not mandatory, it was considered to be the most complete likely data source for the postcode.

13.24 The Department has stated that due to differences in interpretation in relation to the terms to be offered to the licence holder, agreement was not reached until August 2014.

13.25 The final terms agreed stipulate that the licence holder will pay An Post GeoDirectory the following amounts

- an annual fixed fee of €35,910
- a value-added reseller fee (for the use of GeoDirectory by a licence holder distributor) based on the volume of use, capped at €976,835 a year
- an end-user fee (for the use of GeoDirectory by end-users) based on the volume of use, capped at €913,481 a year
- a royalty fee of 5% of incremental revenue from the point at which the volume cap is reached.

13.26 With the exception of the royalty fee, the aggregate annual payments by the licence holder to GeoDirectory are subject to a minimum of €100,000 and a maximum of €1,926,226.

13.27 GeoDirectory is entitled to increase the fees payable annually, with the exception of the royalty fee. The amount is limited to the increase in the customer price index. In addition, the value-added reseller and the end-user fees are subject to periodic price reviews.

13.28 Further issues arose following the signed agreement relating to differences in interpretation of terms for the commercialisation of intellectual property in the GeoDirectory database. The Department has stated that GeoDirectory believed that full access rights to the intellectual property excluded commercialisation, whilst the licence holder believed that it did in fact include commercialisation.[1] These issues were resolved in February 2015.

Data Protection

13.29 The Project Board, set up in 2005, considered a broad range of postcode model options. Three models were considered in detail, two of which – the 'fixed grid' and 'post town boundary' – incorporated a one-to-one relationship between a postcode and an individual property. The third model, the 'postal sector' model, did not have a one-to-one relationship with a property. Instead, it was based on identification of a geographical unit, containing a variable number of properties.

13.30 In 2006, the Project Board, following consultation with the Data Protection Commissioner, noted that the creation of a publicly-accessible and usable postcode database might require legislation, and that a postcode with a one-to-one relationship with a property would raise data protection issues. The Project Board decided that the 'fixed grid' and 'post town boundary' models should be excluded from the evaluation process. It concluded that a six character 'postal sector' postcode would add value to the Irish economy and could be publicly available.

13.31 PA Consulting reported in November 2010 that as part of the design consolidation exercise, it was necessary to consider changing the postcode model to include an additional element that would uniquely identify the location of each building. The report noted that this would enable a licence holder to provide a variety of value added services for commercial clients.

13.32 The decision to adopt an address-specific model, including for each apartment in a purpose-built apartment block, was made by the project steering group in March 2012. The Department has stated that the relatively high proportion of non-unique addresses in Ireland was the main reason this model was chosen.

13.33 The Department has indicated that in March 2014, the Data Protection Commissioner requested information in relation to the proposed postcodes. At a meeting in April 2014, the month Eircode was launched, the Data Protection Commissioner advised the Department that it considered an address-specific code to be personal data. As a result, the Department began to develop legislative proposals to address data protection issues.

13.34 The Communications Regulation (Postal Services) Amendment Act 2015 commenced on 6 July 2015. It aims to address any potential data protection issues and to ensure that a comprehensive data protection regime is put in place in relation to eircodes.

1 Commercialisation includes the sale of the information in the database or charges for access.

Project Expenditure

13.35 When the project to develop a national postcode system was approved by Government in 2009, its projected Exchequer cost was €18 million over an 18-month period.[1] When the Government approved the launch of the system in October 2013, the cost to the Exchequer was estimated at €31 million over a ten-year period of licence operation.

13.36 At August 2015, the projected cost of the project is €38 million. The amount paid to date is €18.6 million. The majority of the costs to date, €15.7 million, relate to payments to the licence holder (see Figure 13.4).

Figure 13.4 Projected Eircode Exchequer costs, as at August 2015

	Contract amount	Amount paid to August 2015	Projected future costs	Projected total
	€000	**€000**	**€000**	**€000**
Licence holder	33,533[a]	15,682	17,851	33,533
PA consulting	1,408	1,315	210	1,525
Technical advice	229	229	–	229
Legal advice	118	207	–	207
Process auditor	9	44	–	44
Support services	442	282	200	482
Cost of departmental staff [b]	n/a	700	1,092	1,792
Secondment	217	196	21	217
Total	**35,956**	**18,655**	**19,374**	**38,029**

Source: Department of Communications, Energy and Natural Resources.

Notes: a This includes the net cost of three contract changes subsequent to the signing of the contract.

b The cost of departmental staff resources utilised on the project to date is not available. As part of this examination, those costs have been estimated at €700,000 to date.

Role of Licence Holder

13.37 The role of the licence holder is to design, realise, disseminate and maintain the national postcode system and the postcode address database.[2] Capita, as licence holder, provides this service from its own premises. Capita will deal with all queries in relation to postcodes and has available to it a call centre to handle peak demands, such as when postcodes were publicly launched. The Department stated that the licence holder had over 100 staff working on Eircode during the design and implementation phase and will have 20 to 25 staff on an ongoing basis.

13.38 When an address is added to GeoDirectory, Capita is informed (of the address, the post town and the geo-coordinates) and the postcode for that address is assigned. The address, post town, GeoDirectory ID and postcode are then added to the Eircode database.

1 Project expenditure amounts in this report are inclusive of VAT unless otherwise stated.

2 Members of the public can check up to 15 addresses a day without charge. For a fee, members of the public can have wider access to the database.

13.39 The terms of the licence holder contract provide that all rights, title and interest in any intellectual property vests automatically on creation with the Minister as sole legal and beneficial owner, free from encumbrances. The contract states that the licence holder will maintain an asset register and documentation detailing the technical infrastructure that will allow the Minister, or a replacement licence holder, to understand how the service is provided. The contract also sets out the arrangements to be put in place for termination or expiry of the contract including the preparation of an exit plan which will contain

- how the licence holder will fulfil its statutory obligations to transfer staff to the replacement licence holder, and
- the governance structure and scope of activities during the transfer and exit period.

Licence Holder Contract Terms

13.40 The contract is for a ten year period with the option to extend for a further five years.

13.41 The contract provides for payments by the Department to the licence holder on completion of project milestones. There are eight milestones and the cumulative payment for completing the eight milestones is just over €18 million (about 54% of the contract value).[1] Repayment to the Department by the licence holder of one milestone payment amounting to €162,124 in relation to intellectual property is to be made over the term of the contract.

13.42 The Department is also obliged under the contract to make three payments each year to the licence holder

- service charge for advertising and media – €184,500
- service charge for ongoing dissemination – €123,000
- payment in respect of cost of access to GeoDirectory – €1,167,750.[2]

13.43 The contract requires the licence holder to seek opportunities to develop and market value added services, in order to increase the use of postcodes and to derive revenue. The contract provides for the Department to receive 50% of the licence holder's annual excess profit. This profit sharing arrangement will potentially be activated in any year where the cumulative profit is greater than nil. The excess profit is the difference between the annual profit and half of the annual revenue. An example of how the profit sharing arrangement will work is set out in the contract with the licence holder (see Figure 13.5).

1 This assumes the contract runs for ten years.

2 Under the terms of the contract, this payment is subject to periodic review in line with the agreement between GeoDirectory and the licence holder.

Figure 13.5 Profit sharing arrangement – illustrative example

	Year 1	Year 2	Year 3
	€m	**€m**	**€m**
Annual revenue	5	13	10
Annual cost	8	4	4
Annual profit/(loss)	(3)	9	6
Cumulative profit/(loss)	(3)	6	12
Excess profit	–	2.5	1
Department's share of profit	**–**	**1.25**	**0.5**
Licence holder's share of profit	**–**	**7.75**	**5.5**

Source: Licence holder contract

13.45 Following the signing of the contract, there were three change requests agreed between the Department and the licence holder. As a result of the changes, the cost of the contract increased by a net €686,000. The changes related to

- *Update* of *public sector databases* – the payment in respect of this milestone was based on the licence holder updating at least 60% of an estimated 92 million records in the address databases of ten government agencies. A review of those databases established that the number of records to be updated was significantly less than estimated. While the address databases of a number of additional government agencies were added, there was a net reduction of 12 million in the total number of records to be updated. The net saving was €146,000. In conjunction with the change in number of addresses, the related service level was also revised to require that 92% of records that had a unique address and a direct match with Eircode were updated with an eircode.
- *An outreach campaign* – this is a campaign to assist those who were considered to be vulnerable and hard to reach, who may be bypassed by the marketing and communications campaign, or who may be confused or worried about the introduction of postcodes. At the Department's request, the licence holder prepared a proposal for an outreach campaign. The proposal was that the campaign would be conducted by the charity organisation, The Wheel.[1] The licence holder did not go to tender in relation to this campaign. The cost to the Department was agreed at €492,000.
- *Change in launch date* – an indicative launch date of the end of May 2015 was agreed with the licence holder. Due to delays mainly associated with the introduction of data protection legislation, a revised date of 6 July 2015 was agreed. This was subsequently changed to 13 July 2015. The licence holder sought €1.2 million compensation in respect of additional costs and revenue foregone from the change in launch date. The Department agreed to pay €340,000, comprising €160,000 in settlement of the licence holder's claim, €175,000 in additional payments to third parties (in respect of postal charges and storage – €91,000, and the outreach campaign – €84,000) and €5,000 in communication related costs.

At August 2015, total payments in relation to the outreach campaign are €527,000.

1 The Wheel supports and represents the voluntary and charitable sector.

13.46 The payment terms (including contract changes) and amounts paid to August 2015 are shown in Figure 13.6.

Figure 13.6 Payments to the licence holder to August 2015

Milestone	Contract amount	Amount paid to August 2015
	€000	**€000**
Licencing of State intellectual property (excluding GeoDirectory)	162	159
Finalisation of the detailed design of the postcode	1,999	1,999
Realisation and validation of postcode address database	1,221	1,221
Update of public sector databases[a]	11,637	11,520
Public rollout media campaign		
– on commencement	181	–
– on completion	742	–
Public rollout dissemination		
– on commencement	1,216	–
– on completion	936	–
Total milestone payments	**18,094**	**14,899**
Annual payments		
Service charge – €307,500 a year for ten years	3,075	–
Access to GeoDirectory – €1,167,750 a year for ten years[b]	11,678	–
Total annual payments over life of contract	**14,753**	**–**
Total payments	**32,847**	**14,899**
Change requests to the contract		
Saving achieved due to fewer than anticipated records[a]	(146)	–
Additional payment for a community outreach programme	492	443
Compensation payment for the delay in launching/disseminating postcodes	340	340
Current cost of contract	**33,533**	**15,682**

Source: Department of Communications, Energy and Natural Resources

Notes: a As a result of a contract change, savings of €146,000 were achieved thereby reducing the original cost of €11.637 million to €11.491 million. Total paid to August 2015 is €11.52 million.

b This payment is subject to periodic review.

13.47 The annual service charge payment is payable in arrears and is dependent on approval by the Department of a yearly performance report that shows that the licence holder has met prescribed service levels. The annual payment relating to access to GeoDirectory is also paid in arrears and is reliant on the submission to the Department of proof of payment to GeoDirectory by the licence holder and achievement of all relevant milestones in the period. As at the end of August 2015, there has been no amounts paid to the licence holder relating to the annual payments provided for in the contract.

Business Case

13.48 An essential element of the business case for a publicly-funded capital project is an analysis of the viable options for delivering the project and, in particular, an assessment of the costs and benefits associated with each option. The panel below outlines the process involved in preparing a cost benefit analysis, including estimates using net present value (NPV). This is a standard business analysis methodology, widely used in public sector investment decision making.

13.49 A cost benefit analysis for the project was first prepared in 2006. This was revised in 2008 and again in 2010. The costs and benefits used to calculate the NPV are set out in Annex A. The projected NPV changed from a negative €96 million in 2006 (i.e. a net present cost) to a positive €20 million in 2010. The results of the cost benefit analyses were used in presenting proposals to the Government for approval to proceed with the project. Summary details of each cost benefit analysis are set out in Figure 13.7.

Cost Benefit Analysis

Cost benefit analysis is a key economic appraisal technique that potentially provides a useful basis for decision-making. Cost benefit analysis requires the identification and quantification of the benefits and costs of alternative ways of implementing a proposed project. This allows feasible alternatives to be compared.

The timing of when benefits and costs are expected to be realised over the life of the project must be identified for each alternative. This provides cashflows for the project options. To recognise the ‘time value’ of money, a discount factor is applied to each cashflow to give a NPV. The current discount factor used for public sector projects is 5%.

The decision on the feasibility of the proposed project takes into account whether the sum of the discounted benefits exceeds the sum of the discounted costs i.e. it has a positive NPV. Where the discounted costs exceed the discounted benefits, the project has a negative NPV, or net present cost.

Source: Based on the Department of Public Expenditure and Reform’s Public Spending Code (September 2013).

Figure 13.7 Overview of cost benefit analyses for the postcode project

Year of CBA	NPV calculated €m	Discount rate used	Project life	Key assumptions
2006	(96)	8%	15	Full benefits will be achieved and maintenance costs incurred in year 2. Maintenance costs of the licence holder will be recovered via income.
2008	6	8%	15	No benefits in year 1, 25% of benefits will accrue in year 2, 50% in year 3, 75% in year 4 and 100% in year 5. An Post benefits will be achieved in year 5. Full maintenance costs incurred from year 2. Maintenance costs of the licence holder will be recovered via income.
2010	20	4% 8%[a]	15	No benefits in year 1, 25% in year 2, 50% in year 3, 75% in year 4 and 100% in year 5 (including An Post). Full maintenance costs incurred from year 2. State will pay an annual contribution of €962,000 towards maintenance costs of the licence holder with the balance of costs recovered via income.

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

Note: a In 2010, the discount rate applied to public and private sector costs and benefits was different – 4% was used for the public sector and 8% was used for the private sector.

13.50 Key changes in the costs and benefits that gave rise to the revised NPV for the project included

- a projected reduction in An Post's implementation and maintenance costs from €45 million to €7 million, coupled with an increase in benefits for An Post (up from nil to €2.3 million)
- projected implementation costs relating to government services increased from €2.4 million to €6.6 million and monetary benefits increased from €563,000 to €4 million
- projected payments to the licence holder for implementation of the project increased from €13.1 million to €17.5 million.

13.51 In 2015, a revised cost benefit analysis was produced. From 2010 to 2015, the projected NPV of the project reduced from €20 million to €16 million. The 2015 calculation relied on some base figures from 2006, 2008 and 2010 with some adjusted for inflation.

Projected Costs

13.52 The Department of Finance required the application of a shadow cost of public funds of 150% to exchequer sourced funds when the 2010 cost benefit analysis calculation was carried out.[1] This uplift of costs was correctly applied to all costs relating to government services and to the implementation costs of the licence holder.

13.53 However, the examination of the NPV calculations identified that the uplift was not applied to the annual maintenance costs of €962,000 relating to the licence holder. Had this cost been applied as required, the NPV of the project would have been around €5 million less.

13.54 An assumption underpinning the 2006 and 2008 cost benefit analyses was that the licence holder's maintenance costs would be recovered via income, and therefore these costs were not included in the NPV calculations. In 2010, a State contribution towards maintenance costs was included. The licence holder contract (signed in December 2013) contains a provision for the Department to pay approximately €1.5 million per year to the licence holder, €538,000 more than assumed in 2010.

13.55 The Department has stated that as part of the competitive dialogue process, all bidders expressed the need to have a State contribution towards the ongoing costs of operations as there was too much commercial risk and uncertainty. They concluded that the higher amount was necessary to support the viability of the procurement process.

13.56 Direct staffing costs to the Department of developing the postcode project – estimated at €2 million – and consultant costs of €2.5 million were not included when assessing the costs of the project.

Projected Benefits

13.57 In 2008, the annual projected benefits attributed to the introduction of a postcode system were valued at €9.9 million. Government services accounted for €4 million of those estimated benefits, including a projected benefit of €3.6 million for Revenue. The bulk of the projected benefits for Revenue related to potential improved data matching of addresses, particularly with third party sources of data.

13.58 As part of this examination, Revenue provided an update in relation to its expected benefits. It noted that

- most of the benefits from improved data matching of third party returns have already been realised from improved Revenue processes and the development of an address/property database following the introduction of the Local Property Tax
- the valuation of benefits in 2008 was very tentative and based on an assumed widespread uptake of postcodes particularly by providers of third party returns
- benefits will only emerge when a tipping point is reached in the usage of postcodes which is likely to be a gradual process.

1 The shadow cost of public funds is applied so as to account for the distorting effects of taxation. Infrastructure Investment Priorities 2010 – 2016, Department of Finance

13.59 The remainder of the expected benefits related to An Post (€2.9 million) and the private sector (€3 million).

- An Post identified the benefits in 2007 as an expected increase in revenue from growth in mail volumes. The growth in mail volumes was expected to arise five years after implementation of postcodes. The projected benefits to An Post were revised down to €2.3 million by PA Consulting in 2010.
- The benefits to the private sector were estimated in 2006 and were not subsequently adjusted other than for inflation. For private sector postal services, the benefits related to improved process efficiency and effectiveness. For other sectors, benefits were expected to arise from improved competition in the postal market.

Implementation of Cost Benefit Analysis Methodology

13.60 The 2010 cost benefit analysis includes a sensitivity analysis. This suggests if costs increased by 15% and benefits decreased by 15%, the project would have a marginal positive NPV.

13.61 The examination reviewed the relevant supporting back-up documentation for each of the figures included in the cost benefit analyses. In relation to the 2010 cost benefit analysis, the documentation made available for examination does not fully support the projected amounts for

- payments to the licence holder
- costs and benefits attributed to government services
- costs and benefits attributed to An Post
- costs and benefits relating to the private sector.

In some cases, assumed values were rolled over from earlier cost benefit analyses, with some adjustments for inflation or shadow costs. However, support for the original figures was not present in all cases.

13.62 The discount factor used in 2006 was 3% more that the recommended rate for public sector projects and in 2008, it was 4% more. The Department has stated that the higher rate reduced the NPV and was deemed prudent given the novel nature of the project.

13.63 Although the purpose of a cost benefit analysis is to explore differing options, none of the cost benefit analyses were based on the address-specific code system that has been implemented. Instead, each analysis examines the costs and benefits of the 'postal sector' model. However, the report on the 2010 cost benefit analysis did state that an address-specific model would cost marginally less to implement than the 'postal sector' model (approximately €100,000).

Procurement Issues

13.64 The Communications Regulation (Postal Services) Act 2011 required the approval of the Minister for Public Expenditure and Reform before the contract with the licence holder was entered into. That approval, which was provided on the same date that the contract was signed, was on the basis that the procurement process was conducted in accordance with public procurement requirements, the contract represented value for money, the costs would be met from within the Department's Vote and all legislative requirements were met.

13.65 The examination identified a number of issues in relation to some of the procurements associated with the project.

Licence Holder

13.66 The procurement of the licence holder included a dialogue-based procurement process, involving a market engagement exercise to

- identify possible postcode models involving a one-to-one relationship with an address
- identify prospective suppliers
- engage with the wider stakeholder community.

13.67 The process began in January 2011 with the publication of a tender pre-qualification questionnaire. This contained an indicative timeline for the procurement process with a date of September 2011 for contract commencement. Five responses to the pre-qualification questionnaire were received, with three candidates assessed as meeting the qualifying criteria. An invitation to participate in dialogue and a subsequent invitation to submit a final tender was issued to the three candidates. Only two candidates submitted a final tender.

13.68 The procurement process took significantly longer than anticipated. The pre-qualification questionnaire envisaged that the procurement process would take approximately eight months. However, the contract was not signed until December 2013 – 35 months after the process commenced, and over four times the duration envisaged.

Complaint in Relation to Licence Holder Procurement Process

13.69 In February 2011, shortly after the procurement process began, a company raised concerns with the Department about the process and asked for it to be terminated. In May 2012, the company lodged a complaint with the European Commission (EC). The EC notified the Irish authorities of the complaint in August 2012 setting out its observations on the issues raised, and requested further information. The notification centred on three issues

- the request for audited financial statements of the ultimate parent company for the previous three years, if the company tendering is a subsidiary of another undertaking
- a minimum required turnover of €40 million for each member of a bidding consortium
- a potential conflict of interest involving members of the Project Board, whose related companies were seeking pre-qualification.

13.70 The Department responded to the EC in October 2012 and February 2013. In November 2013, the EC closed the case. In doing so, it set out its position in relation to the following matters.

- The EC could not ascertain whether it was disproportionate to accept tenderers that allegedly gained a competitive advantage by way of their employees having participated in the Project Board at a previous stage.
- The EC considered that the Department's provision on minimum required turnover (€40 million for each member of a consortium) seemed to preclude the possibility of members of a consortium relying on the capacities of other members, a possibility specifically permitted under Article 47(3) of Directive 2004/18/EC.[1] The Irish authorities were requested to adopt measures to avoid similar errors in the future and to inform the EC of those measures.

13.71 In October 2014, the Department notified the EC of the measures put in place to deal with minimum turnover thresholds. The measures were stated to be in the form of a circular issued by the Department of Public Expenditure and Reform – Circular 10/2014 on Initiatives to assist Small and Medium Enterprises (SMEs) in Public Procurement. In April 2015, the EC notified the Department that it did not consider that the circular addressed the concerns raised.

13.72 In June 2015, the Office of Government Procurement provided material for a further response to the EC indicating that the Irish authorities are actively encouraging and helping SMEs to participate in tender competitions. The response explains the various circulars, administrative arrangements and advisory services in place to do this. It also states that the consortium that was awarded the contract includes an SME.[2]

Procurement of Project Advisors

13.73 Since 2006, PA Consulting has been engaged under four contracts, with a total estimated value of €1.5 million, resulting in its effective continuous involvement in the project. The examination noted the following issues in relation to the award by the Department of two of those contracts.

- A 2008 contract with a value of €54,000 was awarded without a competitive process. The Department considers that PA Consulting's familiarity with the project through its earlier involvement allowed it to minimise the duration of this contract with consequent cost savings.
- Four tenders were received in early 2014 for the provision of technical advice and support services. The request for tenders stipulated that payment would be on the basis of milestones achieved. The contract was awarded to PA Consulting, on the basis that payment would be made on receipt of monthly invoices for the support provided in the previous month, rather than on the basis of milestones as required by the request for tenders. The Department estimates that total payments under this contract will be €399,000.

1 This directive deals with the award procedures for public contracts.

2 The licence was awarded to Capita, which has subcontracted elements of the work to a number of companies.

Other Consultants Engaged Without a Competitive Process

13.74 A number of contracts were entered into with six other consultants without the use of a competitive process. The total paid to August 2015 to these consultants is €423,520.

Consultant A

13.75 Consultant A – a retired public servant – was engaged under four contracts. Even though the first contract provided for an extension of the contract on the same terms, an increase of two-thirds in the daily rate payable was agreed for subsequent contracts. The three extensions were back-to-back contracts. A summary of the four contracts is set out in Figure 13.8.

Figure 13.8 Summary of contracts awarded to consultant A

Contract date	Contract terms	Daily rate	Contract amount	Paid to date
October 2013 [a]	40 days	€362	€14,500	€19,000
February 2014 [a]	3 days per week for 6 months	€604	€43,500	€41,000
September 2014 [b]	3 days per week for 4 months	€604	€29,000	€28,000
January 2015 [b]	3 days per week for 7 months	€604	€52,000	€49,000
			€139,000	**€137,000**

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

Notes: a Contracts for provision of project management support services.

b Contracts for dissemination, marketing and communications work.

Consultant B

13.76 Consultant B – a retired civil servant – was engaged in November 2013 to provide project management support services. A daily rate of €800 was agreed for 1.5 days per week up to June 2015 – a total contract value of €103,000. To August 2015, €145,000 has been paid.

Consultant C

13.77 Consultant C – also a retired civil servant – was engaged in March 2011 as a process auditor to provide five days work over a six-month period at a daily rate of €1,230.[1] Payments totalled some €6,000. Further work was contracted for in March 2012 with the approval of the Department of Public Expenditure and Reform for an 'all inclusive fee' of €2,000. However, payments totalled €38,000.

1 The process auditor was engaged to check that proper procurement procedures and processes were followed in the procurement of the licence holder and to ensure compliance with EU and national regulatory requirements.

Consultant D

13.78 A contract to draft an interim privacy impact assessment was agreed with Consultant D in September 2014. The contract amount was €24,000 based on 15 days at a daily rate of €1,605. The total amount paid under this contract was €51,520.

13.79 The Department has stated that privacy impact assessments are not a statutory requirement in Ireland and therefore there was limited expertise available to carry out the assessment which was required within a very short time frame. Consultant D was available to carry out this work and had previously done similar work for the Commission for Energy Regulation. Additional work to what was originally anticipated was required.

Consultant E

13.80 Consultant E was engaged in August 2014 to provide legal advisory services and draft legislative amendments to facilitate the implementation of the postcode system. The contract provided for a maximum payment of €30,750. Consultant E received €46,000 for the work provided under this contract.

13.81 The Department indicated that Consultant E had been involved in the drafting of the postcode contract and therefore had an in-depth knowledge of the project. In addition, Consultant E was able to start work at short notice and given the advanced stage of the project there was not adequate time to tender for the service.

Consultant F

13.82 Consultant F was engaged by Ervia as a service contractor in August 2012. He began working for the Department on the postcode project in February 2014. A letter of engagement and an agreement between Ervia and the Department has been drafted, but to date has not been finalised. The Department stated that an invoice for €115,000 has been submitted by Ervia for work completed by the consultant in the period June to December 2014, but the invoice has not yet been paid. The Department estimates the cost of the consultant will be approximately €200,000.

Reporting of Non-Competitive Procurement

13.83 Government departments are required to prepare an annual statement of contracts awarded without a competitive process where the value of the contract exceeded €25,000 (excluding VAT). The statement is required to be submitted to the Office of the Comptroller and Auditor General and to the Department of Public Expenditure and Reform. Seven of the consultancy contracts met the criteria for inclusion on the Department's statements for 2008, 2013 and 2014, but only two of the contracts were included.

Conclusions and Recommendations

13.84 The postcode project experienced significant delays since it was originally proposed. In 2006, it was envisaged that postcodes would be in place by 2008. When the Government gave its approval to proceed to the procurement of a licence holder in December 2010, it was expected that postcodes would be in operation by the middle of 2012. The dissemination of postcodes commenced in July 2015.

13.85 Risks to the project were identified at an early stage, with access to GeoDirectory and compliance with data protection requirements being noted in 2006. Notwithstanding these known risks, the Department did not deal with them in a timely manner. Issues relating to access to GeoDirectory were not resolved until February 2015 and data protection legislation was only enacted in July 2015.

13.86 Governance arrangements for the postcode project were in place from 2005, with changes made to those arrangements over time. The Department was slow to establish a project steering group. When it was established in 2010, the initial membership was from a narrow base. The group oversaw the project until September 2013. No steering group was in place for a period of five months until a new steering group was established in February 2014. A programme board with representatives from the Department and the licence holder was established after the licence holder was appointed.

Recommendation 13.1

The Department should ensure that adequate governance structures with sufficiently broad membership, including external private and public sector stakeholders, are in place for all future projects. Such structures should be established early in the project and continue without interruption to the end of the project.

Accounting Officer's response

Agreed. The Department prioritises the putting in place of robust governance arrangements for all large projects. In addition to the governance arrangements set out in this report, a formal project management approach was adopted for the implementation of the project with milestones, deliverables, costs, resources and issues/risks all being tracked and managed.

13.87 In tandem with the delays, costs have increased substantially relative to the estimates upon which decisions were based. In 2009, the estimated cost of the project communicated to Government was €18 million over 18 months. The estimated cost was based on the projected payments to the licence holder. It did not take into account the cost of the Department's staffing resources or the cost of consultants. These are projected to be around €4.5 million.

13.88 The estimated cost of the project notified to Government in 2013 was increased to €31 million, over a ten-year licence period. Based on a review of costs to date and the outstanding obligations on current contracts, the cost is projected to be around €38 million. This includes a cost of €686,000 relating to changes to the licence holder contract subsequent to the contract being signed.

Recommendation 13.2

In presenting proposals for projects to Government, the Department should communicate all costs, actual and estimated, attributable to a project.

Accounting Officer's response

Agreed. The Department now includes all major costs, where these can be estimated, when seeking Government approval for a project. It is acknowledged that the information submitted to Government did not identify costs of departmental staff other than noting that they would be met from within the existing staffing resources of the Department.

13.89 In 2007, the Government decided not to approve the project because analysis had not identified benefits arising from the project that would outweigh the projected costs. Further analyses in 2008 and 2010 projected that the project would yield net benefits of €6 million and €20 million (NPV), respectively. However, a number of shortcomings were identified with those analyses

- the analyses were based on a ‘postal sector' model rather than the address-specific model eventually developed
- the resource costs of the Department or the cost of consultants were not included
- the discount factor used in 2006 and 2008 was not in line with the factor recommended by the Department of Public Expenditure and Reform for public sector projects
- the shadow cost of public funds was not applied to the State funded maintenance costs that were included in the 2010 analysis, contrary to capital appraisal guidelines
- there was insufficient documentation to fully support many of the assumptions used in the projections.

13.90 It is not clear that benefits to the value projected will be achieved as a result of the implementation of Eircode. Improved data matching by Revenue was expected to be the main public sector benefit. Revenue have indicated that this benefit has largely been achieved through other address related developments such as the Local Property Tax register and improved data matching processes.

Recommendation 13.3

Where there is a material change to a project, a revised cost benefit analysis should be undertaken promptly to ascertain the continued feasibility of the project. Where material project delays occur, the analysis should be updated to take account of relevant developments.

Accounting Officer’s response

Agreed. The Department continues to refine its approach to cost benefit analyses. For example, in relation to the National Broadband Plan, the cost benefit analysis has been prepared in accordance with the Department of Public Expenditure and Reform guidelines and is regularly updated to incorporate material changes in the project design and market conditions. Cost projections are also amended where necessary to reflect results from the project’s financial and technical modelling analysis.

Recommendation 13.4

The Department should ensure that where a cost benefit analysis is carried out for a project, all costs that can and will be attributed to the project are included in the analysis thereby giving a complete and accurate net present value for the project. In addition, it is essential that all costs and benefits used can be explained and substantiated with adequate, relevant supporting material. The discount factor used and the shadow cost applied should be in line with guidelines issued by the Department of Public and Expenditure Reform.

Accounting Officer's response

Agreed. The Department will follow applicable public sector guidelines and include all relevant costs in future cost benefit analyses. In relation to the specific issues raised

- the additional costs of an address-specific model were considered to be marginal and not to have a significant impact on the analysis
- the project would still have had a positive net present value had consultant costs and staff costs been included
- given the profile of costs and benefits, the application of a higher discount rate reduced the net present value and was deemed conservative.

13.91 Some aspects of procurement associated with the project were unsatisfactory including

- EU concerns with the qualifying criteria in the licence holder tender
- deviation from the terms of a request for tender in a contract awarded to PA Consulting in 2014
- a pattern of non-competitive tenders for consultants engaged on the project.

Recommendation 13.5

The Department should ensure that all procurement processes are fair, transparent and in line with national and EU guidelines. The Department should remind all staff of the importance of adhering to competitive procurement procedures and ensure that staff are aware of all relevant circulars and guidelines pertaining to procurement and in particular, non-competitive procurement.

Accounting Officer's response

Agreed. The Department has established a dedicated Procurement Unit in its Finance Division which assists in the planning and delivery of procurement. The unit liaises with the Office for Government Procurement and ensures that staff avail of public sector wide framework contracts where available. The unit maintains a contracts register for contracts over €25,000 which records key data including whether or not a competitive process was used and advises individual Divisions in relation to tender specification, design of contracts, use of framework contracts, etc.

Commencing in September 2015, details of all proposed procurements must be forwarded to the procurement unit prior to commencement of the process. This will ensure non-competitive procurement will be avoided if at all possible. Where considered necessary and unavoidable, details of such procurement will be included in the Department's annual return in respect of the Department of Public Expenditure and Reform circular 40/2002. All procurement legislation, guidelines, contract guides and templates, are maintained on the Department's Intranet. The Department runs procurement training courses to ensure that staff are fully aware of procurement rules and best practice in the area. For large scale projects, external procurement expertise is retained where necessary. For the postcodes project an external process auditor was appointed to oversee and validate the licence holder procurement process.

Annex A

Table A1 Costs and benefits by category included in the 2006 NPV calculation

Category	Implementation costs	Maintenance costs	Benefits
	(one off)	(annual)	(annual)
	€000	€000	€000
Licence holder	13,106	–	–
Government services	2,430	32	563
An Post	37,514	7,620	–
Private sector	6,110	296	2,833
Total	**59,160**	**7,948**	**3,396**

Source: Department of Communications, Energy and Natural Resources

Table A2 Costs and benefits by category included in the 2008 NPV calculation

Category	Implementation costs	Maintenance costs	Benefits
	(one off)	(annual)	(annual)
	€000	€000	€000
Licence holder	14,322	–	–
Government services	4,393	21	3,961
An Post	27,477	424	2,864
Private sector	6,676	322	3,095
Total	**52,868**	**767**	**9,920**

Source: Department of Communications, Energy and Natural Resources

Table A3 Costs and benefits by category included in the 2010 NPV calculation

Category	Implementation costs	Maintenance costs	Benefits
	(one off)	(annual)	(annual)
	€000	€000	€000
Licence holder	17,504	962	–
Government services	6,587	31	3,961
An Post	6,497	329	2,300
Private sector	6,673	322	3,095
Total	**37,261**	**1,644**	**9,356**

Source: Department of Communications, Energy and Natural Resources

14 Collection of Land Annuities

14.1 Land purchase annuities originate from the late nineteenth century and were devised to facilitate the repayment by farmers of loans advanced to them by the former Land Commission for the purchase of land under the Land Acts. The system for the collection of annuities is administered by the Department of Agriculture, Food and the Marine (the Department).

14.2 The capital value of land annuities remaining to be redeemed at the end of June 2015 was just under €3 million and there were 344 remaining annuitants at that date. The last annuity is due to expire in 2052.

14.3 The annual accounts of the Land Commission are prepared by the Department. These comprise

- the General Land Purchase Account which records land purchase annuity receipts and
- the Separate Credits and Estates Account which records funds held to complete purchases of lands by the Land Commission where it has not yet been possible to establish that the seller(s) had clear title to the land. The balance on the account represents all or part of the purchase price, plus any accumulated interest.

Collection of Land Annuities

14.4 The Land Act 2005 provided for the writing-off of amounts that were uneconomic to collect; these were half yearly instalments of €100 or less. This reduced the number of annuitants from 4,500 to 2,300. The remaining annuitants were made an offer to discount their redemption price ('buy-out') by 25% provided that all arrears were cleared, and 1,650 of the annuitants availed of this offer.

14.5 The total aggregated annuity charged to land holders was approximately €337,000 in 2014. This figure is declining each year as accounts are redeemed. Figure 14.1 sets out financial information on the collection of land annuities for the last four years.

Figure 14.1 Land annuity financial information

	2014	2013	2012	2011
	€000	€000	€000	€000
Annuity charge	337	361	371	375
Annuity receipts	400	520	352	383
Redemptions	51	84	722	30
Arrears (at year end)	1,665	1,728	1,886	1,866

Source: Department of Agriculture, Food and the Marine

14.6 The 2005 Act also provided that

- The Department is permitted to offset grants payable by it to an annuitant against annuity charges owed. The maximum amount of the grant permitted for offset is 50% of the grant due.
- No transfer of land that is subject to annuity can be registered by the Property Registration Authority without certification that all arrears have been paid.

14.7 Of the arrears at 31 December 2014, approximately €1.2 million had been due for more than six years with some arrears extending to over 20 years. The Act does not provide for the charging of penalty interest on arrears. The arrears owed by the 40 largest debtors as at 31 December 2014 was €0.9 million (2013: € 1 million) and this represented 57% (2013: 58%) of the outstanding debt.

14.8 The Department has taken a number of steps to improve the collection of arrears.

- Demands for payment which show the annuitant's up to date payment position are issued to annuitants every six months. Additionally, the Department issues letters with the payment demand to all annuitants whose arrears are in excess of €4,500. In 2014, more than 130 such letters were issued by the Department.
- Annuitants in arrears were advised of the potential savings to be made by them from redeeming annuities early – 18 accounts were fully redeemed in 2014 amounting to €50,561 (2013: €84,828).
- A total of €193,036 (48% of receipts in the year) was recovered through offset in 2014 in accordance with the Land Act 2005. Offsets in 2013 amounted to €203,000.

Progress in Establishing Title to Land Taken Over

14.9 The audited account for 2014 shows an accumulated balance of €8,862,224 in the Separate Credits and Estates Account at the end of the year.

14.10 Less than €28,000 has been released from the account over the last ten years, where title has been established (see Figure 14.2).

Figure 14.2 Value of estates discharged

Year	**€000**
2014	4.7
2013	–
2012	0.4
2009 to 2011	–
2008	22.6
2005 to 2007	–

Source: Audited annual accounts of the Land Commission

Administration Costs

14.11 The cost of the Land Commission programme is borne by the Vote of the Department. The Department has estimated that the cost of administering the programme was around €172,000 in 2014. These costs include salaries, superannuation, PRSI and overheads. The cost in 2013 was estimated at €328,000. The reduction between 2013 and 2014 has been explained by the Department as being due to staff shortages resulting in posts remaining unfilled. The cost of administering the land annuities in 2014 represents over 38% of amounts collected in the year.

Conclusion

14.12 Most, if not all, arrears of land annuities should eventually be collected by proper employment of the provisions in the Act which requires the payment of all land annuity arrears before the transfer of title can be registered. However, collection may take many years and the Department continues to incur high administration costs in relation to the collection of outstanding amounts.

14.13 Just over 0.25% of the balances held in the Separate Credits and Estates Account have been discharged by the Department in the past ten years. At that rate it is unlikely that all cases will be discharged.

Recommendation 14.1

The Department should investigate, from a value for money perspective, the proportionality of the cost of collection of outstanding annuity arrears and current income.

The Department should also consider steps to address the lack of progress in discharging estates, whether a cost effective mechanism could be introduced to complete the discharge of remaining titles and whether the funds could be surrendered to the Exchequer.

Accounting Officer's response

Agreed. The collection of annuities is currently under consideration with a view to determining the most appropriate way forward and the comments and recommendations made in relation to arrears will form part of this process. Likewise, the issue in relation to the discharge of remaining estate titles is being considered as it seems probable that the question of title in these cases is unlikely to be resolved. As part of this consideration, the surrendering of funds in the Land Commission account to the Exchequer is under discussion.

15 Funding of the Social Insurance Fund

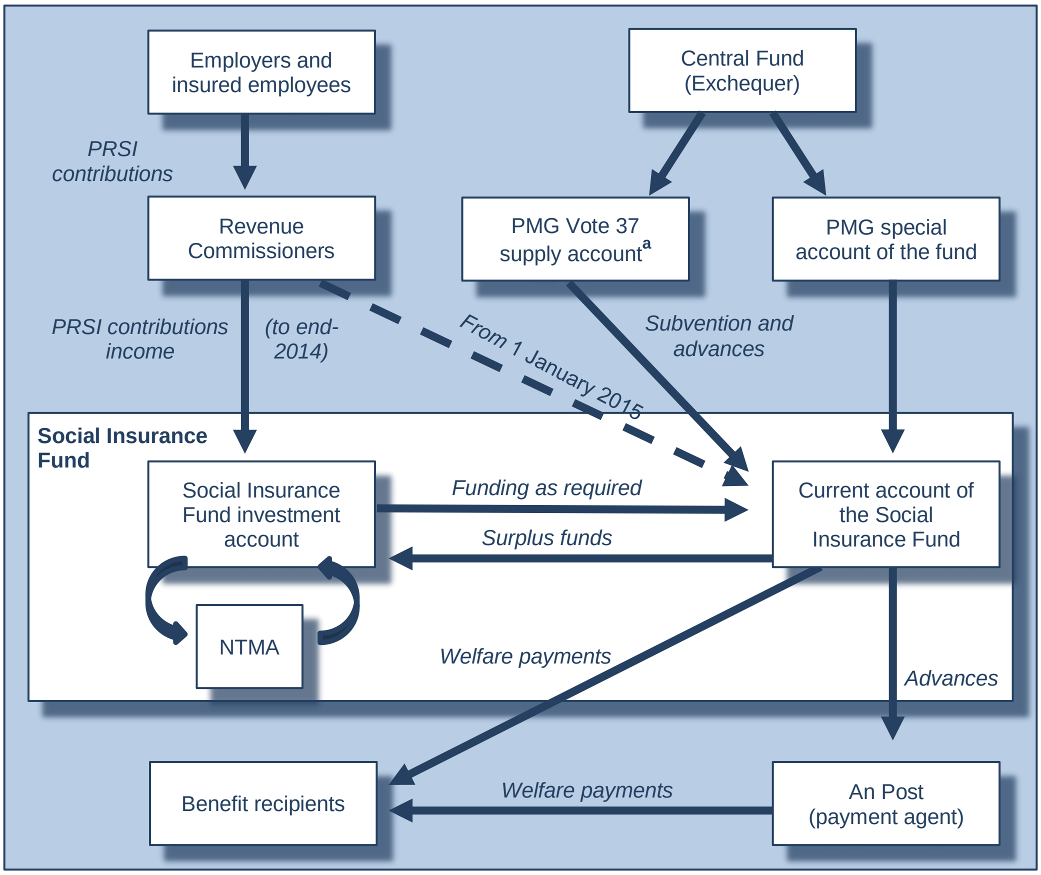
15.1 The Social Insurance Fund (SIF) was established under provisions of the Social Welfare Act 1952. It provides benefits and entitlements to a range of insured persons, funded through pay related social insurance (PRSI) contributions. Where there are insufficient funds from contributions, the deficit can be made good from the Vote of the Department of Social Protection (the Department). The main legislative provisions in relation to the operation of the SIF are now set out in the Social Welfare Consolidation Act 2005.

15.2 Under the terms of the 2005 Act, the resources of the SIF are held in

- a current account, managed by the Minister for Social Protection, and
- an investment account, managed and controlled by the Minister for Finance, that is held in the Central Bank.

15.3 The 2005 Act provides for the receipt of contributions to the SIF into either the investment account or the current account (see Figure 15.1). It also requires surplus funds in the current account to be transferred to the investment account, to allow resources not required for current expenditure to be invested.

Figure 15.1 Funding of the Social Insurance Fund



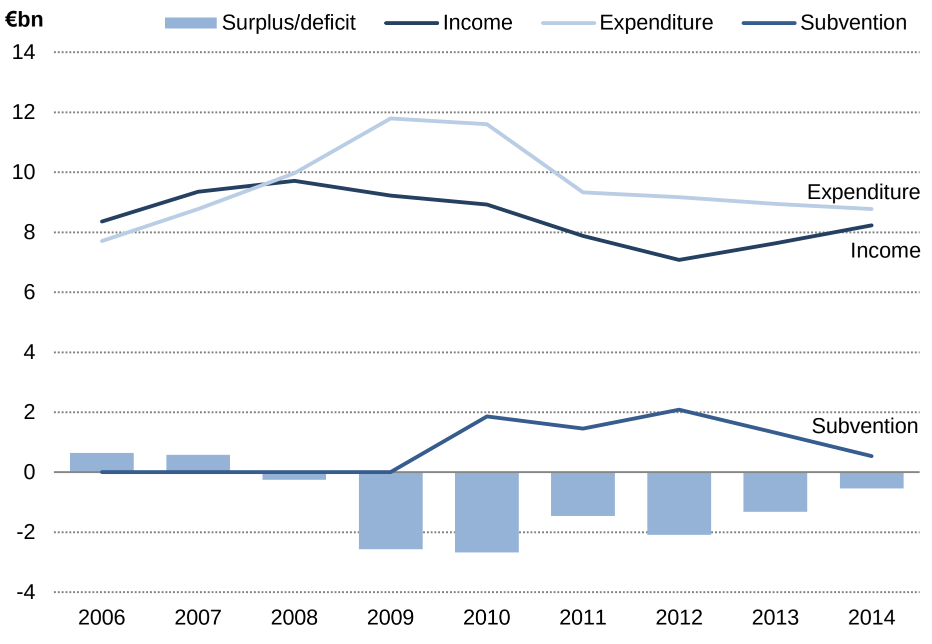
Note: a The PMG Vote supply account acts as a bank account of the Department. Funding is provided by the Exchequer to the PMG account in respect of the services set out in the Department's annual estimate.

15.4 PRSI contributions collected by the Revenue Commissioners were paid into the SIF investment account up to the end of 2014. From 1 January 2015, PRSI contributions income is remitted directly to the current account of the SIF, a commercial bank account controlled by the Department. This change was implemented to avoid a negative interest charge imposed by the European Central Bank in 2014 on certain deposits held within central banks.

Exchequer Subventions

15.5 Since 2008, PRSI contributions received have been insufficient to meet the expenditure of the Fund. Accumulated surpluses held in the investment account were initially used to fund the deficit, but since 2010 the Vote has met the shortfall by way of an annual subvention.[1]

Figure 15.2 Social Insurance Fund Surplus/Deficit, 2006 to 2014



Source: Social Insurance Fund Financial Statements 2006 to 2014

Note: The surplus/deficit shown above does not take into account the movement of balances relating to Health Contributions and the National Training Fund.

15.6 Exchequer contributions to the SIF were not required over the period 1997 to 2007 inclusive, when social insurance income exceeded expenditure. In 2008, the current operating balance of the SIF moved into deficit with expenditure exceeding income by €255 million. This deficit accelerated in 2009 when it reached €2.49 billion and further rose to €2.75 billion in 2010. Since then, an annual subvention has been required. This peaked in 2012. In 2008 and 2009, the deficit was covered by accumulated reserves (held in the investment account) and no subvention was required. The deficit in 2010 was partially offset against the remaining reserves of €890 million. Since then, the State subvention has matched the amount of the deficit. The subvention estimate for 2015 is €180 million.

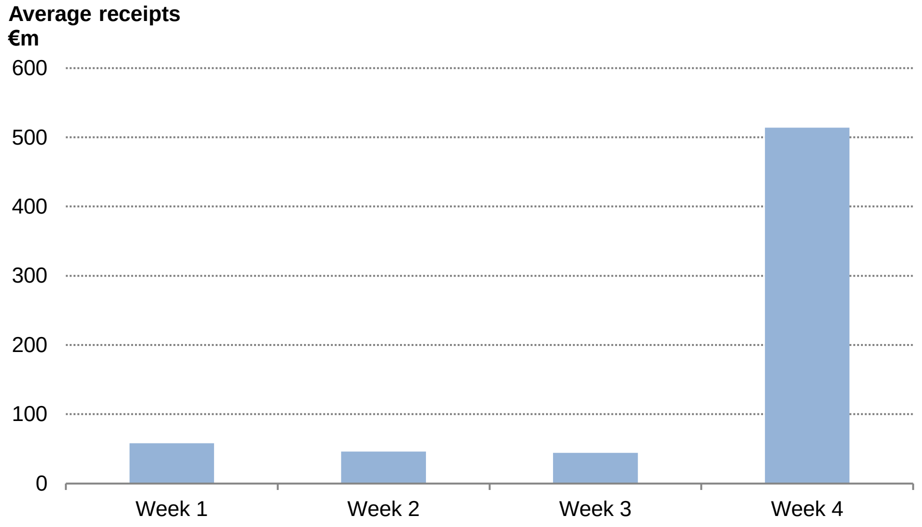
1 The subvention amount for the year is the difference between SIF income and expenditure.

The Need for a Temporary Funding Facility

15.7 SIF expenditure is spread throughout the month, whereas PRSI income is mostly received in the latter days of each month. Without any accumulated reserve to draw on to meet expenditure as it arises, this timing difference gives rise to a temporary cash flow requirement for the SIF.

15.8 A review of PRSI remittances indicated that almost 60% of the total PRSI contributions from the Revenue Commissioners in 2011 were received into the SIF within the last five working days of each month. This increased to 75% of PRSI receipts in 2014 (see Figure 15.3).

Figure 15.3 Timing of PRSI income flows, average amount per week of the month, 2014



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

15.9 From mid-2010, monthly periodic advances from the Department's PMG supply account were used to bridge the cash flow deficit. (Such advances were also used in the period 1953 to 1996 when the SIF was also in receipt of subvention.) In December 2010, the Department of Finance noted that the advances paid to the SIF had caused an over-issue of €110 million on the PMG supply account.[1] Further over-issues arose in 2011 and 2014.

Exchequer Advances

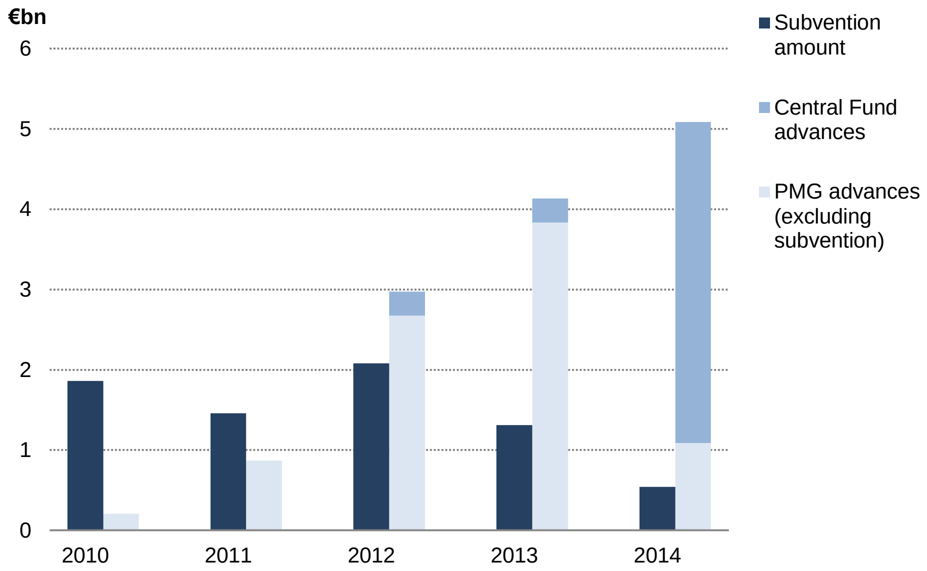
15.10 Section 18 of the Social Welfare and Pensions Act 2012 provides for a new special account of the SIF to hold advances as a source to provide money to the current account of the SIF when the current balance is insufficient to meet sums payable.

15.11 The first drawdown of direct funding from the Exchequer amounted to €300 million in December 2012. This was fully repaid prior to year-end 2012.

1 An over-issue occurs when the amount issued by the Exchequer exceeds the recorded spend by all Departments at month-end.

15.12 From January 2012, the SIF began repaying PMG advances on a monthly basis in an attempt to avoid further over-issues on the PMG supply account. This had the effect of increasing the overall level of advances drawn down in 2012 and subsequent periods. Figure 15.4 shows that recourse by the Department for temporary advances has grown while the subvention required has decreased since 2012. A review of daily cash balances did not indicate excessive drawdown of advances by the Department.

Figure 15.4 Advances and annual subvention charge, 2010 to 2014



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

15.13 Notwithstanding the provisions of Section 18 of the 2012 Act, the Department continued to utilise both streams of funding – advances from the PMG account and the Exchequer – to fund temporary cash flow deficits on the SIF.

15.14 In 2014, the total draw down of €4 billion from the Exchequer for cash flow purposes, together with the 2013 balance carried over of €15 million, was repaid by the SIF.

Views of the Accounting Officer

15.15 The loan facility provided for by Section 18 of the 2012 Act was introduced to assist in the compliance with government accounting rules in order to reduce the risk of over-issues on the PMG supply account. In the absence of direct Exchequer funding, an over-issue may arise principally as a result from the change in pattern of payment methods over the past decade, from manual payments (cheques and payable orders), to electronic pre-funded payments which is now the norm for social welfare scheme expenditure.

15.16 Since the introduction of Section 18, the Department has used this legislative provision to avail of cash flow funding, initially at the year end and now more frequently on a monthly basis, on foot of agreement with the Department of Finance and the Department of Public Expenditure and Reform. The use of direct Exchequer funding has significantly reduced the need to take subvention advances which still remain necessary. Both funding streams are Exchequer neutral from a State funding cost and general government perspective.

Conclusion

15.17 Subvention from the Vote is expected to decrease in 2015 to €180 million as set out in the 2015 revised estimates volume. However, the cash flow timing issues facing the SIF are likely to persist until a substantial surplus of contributions builds up.

15.18 The statutory provision for Exchequer advances to assist with SIF cash flow deficits allows for a clear and transparent drawdown of funding, and should alleviate the necessity to rely on advances from the Department of Social Protection for cash flow purposes.

16 Regularity of Social Welfare Payments

16.1 The Department of Social Protection (the Department) is required to ensure that the expenditure it incurs has been applied for the purposes for which the money was made available by Dáil Éireann, and that 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.

16.2 I have referred in my audit certificates on the 2014 Appropriation Account for Vote 37 and the 2014 Account of the Social Insurance Fund to the level of irregularity of scheme payments, which I consider to be material in the context of each account.

16.3 Payments in excess of entitlement under the terms of welfare schemes are 'irregular'. Such payments can arise due to

- claimant fraud – where the claimant intentionally provides incomplete or inaccurate information in order to receive benefits, or deliberately fails to inform the Department of relevant changes in circumstances
- claimant error – which arises when the claimant has provided inaccurate or incomplete information, or failed to report a relevant change in circumstances (such as an increase in means or a change in medical condition), but there is no clear fraudulent intent on the claimant's part
- departmental or administrative error – where benefits are paid incorrectly due to inaction, delay or mistakes made by the Department's staff.[1]

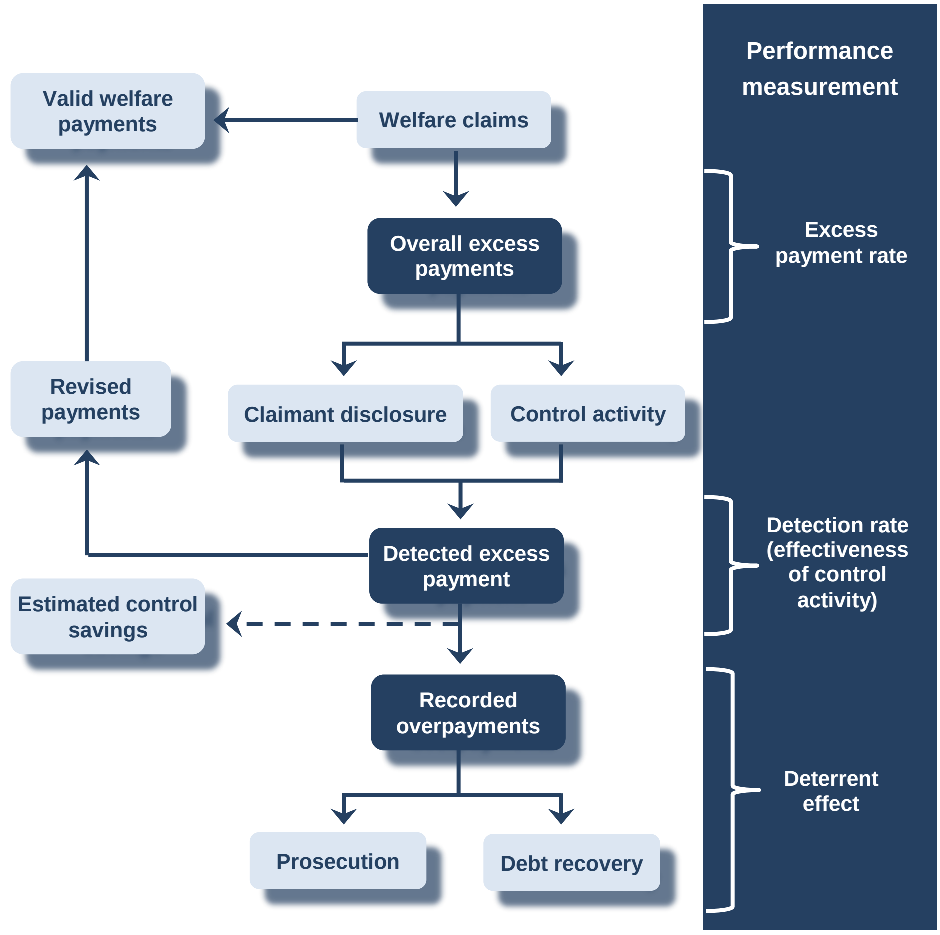
16.4 Where excess payments arise, the Department's objective is to promptly identify the excess payment and adjust the payment level accordingly. Where a deciding officer determines that an overpayment has occurred, the Department seeks to recover the overpayment from the claimant.

16.5 The Department's performance in managing the risk of excess payment can usefully be considered from three perspectives, as outlined in Figure 16.1,

- the overall level of excess payments across welfare schemes,
- the success of the Department in detecting cases of excess payment, relative to the underlying problem,
- the deterrent effect of the Department's response to cases of excess payment it detects, including recovery of overpayments.

1 In some cases, claimant and departmental error can also result in claimants receiving less than they are entitled to.

Figure 16.1 Managing and measuring excess welfare payments



Source: Office of the Comptroller and Auditor General

‘Fraud and Error’ Surveys

16.6 The Department undertakes fraud and error surveys of social welfare schemes. These are point-in-time measurements of fraud and error in schemes. The surveys involve reviews of a random sample of claims in payment to establish if the claimants are entitled to the payments they are receiving and if so, whether the correct amounts are being paid. The surveys assist the Department in identifying scheme risks and the need for any changes to the control measures in place.

16.7 The Department set out its programme of fraud and error surveys to be carried out over the next five years in its Compliance and Anti-Fraud Strategy 2014 – 2018 which was published in April 2014. Since then, it has reviewed and revised the schedule. The complete schedule of planned surveys (as at September 2015) is set out at Annex A.

Estimates of Payments in Excess of Entitlement

16.8 Because fraud and error surveys are focused on randomly selected claims in payment, the survey results provide a basis for estimating the underlying level of payments in excess of entitlement for each scheme surveyed.

16.9 Figure 16.2 sets out estimates of the scale of excess payments identified for schemes where surveys have been carried out.

Figure 16.2 Estimated level of excess payments in surveyed schemes

Account and scheme	Year of survey[a]	Estimated level of excess payments		Scheme cost 2014
		Scheme[b]	Department[c]	€m
Vote schemes				
Rent Supplement	2013	6.0%	5.0%	338
Child Benefit	2012	0.5%	0.5%	1,902
Jobseeker's Allowance	2012	4.6%	3.1%	2,923
One-Parent Family Payment	2011	7.1%	2.7%	867
Disability Allowance	2010	18.4%[d]	4.1%[d]	1,238
State Pension (non-contributory)	2007	1.9%	n/a	954
Family Income Supplement	2005	3.3%	n/a	298
Social Insurance Fund schemes				
Illness Benefit	2014	13.3%[d]	5.9%[d]	626
Invalidity Pension	2014	2.8%[d]	1.5%[d]	652
Widows'/Widowers'/Surviving Civil Partners' Contributory Pension	2013	0.8%	0.7%	1,370
Jobseeker's Benefit	2011	2.5%	1.6%	420
State Pension (contributory/transition)	2008	1.1%	n/a	4,259

Source: Department of Social Protection

Notes:
a Base year for latest scheme survey. More than one survey has been undertaken for some schemes.
b Includes cases which were subsequently successfully appealed.
c Net loss to welfare system taking account of cases where disallowed scheme claims are succeeded by claims/dependent payments on other schemes or where appeals are successful. The survey reports do not disaggregate these two categories.
d Includes cases deemed medically ineligible.

16.10 Welfare schemes are funded through the Vote for Social Protection and the Social Insurance Fund (SIF). Vote funded schemes are mainly in the nature of social assistance, often based on means tests. SIF schemes are based on social insurance, where eligibility is dependent on the level of the claimant's PRSI contributions. The nature of schemes and their eligibility criteria affects the potential for excess payments to arise.

Vote Funded Schemes

16.11 There is wide variation in the level of excess payments found by surveys of Vote funded schemes. Apart from child benefit which is a universal payment (i.e. not means-tested), the estimates range from 1.9% of scheme expenditure in the case of the non-contributory State pension to 18.4% for the disability allowance scheme (including medical ineligibility). Surveys in more recent years include an adjustment to the estimate to take account of cases successfully appealed or found to be ineligible for the scheme surveyed but entitled to a payment under another scheme, either as the claimant or as another claimant's dependant. In the case of the disability allowance scheme, this adjustment reduces the estimate to a net excess payment rate of 4.1%.

16.12 The surveyed Vote schemes account for €8.5 billion of 2014 expenditure. The extent of fraud and error in schemes that have never been surveyed and which account for a further €2.5 billion of expenditure, is not known.

SIF Funded Schemes

16.13 There is also variation in the level of excess payment in the SIF schemes surveyed. Estimates range from 0.8% for widows'/widowers'/surviving civil partners' contributory pension to 13.3% for illness benefit (including medical ineligibility). The surveyed SIF schemes with estimated levels of excess payments over 1% of expenditure accounted for 73% of the €8.2 billion SIF scheme expenditure in 2014.

Medical Ineligibility

16.14 Medical eligibility is a key qualifying criterion for payment under certain welfare schemes. For example,

- claimants of disability allowance must be suffering from an injury, disease or physical or mental disability that has continued or may be expected to continue for at least one year,
- claimants of illness benefit must be unable to work due to illness or injury – weekly or monthly certification of their continuing inability to work must be provided to the Department by their G.P. and a final medical certificate must be provided to the Department before they return to work, at which point payment ceases,
- claimants of invalidity pension must be permanently incapable of work, or have been incapable of work for at least 12 months and be likely to be incapable for work for at least a further 12 months.

16.15 Because the medical condition of a welfare claimant can change over time, a question arises as to whether a conclusion of medical ineligibility as a result of a medical review can be categorised as fraud or error.

16.16 The rates of excess payment noted in Figure 16.2 for the disability allowance, illness benefit and invalidity pension schemes include medical ineligibility rates of 15.3%, 12.9% and 2.3% respectively. Had medically ineligible cases been excluded, the scheme excess payment rates would have been 3.1% in the case of disability allowance, 0.4% in the case of illness benefit and 0.5% in the case of invalidity pension. The Department excess payment rates would have been 2.1% in the case of disability allowance, 0.3% in the case of illness benefit and 0.5% in the case of invalidity pension.

16.17 The Department does not consider that a review finding that a claimant is medically ineligible necessarily constitutes a payment error or fraud. The Department considers that up to the point of medical review, the payment is supported by previous medical evidence. In its view, the change found on medical review does not reflect a payment error by the Department or the customer as both were acting in good faith, supported by medical evidence up to this point.

16.18 While improvements in medical condition can result in a claimant losing entitlement to a welfare payment, the identification of such cases as a consequence of an entitlement review indicates the existence of a payment in excess of entitlement which should be included in the estimation of excess payment levels.

Latest Survey Results

16.19 The Department has completed fraud and error surveys of two schemes in 2015 – illness benefit and invalidity pension. Both surveys had originally been scheduled for 2013. An analysis of the results of those surveys is set out in Figure 16.3 below.

16.20 Because the results of the surveys only became available in August 2015, it was not possible to audit the survey process before completion of this report. The survey reports will be audited against relevant criteria and the results reported in due course.

Figure 16.3 Estimated level of payments in excess of entitlement, illness benefit and invalidity pension, August 2015

	Percentage of claim payments found to be in excess of entitlement		
	Scheme rate	**Reinstated or transferred claims**	**Net department rate**
Illness benefit			
Due to fraud	0.3%	–	0.3%
Due to error			
– *Department* [a]	–	–	–
– *Claimant*	0.1%	0.1%	–
Due to medical ineligibility [b]	12.9%	7.3%	5.6%
Total	**13.3%**	**7.4%**	**5.9%**
Invalidity pension			
Due to fraud	0.1%	–	0.1%
Due to error			
– *Department* [c]	–	–	–
– *Claimant*	0.4%	–	0.4%
Due to medical ineligibility [b]	2.3%	1.3%	1.0%
Total	**2.8%**	**1.3%**	**1.5%**

Source: Fraud and Error Survey Reports, Department of Social Protection, August 2015

Notes:
a Overpayments and underpayments were netted against each other in arriving at the overall rate of departmental error, thereby cancelling each other out in the case of the illness benefit scheme. The rate in each case was very low (0.05%).

b A sub-sample of 300 cases was selected for medical review out of the total survey sample of 1,000 cases.

c Department errors resulted in overpayments of 0.01% in the case of the invalidity pension scheme. There were no underpayments identified in the survey.

Illness Benefit

16.21 Illness benefit is a short-term weekly payment to people who cannot work because of illness or injury and are covered by social insurance (PRSI). A person may qualify for illness benefit if they

- are unable to work due to illness
- satisfy the PRSI contribution conditions and
- are under 66 years of age.

Medical eligibility is therefore a key criterion for payment eligibility under the scheme.

16.22 At the end of 2014, there were 57,024 recipients of illness benefit. Expenditure in 2014 amounted to €626 million. While some claims may continue for an extended period (maximum two years), there is a high level of turnover on the scheme. In the period January to August 2015, an average of around 11,000 cases closed each month.

16.23 A random sample of 1,000 claims in payment in the last week of November 2014 was selected for review as part of the fraud and error survey. A sub-sample of 300 of these cases was then randomly selected for medical assessment. Overall, the survey took about nine months to complete. This was a significant improvement on the timeframe taken to complete the last survey involving medical review (the disability allowance scheme) which took 22 months to complete.

16.24 The extent of excess payment identified by the survey represented 13.3% of expenditure, including a medical ineligibility rate of 12.9%.

16.25 When account is taken of cases successfully appealed or transferred to other social welfare schemes, the net rate of excess payment in the latest survey is 5.9%.

16.26 Based on the survey results, the Department estimated that the weekly gross amount of excess payment in the illness benefit scheme was €1.5 million.[1]

16.27 In all fraud and error surveys, there may be instances where cases selected for review have to be excluded, such as where a person has died or the social welfare inspector has been unable to review the case. Where a significant number of such cases arise, oversampling may be used.

1 The confidence interval ranges were calculated separately – €5,000 to €103,000 for fraud and error and €1 million to €1.9 million for medically ineligible cases.

16.28 Of the 1,000 surveyed cases, 190 (including 69 cases selected for medical review) were classified as 'normal movement' cases. These mainly comprised cases where claimants had left the scheme (medical eligibility or benefit entitlement expired) or had moved to other schemes after the sampling selection date. The classification of cases as 'normal movement' introduces an element of ambiguity into the survey process. For example

- the welfare payment rates changed for 121 of the 190 cases, but this was considered as resulting from 'normal movement', and not due to any fraud or error. Seventy of these provided final medical certificates from their certifying doctor and the Department is satisfied that they were medically eligible up to that point in time
- eight cases that had rate changes and remained in payment under the scheme, were considered 'normal movement' based on the routine provision of information by the claimant
- 13 cases failed to return the required IBFE3 review form issued to them as part of the survey process. These cases were treated as 'normal movement' even though they were not reviewed.

16.29 Apart from the 'normal movement' cases, there were 52 cases in total of suspected fraud, error or medical ineligibility (four fraud, two customer error, five departmental error and 41 medically ineligible). When account is taken of cases successfully appealed or transferred to other social welfare schemes, the net number of cases with payment errors was 29.[1]

Invalidity Pension

16.30 Invalidity pension is a payment for insured people who cannot work because of a long-term illness or disability. To qualify, a person must satisfy both social insurance (PRSI) and medical conditions.

16.31 Expenditure on invalidity pension in 2014 amounted to €652 million and at the end of 2014, there were some 54,223 recipients.

16.32 A random sample of 1,000 claims in payment in the last week of November 2014 was selected for review as part of the fraud and error survey process. A sub-sample of 300 of these cases was then randomly selected for medical assessment. The survey took about eight months to complete. It was carried out concurrently with the illness benefit survey.

16.33 The gross rate of excess payment identified by the survey was 2.8% of expenditure. This included a medical ineligibility rate of 2.3%. When account is taken of cases successfully appealed or transfers to other social welfare schemes, the net rate of excess payment is 1.5%. This was the first survey to be undertaken on the invalidity pension scheme.

16.34 Based on the survey results, the Department estimated that the weekly gross amount of excess payment in the invalidity pension scheme was €348,000.[2]

1 Eight appeal cases were still under consideration at the report finalisation date. Following an examination of each case, the Department, for the purpose of the survey, classified six of the eight cases as likely to be restored to payment on appeal and the remaining two as likely to have their initial ineligibility determination confirmed. These two cases are included in the figures given here.

2 The confidence interval ranges were calculated separately – €28,000 to €96,000 for fraud and error and €70,000 to €503,000 for medical ineligibility.

16.35 Of the 1,000 cases reviewed, 15 (including six selected for medical review) were classified as ‘normal movement’ cases. These mainly comprised cases where claimants had left the scheme after the sampling date (e.g. transferred to other social welfare schemes such as State pension at age 66, or had died). These cases were treated as ‘no change’ cases for the purpose of the survey and included in the overall calculation of fraud and error rates. Because the numbers were low in this instance, this is unlikely to have impacted significantly on the excess payment calculation.

16.36 Overall, the Department identified 39 cases of suspected fraud, error or medical ineligibility (eight fraud, 23 customer error, one departmental error and seven medically ineligible). In addition to the medically ineligible cases, in general, the issues related to the payment of additional allowances to which claimants were not entitled (e.g. the means-tested payment for qualified adults or the means-tested free fuel allowance or living alone allowance).

16.37 The Department identified that the variables with the strongest influence on the likelihood of a case involving excess payments were

- the claimant’s family circumstances – whether the claimant was in receipt of additional allowances in respect of qualified adult dependants
- the claimant’s location – claimants with an address in Dublin had a somewhat higher probability of excess payments compared to claimants in other counties.

Conclusions and Recommendations

16.38 The surveys commenced in 2014 were completed more expeditiously than previous surveys. This is likely to have improved the reliability of the survey results.

16.39 The requirement to establish medical eligibility for certain scheme payments complicates the interpretation of review results. The medical condition of claimants can change, especially in the high turnover, illness benefit scheme. Around 19% of the sample selected for the survey of that scheme had subsequent rate changes or left the scheme, these were treated as ‘normal movement’ – and not classified as payment errors. However, a significant number of cases, accounting for 12.9% of welfare expenditure for the sample, were found not to satisfy the medical eligibility criterion and had their payments stopped. After appeals and establishment of entitlement to payments under other schemes, the rate of medical ineligibility in illness benefit was found to be 5.6% of sample expenditure. The corresponding values for invalidity pension were 2.3% and 1%. While in some cases this may indicate a genuine change in medical circumstances over time, in other instances it could be reflective of a lack of timely medical review, which is a key control in schemes based on medical eligibility.

16.40 A previous report on invalidity pension identified a need to ensure that a medical review status was assigned to all cases (indicating if a review should be carried out in the future and if so, when that review should take place) and that as far as possible medical reviews be carried out as scheduled.[1] At that time the Department indicated that it was conscious of the need to increase its capacity to carry out medical control reviews.

1 Chapter 20, Report on the Accounts of the Public Services 2012

Recommendation 16.1

Given the survey findings in respect of the incidence of medical ineligibility for scheme payments, the Department should reconsider whether the controls currently in place in respect of those schemes are adequate and seek to address any deficiencies that exist in its capacity to carry out medical control reviews.

Accounting Officer's response

Agreed. The Department carries out control reviews on medical eligibility in all the relevant schemes in accordance with each scheme's risk policy and the capacity available to carry out those reviews. In the case of illness benefit, each payment is supported by weekly or monthly certification by a qualified medical doctor. In the case of invalidity pension, there is a significant medical eligibility test prior to awarding the payment as it is considered a long-term medical payment.

Control reviews of medical eligibility involve a significant investment of resources in the forms of deciding officers, medical assessors and appeals officers and also in the area of payment to client doctors for the completion of necessary medical/diagnostic reports, etc. These reviews also tend to take a considerable length of time from start to finish.

Since 2012, the numbers of new claims for long-term disability and caring schemes has increased. For instance, disability allowance is receiving 37% more new claims per week in 2015 than was the case in 2012. The numbers in receipt of medical eligibility schemes has also increased over the period, for example, 14% in disability allowance and domiciliary care allowance schemes, 18% in the case of carer's allowance and 10% in the invalidity pension scheme.

It is an ongoing challenge for the Department to maintain current numbers of medical assessors and it is proving extremely difficult to recruit and retain replacement or additional medical assessors. A medical assessor recruitment competition was completed by the Public Appointments Service earlier this year and assignments are currently being made. A further recruitment competition will be held in 2016. Furthermore, the Department is in the process of seeking tenders from external agencies for the supply of suitably qualified medical assessors (doctors and nurses) on an 'as required' basis. It is hoped that a contract for such services will be in place in the first quarter of 2016.

To enhance its medical control procedures, the Department has also undertaken a number of initiatives aimed at the medical profession (mainly general practitioners) through bodies such as the Irish Medical Organisation and the Irish College of General Practitioners. These are in the areas of guideline provision and education about the Department's schemes and their conditionality. This additional information highlights the efforts that the Department is making to maintain appropriate, cost-effective and risk-based control measures in relation to its schemes with medical eligibility conditions in an extremely challenging resource environment.

Annex A Schedule of fraud and error surveys, 2015 to 2018[a]

Planned survey timing		Scheme	Previous survey year
Commence	Completion		
Q4 2015	Q2 2016	Farm Assist	–
Q4 2015	Q2 2016	Household Benefits Package	–
Q4 2015	Q2 2016	Family Income Supplement	2005
Q1 2016	Q4 2016	State Pension (contributory)	2008
Q1 2016	Q2 2017	Carer’s Allowance	–
Q3 2016	Q3 2017	Supplementary Welfare Allowance	–
Q1 2017	Q4 2017	Back to Work Enterprise Allowance	–
Q1 2017	Q1 2018	State Pension (non-contributory)	2007
Q4 2017	Q1 2019	Disability Allowance	2010
Q1 2018	Q2 2019	One-Parent Family Payment	2011

Source: Department of Social Protection

Note: a As planned at September 2015.

17 Irregularities in School Meals Scheme Payments

17.1 The Department of Social Protection (the Department) provides funding towards the provision of meals for disadvantaged school children through two schemes

- the statutory urban school meals scheme, and
- the non-statutory school meals (local projects) scheme.

17.2 Payment irregularities have been discovered in a number of organisations participating in the non-statutory scheme.

Background

17.3 The statutory scheme is administered and operated by local authorities, and provides meals to primary schools only. The Department has stated that it accepts the recommendations of local authorities for the inclusion of schools in the statutory scheme and reimburses the local authority up to 50% of the food costs.

17.4 The non-statutory scheme was introduced in 2000 to assist school meals projects operating outside the statutory scheme and is financed in full by the Department. It provides funding directly to primary and post-primary schools, local groups and voluntary organisations, which operate their own school meals projects. It was extended in 2004 to include not-for-profit groups, non-commercial crèches and pre-schools. The scheme does not apply to commercial undertakings.

17.5 Any school can apply to participate in the relevant scheme. This includes schools participating in the Department of Education and Skills' DEIS (Delivering Equality of Opportunity in Schools) programme, which focuses on addressing the educational needs of children and young people from disadvantaged communities.[1]

17.6 A participating organisation can be a stand alone school, or a school completion programme, or represent multiple schools or entities. There were 1,081 participating organisations approved for funding for the 2013/14 school year, covering 1,128 schools and 181 other bodies (pre-schools, non-commercial crèches or not-for-profit groups). Figure 17.1 shows the funding and type of participating organisations for the 2013/14 school year.

1 The DEIS framework is currently under review by the Department of Education and Skills.

Figure 17.1 Funding and organisation type 2013/14 school year

Type of organisation	No. of organisations	Funding	Average funding per organisation
		€000	€
DEIS organisations	591	19,704	33,300
Non-DEIS organisations	132	3,031	23,000
Special school organisations	57	772	13,500
Pre-schools and NFP organisations	150	1,943	13,000
Multi-entity organisation	151	6,596	43,700
Total	**1,081**	**32,046**	**29,600**

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

Note: €0.97m was allocated under the statutory scheme in the 2014 financial year to 346 schools participating in the scheme. Average funding per school was €2,800.

Scheme Objectives

17.7 The objective of the non-statutory scheme is to provide regular, nutritious food to children who are unable, due to lack of good quality food, to take full advantage of the education provided for them. Funding is intended to target disadvantaged children or children with special needs, and is strictly for food items only.

17.8 The type and range of meals provided, as well as the method and logistics of supplying the meals, are decided by the participating organisations. Administration costs must be borne by the participating organisation.

17.9 The Department has no guidelines in place as to how disadvantaged children should be identified in non-DEIS schools – it is left to the discretion of the principal. Neither the Department nor the Department of Education and Skills have indicated how such children should be identified, or how the programme should target them.

17.10 The Accounting Officer stated that the Department, in consultation with the Department of Education and Skills, consider that in the context of the scheme, school principals are best placed to determine the needs of pupils.

17.11 Funding under the scheme is based on a rate per child per day, depending on the type of meal being provided. The current maximum rates are €0.60 for a breakfast or snack, €1.40 for a lunch or light meal and €1.90 for a dinner or hot meal.

17.12 Due to budget restrictions, funding allocations to existing organisations for a school year cannot exceed the level of funding provided in the previous school year. From 2008, the scheme was restricted, only allowing funding to new applicants that were designated as DEIS.

17.13 Access to the school meals programme is available to all types of DEIS schools (primary urban/rural and post-primary). All children attending a DEIS school are eligible to participate in the scheme, irrespective of whether they are disadvantaged or not. DEIS schools receive a range of other funding supports not related to the provision of student meals, from the Department of Education and Skills and Tusla.[1]

1 Tusla is the Child and Family Support Agency.

Figure 17.2 Breakdown of DEIS schools and those participating in the school meals (local project) scheme, 2009/10 to 2013/14

School year	Total no of DEIS schools	DEIS schools in the scheme	% participating
2013/14	850	733	86%
2012/13	860	676	79%
2011/12	866	659	76%
2010/11	877	672	77%
2009/10	878	592	67%

Source: Department of Education and Skills and the Department of Social Protection – analysis by the Office of the Comptroller and Auditor General.

Allocation of Funding

17.14 At application stage, organisations state average numbers expected to participate in the scheme on a daily basis. At year-end, the organisation submits an income and expenditure report setting out the total expenditure by month and the income received from all sources, including the school meals scheme. The report does not require declaration of the actual numbers that participated in the scheme, and there is no procedure undertaken by the Department to reconcile the numbers applied for against the numbers that actually participated. Neither the application form nor the income and expenditure report requires total school enrolment numbers to be stated.

17.15 Figure 17.3 sets out the funding provided for the number of pupils applied for, together with surplus funds on hand in funded organisations at the end of each school year.

Figure 17.3 School meals scheme expenditure by school year, 2009/10 to 2013/14

School Year	Number of pupils applied for	Total	Reported surplus funds
		€m	€m
2013/14	151,292	32.0	1.9
2012/13	146,981	30.1	2.2
2011/12	136,884	29.7	3.4
2010/11	135,243	29.9	4.5
2009/10	144,582	31.5	3.8

Source: Department of Social Protection

17.16 Funds unspent at the end of the school year were in excess of 10% of the funding provided each year from 2009/10 to 2011/12. The surplus at the end of the 2013/14 year was 6% of the funding provided. Surpluses are offset against funding allocations for the following school year.

Payment Irregularities

17.17 The internal audit unit (the IAU) of the Department commenced audits of the scheme payments in 2008, initially examining three schools. After information came to its attention from another source, it expanded the audit to investigate another school in 2011 due to concerns around inflated pupil numbers and inflated supplier costs. It discovered irregularities of around €802,000 in two schools.

17.18 The Department expanded its examination of the scheme by requesting the IAU to audit a number of other schools. In 2011, the IAU audited 11 schools and in one case, irregularities involving an amount of over €102,000 were detected and referred to An Garda Síochána.

17.19 In addition, information was made available from the Department of Education and Skills in 2011 in relation to one school, concerning allegations of false returns under the scheme. It was concluded that an irregularity of €57,713 had occurred in relation to school meals.

17.20 On foot of the irregularities identified, the Department rolled out an inspection programme in 2012. Prior to the commencement of an inspection in a school as part of the 2013 inspection programme, suspected fraudulent activity relating to funding the school received under the school meals scheme, was reported to the Department. Another case of payment irregularity was disclosed to the Department by a school on foot of an inspection in 2013, where the number of pupils and the amount spent on food had been overstated.

17.21 Summaries of the six irregularity cases are presented in Figure 17.4.

Figure 17.4 Summary of serious irregularity cases

	Case 1	**Case 2**	**Case 3**	**Case 4**	**Case 5**	**Case 6**
Year identified	**2011**	**2011**	**2011**	**2011**	**2013**	**2013**
Value	**€**	**€**	**€**	**€**	**€**	**€**
Total overpayment	398,871	402,873	102,441	57,713	73,320	368,727
Less direct repayments	–	164,666	102,441	57,713	–	368,727
Less offsets	130,299	108,873	–	–	–	–
Balance due at end of 2013/14 school year	**268,572**	**129,334**	**–**	**–**	**73,320**	**–**
How the overpayment arose						
Inflated pupil numbers/false returns	✓		✓	✓	✓	✓
Expenditure on non-food items	✓	✓	✓			
Failure to disclose income from other sources/surpluses	✓		✓			
Inadequate records of participants and/or supplies	✓	✓		✓		
Status of case						
Reported to An Garda Síochána	✓	✓	✓	✓	✓	✗
Prosecution sought	✗	✗	✗	✗	✓	✗
Still participating in the scheme	✓	✓	✗	✓	✗	✗
Current status	Under review	Under review	Case closed	Case closed	Court case pending	Case closed

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

17.22 Schools have been allowed ‘run down’ overpayments by continuing to pay for the school meals scheme in their schools through their own resources without annual funding from the Department. In doing so, the Department seeks to maintain a balance between continuing to provide a service to children in need of support, and recovery of excess payments.

17.23 The Department does not record identified irregular payments or overpayments on its systems. Where applicable, the Department manually deducts the overpayment against subsequent claims. In the cases in Figure 17.4 where overpayments remained to be recovered at the end of the 2013/14 school year (cases 1, 2 and 5), the progress in recovering the overpayments is as follows.

- In Case 1, annual recoveries by way of offset are around €26,000. Based on this rate, it could take up to ten years to recover the overpayment in full.
- In Case 2, the school received funding of €40,000 in both the 2013/14 and 2014/15 school years despite still owing a significant balance to the Department.
- In Case 5, no recovery has been sought by the Department as a court hearing is pending.

17.24 The Accounting Officer stated that there is a balance to be maintained by the Department in terms of restricting payments to schools and continuing to provide a service for the children therein.

- In relation to Case 1, a recovery plan is in place based on the ability of the school to pay while ensuring that the service continues to be provided. The Department has sought lump sum refunds from the school which have not materialised due to insufficient funds.
- In relation to Case 2, a recovery plan is in place with the school which is being adhered to. A substantial lump sum repayment of €100,000 was made by the school to the Department, in addition to annual repayments of over €32,000 over a six-year period from September 2013.

Department of Social Protection Inspection Programme

17.25 The inspection programme commenced by the Department in 2012 consists of on-site inspections in a random sample of participating organisations to verify that the scheme rules are being adhered to.

17.26 The Department relies on the inspection programme to confirm that funding provided to participating organisations has been spent in accordance with the scheme's purpose and rules, as well as examining application forms and income and expenditure reports submitted by the organisations annually. In addition, participating organisations are requested to submit supporting documentation for one month when submitting their income and expenditure reports. The month is selected by the participating organisation and the Department carries out desk reviews of the documentation.

17.27 The Accounting Officer stated that the inspection programme, which commenced in 2012 and involves on-site visits by Social Welfare Inspectors, strengthens and supports the controls in place. These controls include an examination of the application form (required each year) which requires two signatories from the organisation, the provision of income and expenditure reports to verify expenditure and supporting documentation for one month in respect of the food purchased. The month is selected by the organisation and the Department carries out desk reviews of the documentation.

17.28 Figure 17.5 sets out a summary of the inspection activity. The inspections are retrospective. The inspection programme for the 2013/14 school year commenced in August 2015.

Figure 17.5 Rate of inspections and outcomes, 2010/11 to 2012/13

Reference year	2010/11	2011/12	2012/13
Total number of organisations in the scheme [a]	1,020	999	997
Total number of organisations inspected	60	105	81
Rate of inspections	5.8%	10.5%	8.1%
No. of reports completed	59	103	79
Outcome			
Serious issues [b]	1	1	–
Less serious issues [c]	7	7	17
Operating satisfactorily	51	95	62

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

Notes: a The number of individual schools inspected is higher, because some organisations provide services to a number of schools.

b Serious issues are those where there is a suspected fraud, or a significant error or irregularity.

c Less serious issues involve non-compliance with scheme rules or errors involving minor amounts.

Audit Examination

17.29 A review of payments to 23 organisations under the non-statutory scheme for the 2013/14 school year noted the following.

- Funding for subsequent academic years was issued without checks to determine whether there were prior year surpluses. In one case, the audit noted that the participating organisation had surplus funds of €50,000 in its bank account but the Department did not investigate the source of the funds prior to payment.
- For DEIS schools, there is an entitlement to claim for the full number enrolled, if all are availing of meals. A comparison of school enrolment numbers to actual numbers claimed found that in eight out of 20 DEIS schools, the numbers claimed and paid for were higher than the enrolment numbers. It is estimated that the total over-claimed by the schools was around €42,000, or 7.8% of the amount paid.
- Following an inspection, one school reduced the number of pupils being applied for by 9%. The number applied for fell from 340 in 2013/14 to 310 2014/15. As a proportion of total school enrolment, the percentage of pupils claimed for fell from 96% to 86%.

17.30 The Accounting Officer stated that

- in relation to the first case identified – based on reviewing the income and expenditure report which was signed off by the school principal, and the supporting invoices submitted, the Department was satisfied at the time of making payments that school meals funding was accounted for
- in relation to enrolment numbers in respect of eight cases, the average number of pupils provided on the application form in respect of seven of these cases was marginally higher (less than ten pupils) than the enrolment numbers. It can be difficult for schools to predict the take-up of school meals in advance due to changes in pupil admissions, student absences and school closures, due, for example, to inclement weather.

The allocation for all schools for the coming school year has been adjusted in line with the actual pupil numbers in the previous school year as published by the Department of Education and Skills other than in cases where there is a verifiable significant increase in school numbers.

Conclusions and Recommendations

17.31 There has never been an evaluation of the school meals scheme by the Department to determine the extent to which it is reaching disadvantaged children, or whether it is having a beneficial impact on those children, thereby enabling them to take full advantage of the education being provided. Furthermore, the Department has no guidelines in place as to how disadvantaged children should be identified in non-DEIS situations. The scheme allows all children in DEIS schools to avail of the subsidy, irrespective of their level of disadvantage.

Recommendation 17.1

The Department should evaluate the extent to which the non-statutory school meals scheme is achieving its objectives of providing regular, nutritious food to children who are unable, due to lack of good quality food, to take full advantage of the education provided to them, and achieving value for money. The Department should also consider the extent to which funding is targeted at disadvantaged children or children with special needs.

Accounting Officer's response

Part agreed. The Department agrees in principle that an evaluation should be undertaken to assess the extent to which the scheme is achieving its objectives while ensuring value for money. The Department will continue to review the guidelines regarding the type of food to be supplied and the value for money being achieved. Evaluation of educational outcomes is a matter for the Department of Education and Skills.

17.32 There are currently no checks undertaken by the Department on schools participating in both the statutory and non-statutory school meals schemes to ensure that there is no duplication in applying for funding. Furthermore, there are no checks in place to independently verify the number of pupils claimed for by organisations; participation numbers are checked during inspections, but no reconciliation between numbers claimed for and numbers participating is undertaken.

17.33 Information supplied on all forms submitted to the school meals section needs to be independently checked and verified. Currently, details of bank account balances, to confirm surpluses/deficits, are not required nor are details of the number of students that actually participated in the scheme. Income from other sources is made on a self-declaration basis. Only one month's receipts are reviewed by the school meals section, the choice of month being at the discretion of the organisation/school.

17.34 The school meals system is primarily administered on a manual basis with the support of a stand alone database. Overpayments, and the status thereof, are not recorded on any departmental IT system; therefore it is difficult for the Department to exercise adequate control over the amounts involved and their recoupment. Of the overpayments noted in the summary of irregular cases (see Figure 17.4), only three have been fully recouped. Recovery by offset in two cases is slow.

Recommendation 17.2

A review of controls over the scheme, including risk assessment, should be undertaken. The Department should seek supporting documentation for all forms submitted by organisations. A cross check of average pupil numbers claimed for against enrolment numbers as per the Department of Education and Skills should be incorporated into controls. Furthermore, the choice of month for receipts to be submitted should be randomly selected by the school meals section, after receipt of the income and expenditure report. The Department should also record overpayments on its debt management system to ensure they are properly recorded, monitored and recouped.

Accounting Officer's response

Agreed. The Department accepts this recommendation which will enhance and strengthen the existing controls and procedures in place. A risk assessment of the scheme will be undertaken in advance of the application process for the 2016/17 academic year.

The choice of month for receipts to be submitted will be selected by the Department commencing in the current academic year. All new applicants to the scheme from September 2015 are required to set up a bank account specifically for school meals. Existing schools who do not operate a separate bank account for school meals funding, and where payments received are in excess of €10,000 per annum, will be required to have one in place for the start of the 2016/17 school year. Commencing from the start of the 2017/18 school year, the Department will also seek bank statements as part of the annual application process in addition to the income and expenditure account.

School meals funding for the current academic year is based on the actual enrolment figure for the previous school year as published by the Department of Education and Skills, other than in cases where there is a verifiable significant increase in school numbers.

Overpayments are raised as appropriate, recorded manually and agreed recovery arrangements are in place with schools. These arrangements are being monitored and are being adhered to.

The school meals system is primarily administered on a manual basis with the support of a standalone database. The Department has initiated a scoping exercise to migrate the school meals application process to its central IT platform, which will be progressed, in addition to changes to the central overpayments system, in the context of competing priorities.

In addition, the inspection programme which commenced in 2012 is being expanded and a three year programme is being put in place to cover the inspection of all schools commencing during September 2015. To support this inspection programme, additional staffing resources have been allocated to the school meals section of the Department.

17.35 Current inspections find a relatively high rate of compliance by funded organisations with the conditions of the scheme. Where serious cases of irregularity have come to light, there has not been a consistent approach to follow-up action e.g. reports of suspected fraud referred to An Garda Síochána. Reports of inspections in cases of irregularity are also not sent to the Department of Education and Skills to inform it in its oversight of schools.

17.36 Penalties or sanctions have not been imposed on organisations for any of the various issues emerging from the inspection reports. Amounts overpaid have been recovered from schools both through direct repayments and through withholding allocations. In the latter case, the Department endeavours to ensure that the scheme continues to benefit children who are entitled to avail of the school meals support. The Department has not removed any organisation from the scheme.

Recommendation 17.3

The Department should report the outcomes of inspection reports that highlight irregularities to the Department of Education and Skills for information.

Accounting Officer's response

Agreed. The Department accepts this recommendation and will report on an ongoing basis the outcome of the inspection process to the Department of Education and Skills. Details of the serious irregularity cases as referred to in Figure 17.4 have now been made available to the Department of Education and Skills.

18 Management of Redundancy and Insolvency Scheme Debts

18.1 Two schemes are operated by the Department of Social Protection (the Department) in relation to payments to employees who have been made redundant.

- The redundancy payments scheme was established under the Redundancy Payments Acts 1967 to 2011 to ensure workers who lose their jobs by reason of redundancy receive (at least) minimum levels of compensation – referred to as 'statutory redundancy'.
- The insolvency payments scheme operates under the Protection of Employees (Employers Insolvency) Acts 1984 to 2007 and is designed to protect certain outstanding statutory entitlements – arrears of wages, holiday pay, etc. – due to employees in the event of the insolvency of their employer.

18.2 Redundancy and insolvency payments are paid from the Social Insurance Fund (SIF), which is administered by the Department.[1] The expenditure incurred by the SIF in 2014 in relation to the two schemes was as follows

- €64.6 million was paid under the redundancy payments scheme
- €23.6 million was paid under the insolvency payments scheme.

In addition, costs totalling €1.3 million were charged to the SIF in 2014 in relation to the administration of the schemes.

18.3 In the past, employers who made redundancy payments were entitled to claim a rebate from the SIF. Up to and including 2011, the rebate payable was 60% of the statutory redundancy amount. In 2012, the rebate was reduced to 15% of the statutory redundancy amount. Since 2013, no rebate has been payable.

18.4 Where an employer could not pay statutory redundancy, the amount paid by the Department on behalf of the employer (net of an amount equal to the rebate) was recorded as a debt to the SIF. If the Department believed that an employer had the capacity to pay but did not, they were designated as 'defaulters' and 100% of the debt was recoverable.

18.5 No interest or charges are applied to employer debts.

18.6 The Department seeks to recover the payments made under the schemes from the relevant employers. However, employers who resort to the SIF to make redundancy/insolvency payments are already in financial difficulties, so full recovery is rarely possible. Recovery of debt under the redundancy scheme may be possible in cases where the employer is able to trade out of its difficulties.

18.7 In company insolvency situations, the Minister for Social Protection is a preferential creditor alongside the Revenue Commissioners and local authorities. However, they only stand to receive payments after secured creditors (banks) and liquidation expenses have been discharged. The amount recoverable depends on a surplus becoming available for distribution following the completion of the company liquidation.

1 Prior to 1 January 2011, the schemes were administered by the Department of Jobs, Enterprise and Innovation, but the associated costs were charged to the SIF.

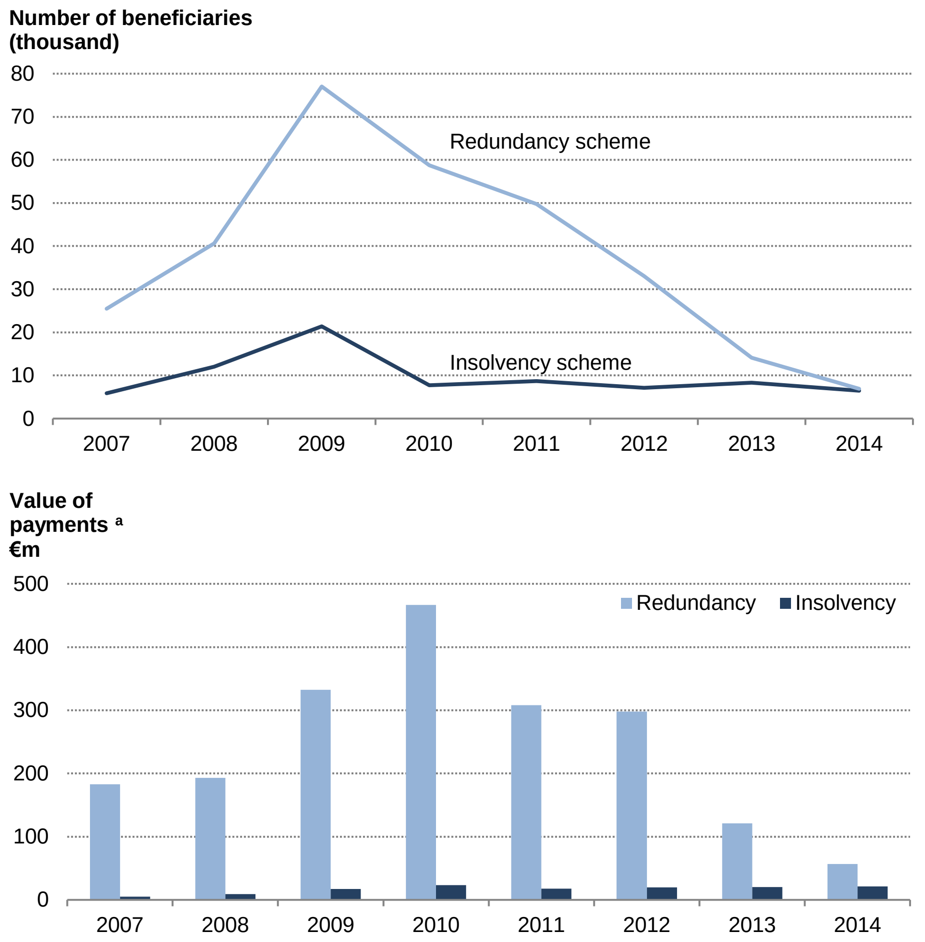
18.8 The Department considers that approximately 90% of the €469 million debt recorded as outstanding at the end of 2014 will require write-off given that it related predominantly to insolvent companies in liquidation.

Analysis of Expenditure and Debt Trends

18.9 The number of employees who received statutory redundancy payments has fallen sharply in recent years, from a peak of 77,000 in 2009 (see Figure 18.1). In contrast, the number of employees who had recourse to insolvency-related payments averages around 10,000 a year (excluding a peak in 2009).

18.10 Aggregate payments under the schemes reflect the number of workers and employers entitled to avail of the benefits, and the reduction in the level of rebate payable to employers.

Figure 18.1 Number of claims and scheme expenditure, 2007 to 2014



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

Note: a The value of payments are stated net of recoveries each year.

18.11 Figure 18.2 sets out the movement in employer default payments, recoveries received from employers, and write-offs made over the last six years.

Figure 18.2 Cumulative amounts recorded for recovery from employers, 2009 to 2014

	2009 €m	2010 €m	2011 €m	2012 €m	2013 €m	2014 €m
Balance at start of year	103.1	144.7	196.4	242.9	393.1	460.5
Employer debts recorded	57.0	64.4	60.0	156.0	98.6	82.1
Amounts recovered	(6.3)	(3.9)	(4.5)	(5.8)	(7.0)	(10.2)
Amounts written off [a]	(9.1)	(8.8)	(9.0)	–	(24.2)	(63.5)
Balance at year end	**144.7**	**196.4**	**242.9**	**393.1**	**460.5**	**468.9**

Source: Department of Social Protection

Note: a 2009 and 2010 write-offs include adjustments of €0.4 million and €0.6 million respectively to the liability following reconciliations by the Department of Jobs, Enterprise and Innovation.

18.12 Payments of redundancy and insolvency 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 book value of debts which have not been recovered or written off. However, the Department considers that, on average, less than 10% of the outstanding balance has a realistic chance of recovery. Due to the uncertainty of collection, the Department does not recognise the debt as an asset in the SIF balance sheet. Instead, the amount outstanding is disclosed by way of note in the account.

Debt Management Function

18.13 Normal statute of limitation rules also apply for the recovery of debt 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.

18.14 Debt management comprises a series of activities to ensure that debts are collected in a timely and efficient manner and include

- documented debt management policies and procedures
- early and accurate data collection and maintenance
- a dedicated information system including single debtor view and age analysis
- timely debtor contact
- appropriate contact with other State agencies.

18.15 The Department operates a debt management unit (DMU) as part of the administration of the schemes, dealing solely with the management of the redundancy and insolvency debts. It was noted that

- The Department does not have any policies or statement of procedures in place in relation to redundancy and insolvency debt management. These are in the process of being drafted.
- Except where a new debt is recorded against a debtor, the Department has not initiated any debtor contact in relation to legacy debt that transferred over from the Department of Jobs, Enterprise and Innovation in 2011.
- The Department has not sent reminders to debtors where there was no response to initial debt recovery communication in relation to debt recorded by the Department up to 31 October 2014.
- The Department's liaison with other agencies (e.g. Revenue, Insolvency Service of Ireland) is of an ad hoc nature.

Accuracy of Debt Data

18.16 Though administration of the schemes transferred to the Department on 1 January 2011, the schemes payments continued to be processed on the Department of Jobs, Enterprise and Innovation's system up to the end of September 2011. From the beginning of October 2011, payment processing moved to the Department.

- The Department of Jobs, Enterprise and Innovation provided the Department with a report listing debts to the SIF as at 30 September 2011, which amounted to €245.3 million. Over time, around half of these debts were transferred to the Department's overpayments and debt management system (ODM) where a new debt arose in relation to a transferred debtor or a recovery was received in respect of a debt. The bulk of the remainder has been written off, with an amount of €27.8 million remaining as outstanding debt. This amount has not been recorded on ODM but is kept in spreadsheet format.
- In November 2014, the Department introduced a new debt and receipts accounting system (DRAS). All debt held previously on ODM was carried over to DRAS at 1 November 2014. The total debt recorded on DRAS at the end of 2014 was €396.3 million.

18.17 The figures prepared by the Department's accounts section for the 2014 SIF account showed the debt outstanding at the end of 2014 at €468.9 million. The figures recorded on DRAS and the spreadsheets at the end of 2014 total €424.1 million giving rise to a difference of €44.8 million. The Department has been unable to explain this difference.

Aged Analysis of the Debt

18.18 Timely review and follow up of debts is a key factor in achieving higher debt recoveries. An aged analysis of the debts setting out the debtor, amounts and the duration of the debt is an important part of this process.

18.19 The Department's DRAS can produce an aged analysis of new debt recorded since October 2011. This has a value of €243.2 million, representing 57% of the recorded debt. The remaining €153.1 million of debt recorded on DRAS cannot be accurately aged because it was transferred from spreadsheets to DRAS with the date of posting rather than the original date of recording of the debt. €27.8 million is recorded on spreadsheets that do not record the original date.

Recovery of Outstanding Debts

18.20 The rate of recovery of outstanding debts is the key performance measure for debt management. Ideally, recoveries should be assessed relative to a realistic estimate of recoverable debt.

18.21 While the Department aims to recover as much employer debt as possible, it has no formal targets for recovering outstanding amounts.

18.22 The Department's rate of recovery of employer debts averages around 2% to 3% of the recorded opening outstanding debt level each year from 2010 to 2014. However, because the opening debt level includes an undetermined level of what is in reality uncollectable debt, this gives a distorted view of the Department's recovery performance.

18.23 Calculating the rate of recovery based on the debt recovered in a year (irrespective of age) relative to the level of debt recorded in the year indicates an average annual recovery rate of 7.4% over the period 2010 to 2014.[1]

18.24 However, this also presents a distorted view of the recovery performance, because the debt collected is not necessarily related to the debt recorded as collectable, and does not take account of carryover of collectable debt from previous periods.

Write-offs

18.25 The process for writing off debts is important to the proper management of debts to ensure that

- the value of the debt arrears gives an accurate picture of the amounts expected to be recoverable
- debt management resources can be targeted at debts which have a greater chance of recovery.

Write-offs should only occur where there is no reasonable prospect of recovery.

18.26 The DMU deals with debt write-off for both schemes, where it is determined that the debt is irrecoverable. Write-offs are carried out under delegated sanction from the Department of Public Expenditure and Reform.

18.27 Write-off occurs for the following reasons

- cases in which liquidations have been completed and/or the companies concerned have been struck off the register of companies
- cases in which receiverships have been completed and the receiver has disposed of all assets of the company
- cases involving bankruptcies
- cases such as partnerships and sole traders which have ceased trading and where the Department determines that the debt cannot be repaid
- cases in which the High Court has struck off or dissolved a company
- cases where the debt is over six years old.

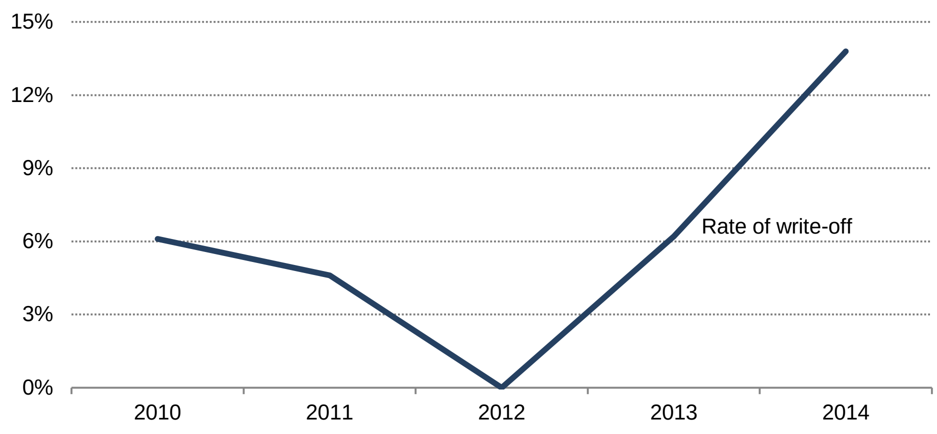
1 Applying a similar calculation to data from Great Britain and Northern Ireland National Insurance Fund Accounts yields comparable averages of 10.1% and 8.4% respectively.

18.28 Write-offs are carried out as an administrative procedure only, and the write-off of debt does not discharge the liability of the debtor to the SIF. Where a recovery is obtained following write-off, the payment is accepted. This happens rarely, such as a dividend paid when a liquidation is finalised where the Department had previously been informed that no dividend would be payable.

18.29 The audit noted that the Department does not have a written policy which sets out the thresholds and related authority for writing off debts.

18.30 Figure 18.3 indicates the rate of write-off for the past five years.

Figure 18.3 Rate of write-off of employer debt, 2010 to 2014



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

Note: The rate of write-off is calculated as the amount written off as a percentage of the balance at the start of the year.

Overpayment of Rebates

18.31 When the rate of rebate to employers changed from 60% to 15% in 2012, the Department's internal audit unit undertook an exercise for the first three months of the year to ensure that the correct rate of rebate was being applied. It identified overpayments to employers totalling €220,000 in a sample of 2012 cases, due to the incorrect rate being applied. It also found that in a number of cases where the employer could not pay the redundancy, the liability to the SIF was also miscalculated – understating the liability by €33,000. Around €157,000 of the overpayment had been recovered by 31 December 2014, and €63,000 remained outstanding.

18.32 The Department did not undertake a similar internal audit for the remainder of 2012, or for 2013 when the rebate rate changed from 15% to 0%. Instead, quality control checks were carried out by the Department to ensure the correct rebate rate was applied.

Conclusions and Recommendations

18.33 The amount of redundancy and insolvency debt recorded as outstanding from employers is rising year on year – from just under €200 million at end 2010 to almost €470 million at end 2014.

18.34 There is a discrepancy of over €44 million between the figure recorded by the Department's accounts section and reported in the SIF as a contingent asset, and the Department's debt records.

Recommendation 18.1

A review of the outstanding debt figure needs to be undertaken to ensure that a complete and accurate picture of the amount due for recovery is disclosed.

Accounting Officer's response

Agreed. A comprehensive review of the employer debt balances to the SIF commenced in October 2014 and is ongoing. The Department is in the process of migrating all legacy balances to DRAS and will undertake a full examination of all such balances. When this work has been completed, the Department will then have a clear categorisation of all the book balances and will be able to identify cases for write-off. It will also be in a position to provide a figure of employer debt which is more representative of actual recoverable debt. It is expected that this work will be completed by June 2016.

As part of this process, the Department has obtained up-to-date sanction from the Department of Public Expenditure and Reform for employer debt write-offs in 2013 and 2014. In addition, formal delegated sanction has been granted by the Department of Public Expenditure and Reform to write-off irrecoverable amounts due from employers on an annual basis, in accordance with the debt management and write-off policy.

18.35 The Department has not formally set out policies and procedures to be followed for employer debt management or debt write-off, and does not set performance targets for debt management, even though it is over four years since it took over the direct administration of the schemes.

Recommendation 18.2

The Department should set out and implement formal policies and procedures for management and write-off of employer related debts.

Accounting Officer's response

Agreed. The Department has finalised and commenced implementation of new debt management and write-off policy and guidelines for the redundancy and insolvency schemes. The policy and guidelines provide the framework for the on-going debt management, recovery and write-off processes in respect of employer debt to the SIF.

18.36 Balances due to the SIF are subject to the normal statute of limitation rules. Therefore, where the Department has not initiated any debtor contact (in relation to legacy debt that transferred from the Department of Justice, Enterprise and Innovation and that was not recorded on ODM) or sent reminders where there was no response to initial debt recovery communication (in relation to debt recorded on ODM up to 1 October 2014), the Department is limiting the timeframe it has to pursue these debts. Some may already be statute barred.

19 Compliance with Prompt Payment Legislation in the Health Sector

19.1 The Health Service Executive (HSE) and entities funded by it make significant payments to suppliers of goods and services. In 2014, the HSE incurred total expenditure of just under €13.6 billion. An estimated €4 billion (29%) of this expenditure relates to the procurement of goods and services.[1] The HSE provides funding to some 2,300 agencies, which also procure substantial quantities of goods and services.

Prompt Payment Legislation

19.2 General legislation has been designed to ensure that suppliers are paid promptly and that where delays in payment occur, the supplier is appropriately compensated.

19.3 Legislation providing for automatic penalties in relation to late payment to suppliers was first enacted in 1997.[2] The legislation has been amended a number of times since then.

- The initial legislation (commenced in January 1998) provided for the automatic payment of interest by public sector entities where suppliers had not been paid within 45 days of receipt of the relevant invoice.
- In 2002, the legislation was amended to apply to both public and private sector purchasers and late payments were now defined as those not made within 30 days of receipt of the relevant invoice.[3] In the interest of efficiency, interest payments of less than €5 (per invoice) did not have to be paid.
- The prompt payment legislation was further amended with effect from March 2013. This provided for the payment of compensation ranging from €40 to €100, depending on the value of the invoice (see Figure 19.1), in addition to interest, where payment was not made within 30 days of receipt of the relevant invoice or in line with the contract credit terms.[4] The €5 minimum payment threshold was also removed. The interest rate chargeable is the European Central Bank main refinancing rate plus eight percentage points.

Figure 19.1 Amount of late payment compensation payable[a]

Transaction value	Compensation payable €
Not exceeding €1,000	40
Exceeding €1,000 but not exceeding €10,000	70
Exceeding €10,000	100

Source: European Communities (Late Payment in Commercial Transactions) Regulations 2012 (SI No. 580 of 2012).

Note: a Compensation is payable in addition to interest due.

1 This includes payments made to suppliers, drugs paid for under the Primary Care Reimbursement Service and payments made to private nursing homes under the Nursing Home Support Scheme.

2 Prompt Payment of Accounts Act 1997

3 European Communities (Late Payment in Commercial Transactions) Regulations 2002 (SI No. 388/2002)

4 European Communities (Late Payment in Commercial Transactions) Regulations 2012 (SI No. 580/2012)

19.4 In addition to the legislation, under guidelines introduced in 2009 following a Government decision, all central Government departments were required to pay their business suppliers within 15 days of receipt of a valid invoice. This requirement was extended in 2011 to include the HSE, local authorities, state agencies, and all other public sector bodies, except commercial semi-state bodies. The statutory compensation and interest payments are not affected by these guidelines.

19.5 This report examines compliance with prompt payment legislation in the HSE and in two entities funded by the HSE whose financial statements are subject to audit by the Comptroller and Auditor General. These were Beaumont Hospital and St James's Hospital.

HSE National Financial Regulations

19.6 The HSE's National Financial Regulations are intended to outline the high level framework within which the internal financial control system of the HSE operates. The regulations are prepared in order to ensure that the financial controls in operation within the HSE are consistent with Irish and EU statutory requirements.

19.7 The relevant regulation in relation to prompt payment of suppliers is reproduced in Figure 19.2. The HSE's regulations do not set out the required controls to ensure that interest and compensation due to suppliers is actually paid.

Figure 19.2 HSE National Financial Regulation in relation to prompt payment of interest

Budget holders must ensure that in designing, implementing and monitoring their purchasing arrangements, they are fully aware of and compliant with the requirements of the prompt payment legislation.

- The key prompt payment issue (relating to the purchasing process) is to ensure that there is clarity as to what payment terms apply in respect of any purchase order or contract issued to any supplier.
- The HSE standard payment terms in respect of normal suppliers or what are often referred to as 'Traders' are within a range of 30 to 45 days from receipt of invoice or delivery of goods/services, whichever is the later.
- The payment terms should be quoted on all documentation issued to suppliers including tender documentation, purchase orders, etc.

There will be cases where payment terms requiring less than 30 days are appropriate however, these require the specific or general approval of the relevant Assistant National Director of Finance unless encompassed within the following:

- public utilities (e.g. Eircom, Bord Gáis, etc.)
- grants to outside agencies – no invoice, paid in accordance with contract or agreement.

Source: HSE National Financial Regulations

Prompt Payments in the Health Service Executive

19.8 The annual financial statements of the HSE indicate that prompt payment interest paid to suppliers was in the range €200,000 to €336,000 each year from 2010 to 2014. No prompt payment interest was paid in respect of nursing home payments or drug supplies.

19.9 The audit of the financial statements of the HSE for the 2013 and 2014 years of account examined compliance with the revised prompt payment legislation in a number of HSE locations. The audit examined whether compensation was paid, as required and the payment terms used to calculate interest and compensation.

19.10 None of the locations examined were found to be paying compensation in relation to late payments. The audit noted that there was variation between locations with some operating a standard credit period of 30 days and some operating a 45 day credit period with suppliers.

Non-payment of Compensation

19.11 The 2012 Prompt Payment Regulations provided for the payment of compensation as follows

> *It shall be an implied term of every commercial transaction that, where statutory late payment interest becomes payable under Regulation 4, the supplier shall be entitled, without the necessity of a reminder, in addition to the statutory late payment interest, to the amount specified in the Schedule as compensation towards the relevant recovery costs incurred by the supplier as a consequence of late payment.*[1]

19.12 In February 2013, the Department of Jobs, Enterprise and Innovation received legal advice from the Attorney General in relation to the implications of the planned changes to the prompt payment legislation. The Attorney General's Office advised the Department that once late payment interest is payable under the regulations, then compensation costs are automatically also payable, without the necessity of a reminder.

19.13 Legal advice obtained by the HSE in February 2015 noted that there was no obligation on a purchaser to pay compensation amounts under the regulations as a matter of default. The reasons given for this were

- The 2012 Regulations imply two terms into commercial contracts – an entitlement to late payment interest where the purchaser is late in paying the amounts owed and an entitlement to compensation towards recovery costs incurred by the supplier as a result of late payment.
- In interpreting the term 'entitlement' and whether there is any corresponding obligation on the supplier to take any steps to exercise the entitlement, the fact that the regulations provide for compensation for 'recovery costs' could arguably be relied upon as an indication that the regulations envisage the supplier taking steps to assert an entitlement as a result of late payment.
- The EU Directive[2] states that member states shall ensure that where late payment interest is payable, the supplier is entitled to obtain from the purchaser a fixed sum of compensation. The use of the word 'obtain' would suggest that the supplier must take steps to obtain the amount owed as an entitlement.

1 Regulation 4 states that *"it shall be an implied term of every commercial transaction that where the purchaser does not pay for goods or services by the relevant payment date, the supplier shall be entitled to interest without the necessity of a reminder".*

2 EU Directive 2011/7/EC

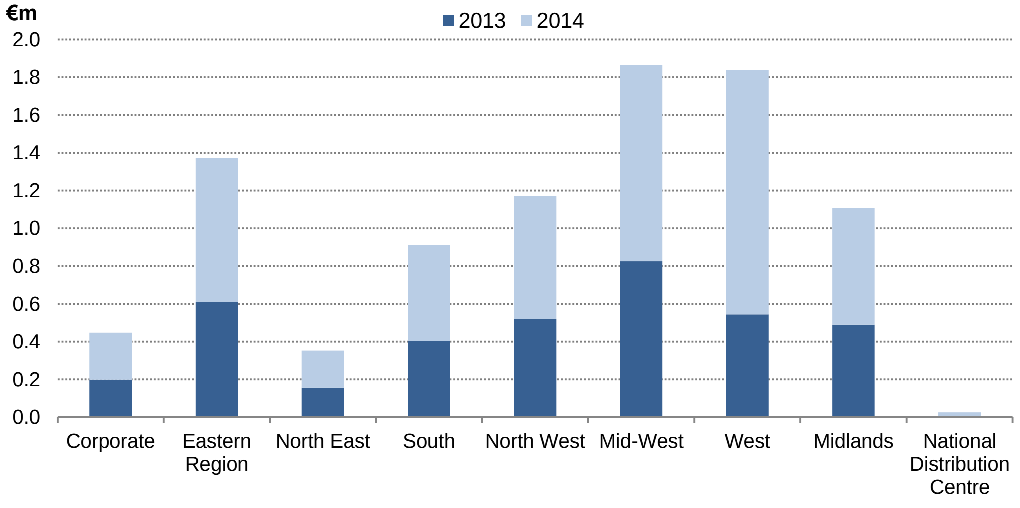
19.14 However, the HSE's legal advisors stated that while they believed that their position on the compensation payments was a reasonable interpretation of the regulations, that the Attorney General's view could not be disregarded by the HSE.

19.15 Following discussions with the audit team on the audit findings, the HSE concluded in April 2015 that while it had legal advice supporting its past actions, a review of the matter resulted in a decision to recognise a liability to pay compensation to suppliers that had received late payments since the introduction of the new requirements in March 2013.

19.16 The financial statements for the 2014 year of account include a liability of €9 million for compensation payments. At September 2015, these compensation amounts had not been paid to suppliers.

19.17 This amount represents amounts due since the commencement of the 2012 Regulations in March 2013 (see Figure 19.3 for a breakdown by region). The liability was calculated in line with the credit terms in place in the individual regions.[1]

Figure 19.3 Breakdown of compensation liability by HSE area, 2013 and 2014



Source: Health Service Executive

Agreement of Credit Terms

19.18 The legislation defines the payment date in relation to a commercial transaction as

- the date, or end of the period, for payment specified in the contract, or
- where the contract does not specify the date or period for payment, the date falling 30 calendar days after the date of receipt by the purchaser of the invoice.

19.19 The EU Directive underlying the 2012 Regulations allowed member states to grant a certain amount of flexibility to public entities providing healthcare and allowed for member states, under certain conditions, to extend the statutory period of 30 days for payment of invoices to a maximum of 60 days. However, this option was not included in the Regulations which gave effect to the EU Directive in Ireland.

1 This is based on the HSE's policy of calculating interest after 45 days in some HSE areas and 30 days in other HSE areas.

19.20 In relation to the HSE areas applying credit terms of 45 days, the HSE noted that while it did not have a formal contract agreement providing for this, the HSE's purchase orders specify that the purchase order terms and conditions form a contract and supersede any previous oral or written negotiations and agreements with suppliers.[1]

19.21 Legal advice obtained by the audit indicates that the prompt payment legislation permits a purchase order specifying payment terms of 45 days (or another date) to constitute a contract, with the calculation of prompt payment interest and compensation on payments made after the specified period. In such cases, unless the supplier notifies the purchaser of their objection to the specified payment terms, these payment terms may be deemed to be accepted by the supplier.

Views of the Accounting Officer

19.22 The HSE noted that with regard to the legislation, the key challenges that the HSE faces are the impact on cash flow and the administrative difficulty in meeting the invoice processing deadlines. The HSE processes almost two million invoice payments annually to over 20,000 suppliers through eight major payment centres using multiple financial payment systems. A number of HSE areas have single systems and locations for the processing of invoices and do not incur any prompt payment interest.

19.23 Analysis conducted by the HSE in two HSE areas found that late payments arise in relation to a small number of locations that are not processing invoices in line with the legislation and in relation to complex invoices.

19.24 The HSE has taken a number of steps to address the issue.

- The 2015 work programme of the National Financial Controls Assurance Group involves identifying the value and service location of invoices that attract prompt payment interest. This work will inform further action to reduce such numbers. A pilot invoice capture project is commencing in the Eastern region in this regard.
- The HSE noted that work is ongoing to implement a single national financial and procurement system. The implementation of such a system will assist the HSE in ensuring compliance with prompt payment legislation.

Examination of Voluntary Hospitals

19.25 In 2014, St James's Hospital and Beaumont Hospital incurred expenditure of around €422.3 million and €338.7 million respectively. About 31%[2] of the total expenditure in St James's Hospital and 33% of the total expenditure in Beaumont Hospital relates to direct procurement of goods and services. The audits of the financial statements of St James's Hospital and Beaumont Hospital for the 2014 year of account examined compliance with prompt payment legislation.

1 Payment terms are specified in contracts covering nursing home payments and supply of drugs.

2 Excludes €35.8 million expenditure in relation to the national budget for Clotting Factor Concentrates.

St James's Hospital

19.26 The audit examined a sample of 45 invoices in St James's Hospital with a total value of €6.9 million. In 13 cases with a total value of €1.7 million, invoices were not paid within 30 days of receipt. It was estimated that in those cases, interest of €5,125 and compensation of €1,180 were due to suppliers.

19.27 The audit identified that late payment interest due on invoices not paid within 30 days of the invoice receipt had not been calculated or paid to the supplier since the commencement of the 2012 Regulations and compensation amounts due on late invoices were not calculated or paid to the supplier.

19.28 The St James's Hospital financial statements for the 2014 year of account include an estimated charge of €389,000 to recognise the expected cost of late payment interest and compensation due to suppliers since the introduction of the legislation in March 2013.

Beaumont Hospital

19.29 The audit examined a sample of 47 invoices in Beaumont Hospital with a total value of €2.2 million. In 25 cases with a total value of €710,000, the invoice was not paid within 30 days of receipt, and in one case with a value of €262,000, the invoice was not paid within the period (45 days) as set out in the invoice. It was estimated that in those cases, interest of €5,569 and compensation of €2,300 were due to suppliers.

19.30 The audit noted that late payment interest due on invoices not paid within 30 days of the invoice receipt had not been calculated or paid to the supplier since the introduction of the 2012 legislation. Beaumont Hospital had instead agreed informal arrangements with suppliers. For the sample reviewed, payments were made in varying timeframes ranging from less than 30 days up to 126 days. In addition, compensation amounts due on late invoices were not calculated or paid to the supplier.

19.31 Beaumont Hospital's 2014 statement of internal financial control discloses that the hospital's Board is aware of the legislation and recognises that action needs to be taken to ensure that it complies with the legislation. It notes that the hospital has not paid interest or compensation to suppliers and has opted to negotiate extended payment terms with suppliers instead. The Board estimated that approximately €200,000 in interest and compensation is payable to suppliers since March 2013. These amounts have not been recognised in the financial statements for the 2014 year of account.

HSE Oversight of Voluntary Hospitals

19.32 The HSE has service arrangements in place with St James's Hospital and Beaumont Hospital. While the service arrangements do not specifically mention a requirement to comply with prompt payment legislation, they do require service providers to comply with all applicable laws, regulations, procedures and requirements of any relevant governmental bodies. Service providers are required to issue an annual statement of compliance to the HSE on the requirements set out in the service arrangement. In 2014, both hospitals declared that they had appropriate systems of internal controls in place to allow compliance with all applicable laws and regulations as required under the service arrangement with the HSE.

19.33 St James's Hospital and Beaumont Hospital noted that there is a need to implement a robust monitoring mechanism for changes to legislation.

Conclusions and Recommendations

19.34 There is variation in the credit terms in operation in the HSE. Some HSE areas use a standard credit period of 30 days and a number of areas operate a 45 day credit period with suppliers. Separate payment terms are in place under contracts for payments to nursing homes and drug suppliers. As a result, suppliers may not be treated equally.

19.35 The HSE and two of the largest voluntary hospitals did not comply in a timely manner with legislative changes in respect of prompt payments.

Recommendation 19.1

The HSE should monitor legislation to identify changes that have implications for its operations, and those of bodies it funds. Notification and guidelines should be disseminated in a timely manner to ensure consistency across the health system, and compliance by health agencies with their legal obligations.

Accounting Officer's response

Agreed. The HSE will continue to engage with the Department of Health in respect of prospective legislation that has potential impacts for the health services.

19.36 The HSE did not apply all of the provisions of the European Communities (Late Payment in Commercial Transactions) Regulations 2012.

Recommendation 19.2

The HSE should put procedures in place to ensure that compensation is paid to suppliers in line with the 2012 prompt payment regulations.

Accounting Officer's response

Agreed. Where the HSE has single financial systems with standard processes in place, such as the Primary Care Reimbursement Service and in relation to the Nursing Home Support Scheme, these procedures can be put in place in the short-term. The timescale in respect of the remainder of the HSE's services is dependent on a number of factors including progress on a new financial and procurement system. The HSE will continue to engage with the Department of Health in relation to this.

Recommendation 19.3

St James's Hospital should ensure that all interest and compensation amounts due under the revised regulations are calculated and paid over to suppliers.

Chief Executive Officer's response

Agreed. St James's Hospital is now compliant with the legislation since it was brought to the hospital's attention during the 2014 audit. The hospital has focused on a number of key areas in order to address the issue.

A financial system update that will allow the compensation amounts to be calculated automatically is due to go live in the third quarter of 2015.

The hospital's compliance unit has undertaken an internal review of the controls and processes surrounding the management of invoices. A number of draft recommendations have been made following the review including a revised process for dealing with invoices which are queried/disputed by the hospital.

Recommendation 19.4

Beaumont Hospital should ensure that all interest and compensation amounts due under the revised regulations are calculated and paid over to suppliers.

Chief Executive Officer's response

Agreed. Beaumont Hospital has been working to become compliant with the legislation since the issue was brought to the hospital's attention during the 2014 audit. Compliance with the legislation is challenging due to the size and complexity of a hospital that processes around 60,000 invoices per year.

The hospital is liaising with the supplier of its financial system to ensure that an appropriate system is introduced to enable future compliance with the legislation. It is expected that testing on system changes will be completed in the third quarter of 2015.

20 Management of Private Patient Income in the Health Sector

20.1 In 2014, just under 90% of the HSE's income was a grant from the Exchequer to fund the provision of health services in the State. The remaining 10% of its income is derived from excise duty on tobacco products, recovery of costs for services provided under EU regulations, patient income and a number of other minor income streams.

20.2 Patient income in statutory hospitals accounts for about 3% of the HSE's total current income and in 2014 totalled €410 million. Patient income in voluntary hospitals does not form part of the HSE's current income, but is taken into account in the funding of these hospitals by the HSE. The categories of charges are outlined in Figure 20.1.

Figure 20.1 Types of hospital charges

Statutory in-patient charge

- The statutory charge for public patients under the care of a consultant for overnight and day in-patient services is €75 per day up to a maximum of €750 in any 12 consecutive months. These charges do not apply to medical card holders, patients receiving treatment for prescribed infectious diseases, patients who are subject to 'long stay' charges or patients who are entitled to hospital services because of EU regulations.

Private in-patient charges

- Patients who opt for private in-patient services in public hospitals are liable for accommodation charges, which vary from €659 to €1,000 for overnight accommodation or €329 to €407 for day case care. Amounts due to consultants in relation to the patient's treatment are separate to the accommodation charge and are paid directly by the private insurance companies to the consultants.

Emergency department (ED) charge

- A standard fee of €100 is charged for attendance at the ED of a public hospital, unless the patient is exempt from this charge due to having a medical card, has been referred by a GP or the patient is attending ED for treatment of an illness in respect of which they already attended ED.

Long-term stay charges

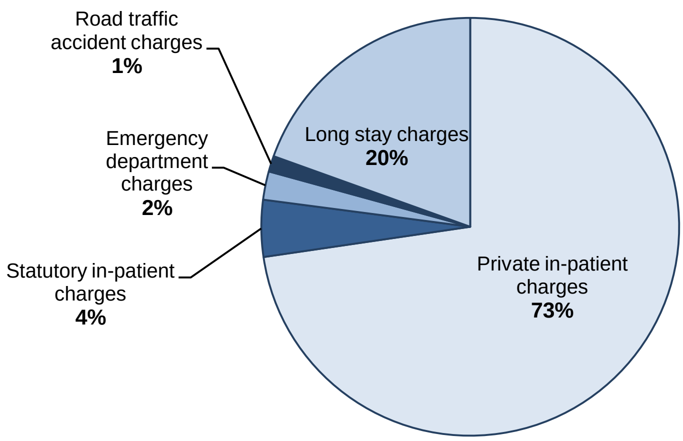
- The maximum charge for a patient in public long stay care is €175 a week. These charges become due in instances where an individual has been receiving in-patient care for more than 30 days within the previous 12 months and a doctor certifies that the patient no longer requires acute care.

Road traffic accident charges

- A road traffic charge is payable by persons who have been victims of a road traffic accident. Each hospital calculates this charge based on the economic cost of that hospital. This charge is in addition to any other charges in relation to the ED or day case/in-patient charges that may be due.

Source: Health Service Executive

Figure 20.2 Patient income by category, 2014



Source: HSE Financial Statements 2014

20.3 In the majority of cases, the HSE recognises patient income once the service to the patient has been delivered, for example, when the patient is discharged from hospital.[1] In 2014, 73% of patient income generated by statutory hospitals related to private in-patient charges (see Figure 20.2).

20.4 The private in-patient charge is due for payment by the patient. In practice, the majority of private patients hold health insurance. Around 95% of the income from private patients is recovered from private health insurers. The current practice is that rather than seeking payment from the patient who would then seek reimbursement from the private insurer, the hospital claims the amounts due directly from the insurer. Hospitals submit to the insurer claims which include

- details of amounts due to the hospital in relation to the accommodation charge
- details of amounts due to medical consultants in respect of treatment provided to private patients.

Audit Focus

20.5 The audit sought to examine

- the impact of changes to the charging regime for private patients introduced in 2014
- trends in private patient debt and debtor days between hospitals
- the efficiency of the administrative system for collection of private patient charges
- the breakdown of the outstanding debt by stage and the operation of debt collection in a sample of hospitals to establish the reasons for delays at each stage.

20.6 The examination was conducted in five hospitals. Three are HSE managed hospitals – Cork University Hospital, University College Hospital Galway and Tullamore General Hospital and two are ‘Section 38’ hospitals funded by the HSE that are audited by the Comptroller and Auditor General (St James’s Hospital and Beaumont Hospital).

1 There are some exceptions to this, including long stay patients who are charged on a weekly basis, or accruals at period end in respect of patients not yet discharged.

Changes to the Charging Regime

20.7 Legislation enacted in July 2013 that came into effect in January 2014 introduced revised rates for private in-patient services (see Figure 20.3).

Figure 20.3 Charges payable in respect of private in-patient accommodation services, 2013 and 2014

	HSE regional hospitals, voluntary and joint board teaching hospitals		HSE county hospitals and voluntary non-teaching hospitals	
	2013	**2014**	**2013**	**2014**
Overnight rate				
Private bed/single occupancy room	€1,046	€1,000	€819	€800
Semi private bed/multi-occupancy room	€933	€813	€730	€659
Day case rate	€753	€407	€586	€329
Statutory in-patient charge (per day)	€75	–	€75	–

Source: Health (Amendment) Act 2013 and HSE website.

20.8 While the rates payable were reduced, more patients became liable to pay the charges due to changes in relation to the basis for charging. There was uncertainty around the implementation of the charges in relation to both bed designation, and the location of the treatment.

20.9 About 80% of beds in public hospitals are designated for 'public' use with the balance designated as 'private' beds. Up to 2014, only private patients occupying a designated private bed were charged for accommodation. The 2013 legislation provided for charging for accommodation in relation to all private in-patients.[1] There was some uncertainty in the interpretation of the new legislation in this regard.

- In September 2013, the Department of Health (the Department) issued guidance to the HSE stating that private in-patients accommodated in public beds or undesignated beds would be subject to the private charge.
- In November 2013, on foot of clarification sought by the HSE, the Department in consultation with the HSE prepared a table of relevant charges which was issued to all public hospitals. This specified that no charge was to be raised for a private patient accommodated in a public bed where the patient was admitted on an elective rather than an emergency basis.
- In May 2014, the HSE sought further clarification from the Department and also obtained legal advice in relation to the legislation.
- In August 2014, the Department, following consultation with the Office of the Attorney General, responded to the HSE and noted that charges must be levied regardless of bed designation or whether the patient was admitted on an elective or emergency basis.

1 S55 of the Health Act 1970 provided for the charging in relation to in-patient services provided in private or semi private accommodation. This was replaced by S13 of the Health (Amendment) Act 2013. The 2013 Act makes no reference to services being provided in private or semi private accommodation.

20.10 In October 2014, the HSE's Chief Financial Officer wrote to all statutory and voluntary hospitals providing clarification in relation to the revised charging regime. As a result, hospitals generated additional invoices totalling in the region of €19.4 million for overnight in-patient accommodation provided during 2014.

20.11 There was also uncertainty in relation to whether patients treated on a therapy chair, a recliner or a trolley, as opposed to on a hospital bed, should be charged. This relates mainly to day case treatments.

- The guidance issued by the Department to the HSE in September 2013 and November 2013 did not include any reference to charges being raised in respect of private patients receiving in-patient treatment on equipment other than a bed.
- In August 2014, following clarification sought by the HSE, the Department noted that where in-patient services were provided, the charge must be levied irrespective of the type of equipment used.

As a result, hospitals generated additional invoices totalling approximately €6.3 million in relation to in-patient day case treatments provided in 2014.

20.12 There were technical problems which precluded the immediate submission of the additional invoices (totalling circa €25.7 million) to the insurance providers in some cases. The HSE is unable to confirm when the relevant invoices were submitted or whether the entire amount has been submitted as at September 2015.

20.13 The HSE's 2014 service plan provided for an increase of €30 million in hospital income in respect of the private patient charges following the introduction of the Health (Amendment) Act in January 2014. During 2014, there was a net increase of €66.2 million in income in HSE statutory hospitals and voluntary hospitals.[1]

20.14 The HSE noted that the main factor giving rise to the higher than budgeted income was the clarification obtained from the Department of Health during 2014 in relation to the implementation of the revised legislation. This was not available at the time the HSE prepared its service plan.

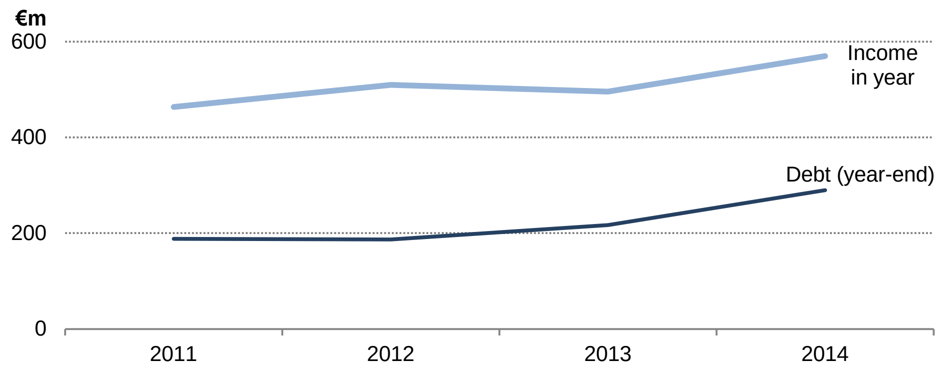
Trends in Debt Level

20.15 Private patient income due is recognised as a debt in the HSE's financial statements, and in the financial statements of the voluntary hospitals. At the end of 2014, the total debt outstanding from insurers in relation to private patient income stood at €290 million. This comprised €172 million in relation to statutory hospitals and €118 million for voluntary hospitals.

20.16 At the end of 2014, the total amount due from insurance providers was equivalent to 51% of the income recognised in the year (30% for statutory hospitals and 21% for voluntary hospitals). The comparable measure at the end of 2013 was 44%. The private patient insurance income and debt outstanding for the period 2011 to 2014 is set out in Figure 20.4.

1 There was an increase in private patient charges of €99 million and a reduction of €32.8 million in statutory in-patient charges following the introduction of the revised legislation, giving a net increase of €66.2 million in the year.

Figure 20.4 Private patient insurance income and debt, 2011 to 2014



Source: Health Service Executive

Note: In late-2012, the health insurance companies provided advances totalling €103 million, based on their estimates of private patients who had incurred charges for treatments in acute hospitals but where the claims process had not been finalised. For purposes of comparison, the debt outstanding at end 2012 has not been reduced by these advances, as the amounts received were deducted from patient charge payments by the insurers in the first six months of 2013.

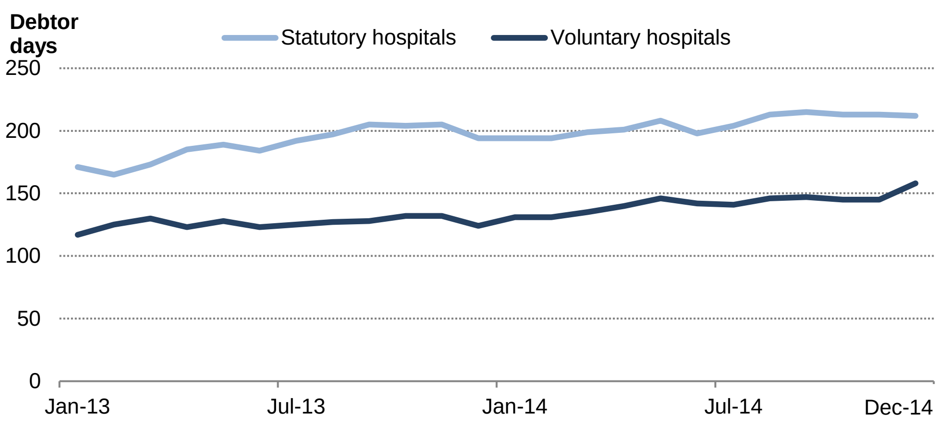
Measuring Debt Collection Performance

20.17 The HSE measures the timeliness of patient charge debt collection in terms of 'debtor days', calculated by dividing the private insurance debt outstanding at a point in time by the total amount of private patient income in the previous 12 months, multiplied by 365 days.

20.18 The debtor days measure is calculated for all hospitals by the Health Business Services (HBS) section of the HSE on a monthly basis and included as part of a consolidated monthly report circulated to relevant financial and operational managers.

20.19 At the end of 2012, total private patient debt outstanding equated to 134 debtor days. By the end of 2014, this had increased to 186 days – 212 days for HSE statutory hospitals and 158 days for voluntary hospitals. As outlined in Figure 20.5, HSE statutory hospitals are consistently slower in collecting patient related debt than are voluntary hospitals. Annex A shows the age of private in-patient debt and value of debt outstanding at end 2014 for each hospital.

Figure 20.5 Age of private insurance debt – 2013 and 2014



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

Efficiency of Claim Process

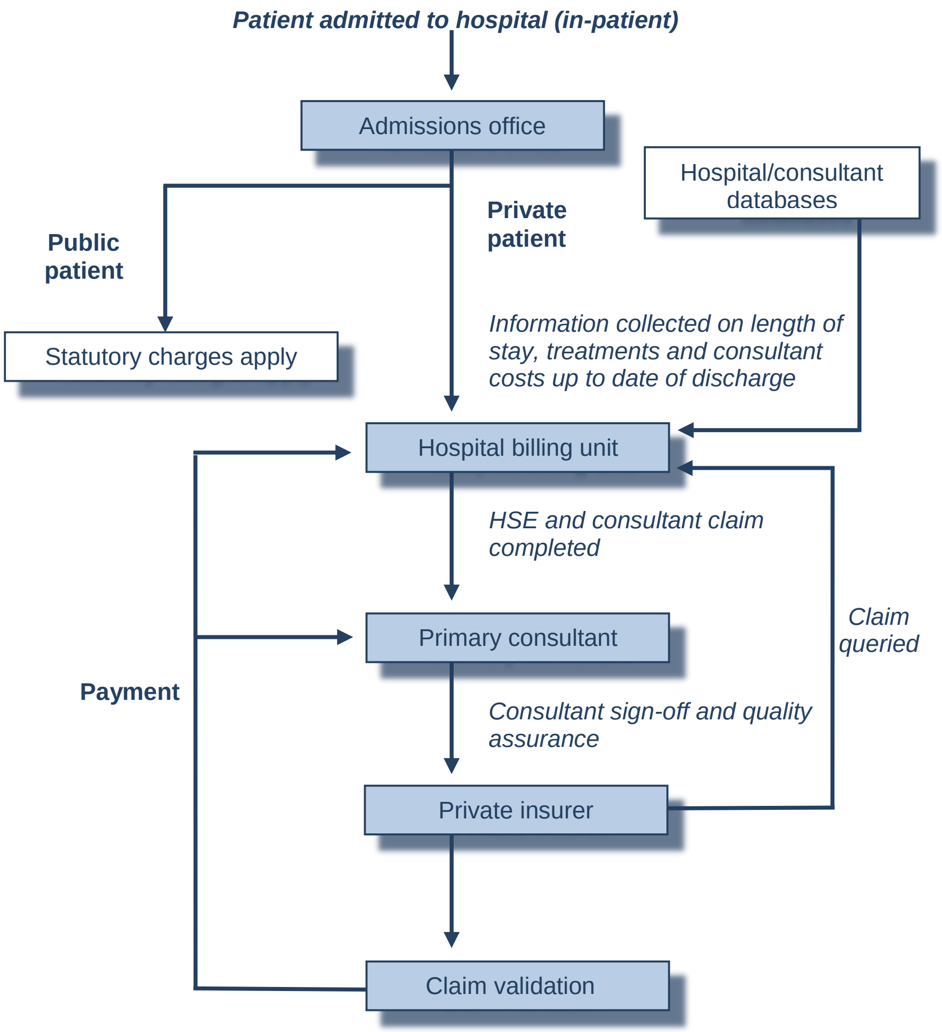
20.20 The process for the collection of private patient income is shown in Figure 20.6.

20.21 Once a patient is discharged, the hospital's billing office compile the claim which has two sections.

- Details of amounts claimed by the hospital – the hospital's accommodation charge.
- Amounts claimed in relation to consultants – including the primary consultant's fee, and the fees of any other consultants (secondary consultants) who treated the patient in hospital. A length of stay report is also included if deemed necessary.

20.22 The claim is then signed off by the consultant and submitted to the insurance company by the hospital billing unit for payment. The consultant's private fees are paid directly to the consultant. The HSE does not monitor the value of claims submitted to insurance companies in relation to consultants' fees.

Figure 20.6 Collection of private patient income from insurers



Source: Office of the Comptroller and Auditor General.

Claim Administration at the Hospital

20.23 The HSE stated that the practice of hospitals submitting comprehensive claims (in respect of amounts due both to the hospital and the relevant consultants) directly to the insurance companies on behalf of privately insured patients is done for administrative efficiency and convenience. It noted that in many cases, consultants use specialist companies or their own administration staff to compile information in relation to their fee claims submitted to the hospital billing unit.

20.24 The HSE and voluntary hospitals are currently engaging with the four main commercial health insurance providers to agree a memorandum of understanding on a submission and payment process that would enable the insurance companies to release payments to the HSE earlier and allow a defined timeframe for query and finalisation of claims. Under the proposed (revised) arrangements, hospitals and the private insurers will agree a timescale for submission of claims post patient discharge. The insurance company will pay a significant amount within the relevant agreed timeframe and there will be an agreed lead time to allow the insurance company to validate the claim and finalise payment of same.

20.25 The HSE noted that the agreements being negotiated with the insurers deal with a relatively narrow subset of the issues impacting the overall timeliness of claims processing.

Submission of the Claim

20.26 During 2012, the HSE commenced the implementation of a new electronic management system for claims, called Claimsure. The system allows for

- information in relation to patient admission, treatment and discharge to be downloaded from the hospital’s patient administration system (PAS) to the Claimsure system
- integration with the hospital's billing system
- the capture of electronic patient and consultant signatures (optional for consultants)
- electronic processing and submission of claims to the four largest insurance companies.

20.27 The operation of the Claimsure system was examined on audit. This examination found that

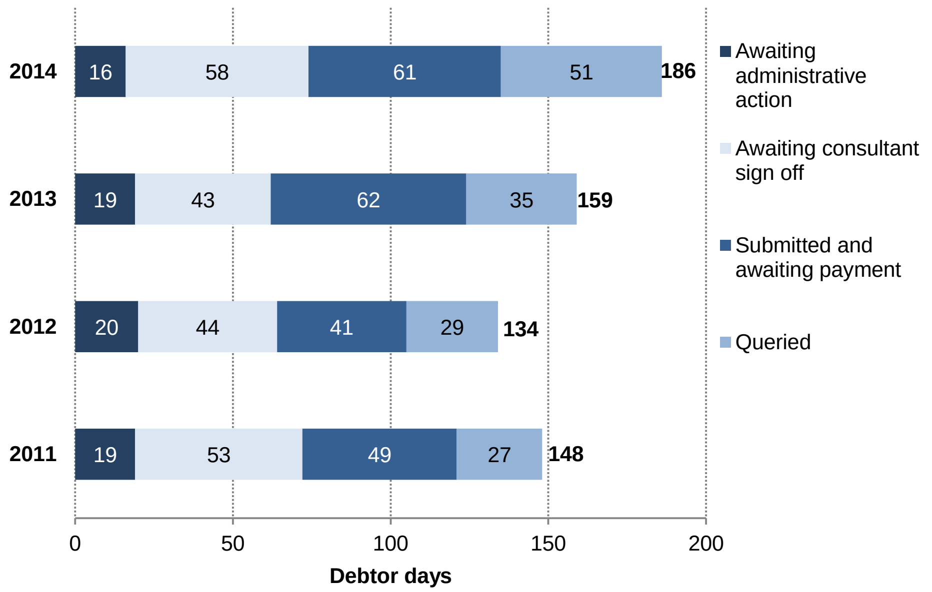
- A total of 44 hospitals use the Claimsure system. However, while 29 hospitals have integrated the Claimsure system with the patient billing system, 15 hospitals have not yet done so. Where the systems are not integrated, documentation in relation to patient admission and treatment is scanned on to the Claimsure system.
- Claimsure can facilitate fully electronic claims processing and submission. However, it is not being used in that way by the HSE and requires a significant level of manual intervention. While the current system allows for data to be downloaded from other systems in operation in the hospital, the submission of the claim may involve the printing of an invoice which is then scanned to the insurance companies, together with other supporting documentation.

20.28 The HSE noted that while the Claimsure system is not yet being utilised as a fully electronic claim processing system, it represents a significant improvement over the previous manual system. It allows for timely resubmission of returned or rejected claims where further information is required and also allows the HSE to track payment of claims. The HSE also noted that full implementation of the functionality of Claimsure requires further engagement and agreement between the HSE/hospitals and the insurers around data governance, standard processes and related matters. A pilot project is currently underway in this regard.

Stages in Debt Collection Process

20.29 The timeliness of debt collection improved during 2012. Debtor days fell from an average of 148 days at the end of 2011 to an average of 134 days at the end of 2012. However, since then, debtor days have increased again. The increase has occurred at all stages apart from the initial administration process (see Figure 20.7).

Figure 20.7 Age of debt by stage in collection process, at year end 2011 to 2014



Source: Health Service Executive

Awaiting Administrative Action in Hospital

20.30 While hospitals aim to generate an invoice within five working days of the patient having been discharged, the HSE has adopted a target that all invoices (100%) will be generated within 15 days. At December 2014, the age of debt at this stage of the collection process was 16 days.

20.31 A sample of 44 of the highest value private insurance claims awaiting administrative action was reviewed as part of the examination. In the case of the associated hospital invoices generated, 73% were processed within five days of the patient being discharged, 87% within ten days and 91% within 15 days.

20.32 The examination found that the main reasons for delays were

- claims awaiting patient (subscriber) signature
- claims awaiting quality assurance review
- one hospital had required the consultant to prepare a report on the length of stay of the patient in all claims in excess of €10,000, which was intended to reduce subsequent queries from the insurance companies. These reports were outstanding in respect of all ten claims in that hospital reviewed as part of the audit.

Awaiting Consultant Sign-Off

20.33 At December 2011, income of €67 million was awaiting sign-off by consultants. The age of the debt as measured in debtor days was 53 days. Since then, the HSE has taken a number of initiatives to secure more timely sign off by consultants.

Time Limit on Sign-Offs

20.34 A Labour Relations Commission agreement, concluded in September 2012, included a commitment from all consultants to sign private insurance forms within 20 calendar days (14 working days) of receipt of all the relevant documentation. The agreement noted that persistent failure to comply with this requirement would be addressed by the employer and that the employer has full authority to take the necessary steps to resolve such matters.

20.35 In November 2012, the HSE National Director of Finance circulated a letter to all consultants asking them to comply with the 20-day limit. Follow-up communication was sent to the hospital consultants at the end of April 2013, informing them that hospital management have the authority to take formal action where there is continued non-compliance.

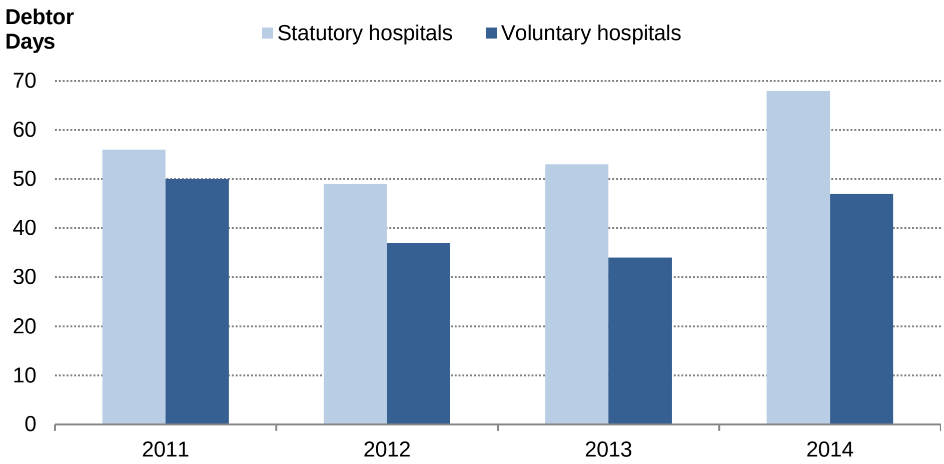
20.36 From January 2013 to September 2013, the HSE put in place quarterly targets for each hospital to allow for a phased reduction in the primary consultant days to 20 days.

20.37 In November 2013, the HSE increased the 20-day limit to a 30-day limit, in order to encourage hospitals that fell outside the 20 day limit, and to take into account the added efforts by consultants and other hospital staff to submit older claims during 2013. The 30-day limit for primary consultants’ action remains effective.

Timeliness of Sign-Off by Consultants

20.38 At the end of 2014, claims had been, on average, with consultants for 58 days – 68 days in HSE statutory hospitals and 47 days in voluntary hospitals. Figure 20.8 shows the trend in age of debt awaiting consultant sign-off for the four year period 2011 to 2014.

Figure 20.8 Age of debt awaiting consultant sign-off, 2011 to 2014



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

20.39 Timeliness of sign off by consultants varies greatly by hospital, ranging from a high of 163 days to a low of 15 days at December 2014. A full listing by hospital is included at Annex B.

20.40 Statistics relating to debtor days for each primary consultant were not available from the HSE.

20.41 A sample of the highest value claims for the top ten consultants (ranked by value of claims outstanding) awaiting consultant sign-off was reviewed in each of five hospitals visited as part of this audit. The examination found

- the majority of the claims examined were awaiting sign-off by consultant for more than two months
- hospitals were not always aware of the reasons for delays in consultant sign-off, as consultants are not required to provide explanations
- no formal action had been taken by the hospitals where consultants were consistently late in submitting claims.

20.42 The HSE noted that the implementation of the revised legislation would have contributed to delays at the consultant sign-off stage in 2014 because the number of claims requiring consultant sign-off increased significantly. The level of additional medical information and length of stay requirements requested by insurance companies has also increased as a result of the new charging regime.

Timeliness of Payment by Insurance Companies

20.43 At the end of 2014, the value of claims that had been submitted to insurance providers (€175 million) as measured in debtor days was 112 days. This is accounted for as follows.

- €95 million, equating to 61 debtor days, is awaiting payment – the comparable debtor days in 2012 was 41.
- €80 million, equating to 51 debtor days, has been queried by the insurance company – the comparable debtor days in 2012 was 29.

20.44 The value of claims queried increased by 69% over the course of 2014. At the end of 2014, 28% of the total claims outstanding were under query by the insurance companies. Insurance companies withhold claims for various reasons including raising queries with the patient or the consultant.

- Queries with the patient can include requiring confirmation of the type and quality of their accommodation during their stay, and verification of other details included on the claim form.
- Queries with a consultant can relate to whether the patient had a pre-existing condition before their membership commenced, the length of stay of the patient, the registration of the consultant, the consultants' type of contract or the consultants' private bill.

20.45 The HSE noted that part of the reason that the value of claims queried had increased is directly attributable to the introduction of the new legislation.

20.46 The sample of the highest value claims from the top ten consultants by value, submitted to insurance companies, was reviewed in each of the five hospitals visited as part of this examination. The review found that the main reasons for claims being queried by the insurance companies related to

- Accommodation queries – related to the changes in the basis for accommodation charges.
- Length of stay queries – additional information is requested from consultants to justify the length of stay of the patient. In the past, justifications for lengths of stay were typically only requested for claims where the stay was greater than 15 days, but shorter stays are now being queried more frequently.
- Provision of medical notes – additional information may be requested to establish if the patient had a pre-existing condition before their insurance cover commenced, or to analyse why particular treatments are given to a patient.
- Awaiting consultant information – additional information can be sought in relation to the registration of the consultant, the consultant's type of contract or the consultants' private bill.

20.47 Hospital administration staff stated that they try to respond to queried claims in a timely manner. However, the following was noted from a review of claims under query.

- In a number of claims reviewed, there were significant delays by the hospital in resubmitting the claims after they were queried by the insurance company.
- In a number of cases, the insurance companies consulted with the primary consultants directly about information required. In these cases, the hospital's billing office would not be aware of the issue(s) giving rise to the delay in payment. It was also noted that it is the practice for insurance companies to contact the primary consultant three times to attain information, if required. If unsuccessful after the third attempt, the insurance companies reject the claim. However, the HSE have noted that such claims can be resubmitted to the insurance companies.

Deductions from Payments

20.48 Insurance companies notify hospitals on a monthly or bi-monthly basis of claims being paid in respect of the hospital's accommodation charges.[1] In some instances, the amounts being paid to hospitals include deductions in respect of overpayments on claims in previous months. The HSE does not monitor the level of deductions made by insurance companies on bills, so it was not possible to ascertain the level of deductions.

20.49 The HSE noted that, as part of the implementation of the memorandum of understanding currently being negotiated with the insurance companies, a monitoring framework is being considered and developed prior to being implemented – this will track the level of claims that are queried, returned or rejected by the insurance companies in order to ensure that valid reasons have been provided and/or investigated in each case.

Write-offs of Debt

20.50 In 2014, €4.6 million worth of private patient charges were written off by the HSE statutory hospitals. This represents 2.4% of the total private debt outstanding at year-end (before provisions) and 1.5% of the private in-patient charges raised in the year. Charges of €15.8 million that were raised in error were cancelled and €0.7 million of other adjustments were made.[2]

Accounting for Patient Income

20.51 There are differences between hospitals in the accounting treatment of bad and doubtful debts for private patient income. Hospitals recognise patient income when the service to the patient has been delivered. Known bad debts are written off in the period in which they are identified and specific provision is made for any amount which is considered doubtful. Hospitals also make a general provision for bad debts.

20.52 Provisions for doubtful debts vary between statutory hospitals and voluntary hospitals. Statutory hospitals and some voluntary hospitals continue to provide in full for debts over 12 months old.

20.53 The HSE estimates that approximately 95% of total private health insurance claims are processed and (ultimately) paid by the health insurance companies. Considering the high level of claims that are paid, and the significant delays in collecting such income, it may not be appropriate for hospitals to provide in full for doubtful debts over 12 months old.

20.54 The HSE and voluntary hospitals should review the policies in place for providing for doubtful debts and ensure that provisions are only applied in situations where there is a clear risk around the collectability of the balance outstanding.

20.55 The HSE noted that its current accounting policy for bad and doubtful debts is based on the requirements of the Department of Health Accounting Standards for Health Boards. In 2015, the HSE plans to undertake a review of the value of private health insurance claims outstanding for greater than 12 months that are paid by the insurance companies. This will inform a decision on how to provide for private insurance debt from 2015 onwards.

1 Statutory and voluntary hospitals are not notified when the insurance companies pay the private fees to the consultants.

2 Write-offs and other adjustments include cases where the maximum statutory in-patient charge has been reached; the patient does not have sufficient insurance cover; the patient had a pre-existing condition and the insurance company will not cover the costs.

Conclusions and Recommendations

20.56 There was avoidable uncertainty in hospitals about changes to the charging regime for private patients following the commencement of the new legislation in January 2014. Despite the provision of a six-month notice period, implementation instructions were only finalised in August 2014, following discussion and clarification involving the Department of Health, the HSE, the hospitals and the private insurers. As a result additional charges totalling circa €25.7 million had to be levied in respect of 2014.

20.57 There were technical problems in submitting the additional invoices to the insurers for payment. The HSE is unable to confirm the proportion of additional invoices actually submitted for payment to the insurers as at September 2015.

Recommendation 20.1

Where significant changes to the hospitals charging regime are introduced, the key stakeholders (the Department of Health, the HSE, the hospitals and the private insurers) should be engaged at an early stage to clarify and reach agreement on the implementation of changes.

Accounting Officer's response

Agreed. The HSE will continue to engage with the Department of Health, hospitals and private insurers around necessary changes to improve the charging regime.

20.58 Delays in collecting income due from private health insurers means that the Exchequer is effectively meeting the funding gap at hospitals until payment is made. At the end of 2014, the total private patient debt outstanding from insurance companies was €290 million. The age of the debt, as calculated in debtor days, was 186 days. This measure reflects the equivalent number of days' income that would be required to accumulate the current outstanding debt level.

20.59 While the Claimsure system in use can support fully electronic claims processing and submission, utilising its full functionality requires further engagement and agreement between the HSE/hospitals and the insurers. As a result, a significant level of manual intervention is currently required.

Recommendation 20.2

The HSE should implement a fully electronic claim submission and payment system. Such a system would reduce the administrative burden associated with submission of claims and facilitate more timely payment.

Accounting Officer's response

Agreed. A pilot project in relation to electronic claiming has commenced in one hospital and aims to pilot the technical and process methodologies underpinning electronic claiming and also to test the feasibility of introducing full electronic claiming in the acute sector. It is anticipated that the pilot project will be completed by May 2016. If the pilot project is successful, electronic claiming will then be implemented in all of the public acute hospitals.

20.60 At the end of 2014, claims had been with consultants for an average of 58 days – 68 days in HSE statutory hospitals and 47 days in voluntary hospitals. This is well above the target of 20 days agreed with consultants as part of the Labour Relations Commission agreement in September 2012, and the revised temporary target of 30 calendar days adopted by the HSE in November 2013. The HSE noted that because the changes resulted in an increase in the number of claims requiring consultant review, the implementation of the revised legislation contributed to delays at the consultant sign-off stage in 2014. The HSE does not currently produce management information in relation to the value and age of debt awaiting sign off for each individual consultant. Instead, this information is produced at the hospital level.

Recommendation 20.3

The HSE should develop management reports which measure individual consultants' compliance with the target times for sign off of insurance claims. Such reports would allow the HSE and the hospitals to monitor performance more accurately and to take action, where required.

Accounting Officer's response

Agreed. The HSE's Income Reporting Unit is working to streamline and develop a range of management reports that will strengthen our ability to monitor performance and take remedial action on a more proactive basis.

20.61 The value of claims queried by insurance companies increased by 69% over the course of 2014. The sharp increase in queried claims appear to be the result of the changes in the charging regime introduced at the beginning of 2014 and additional information being requested from consultants to justify the length of stay of the patient.

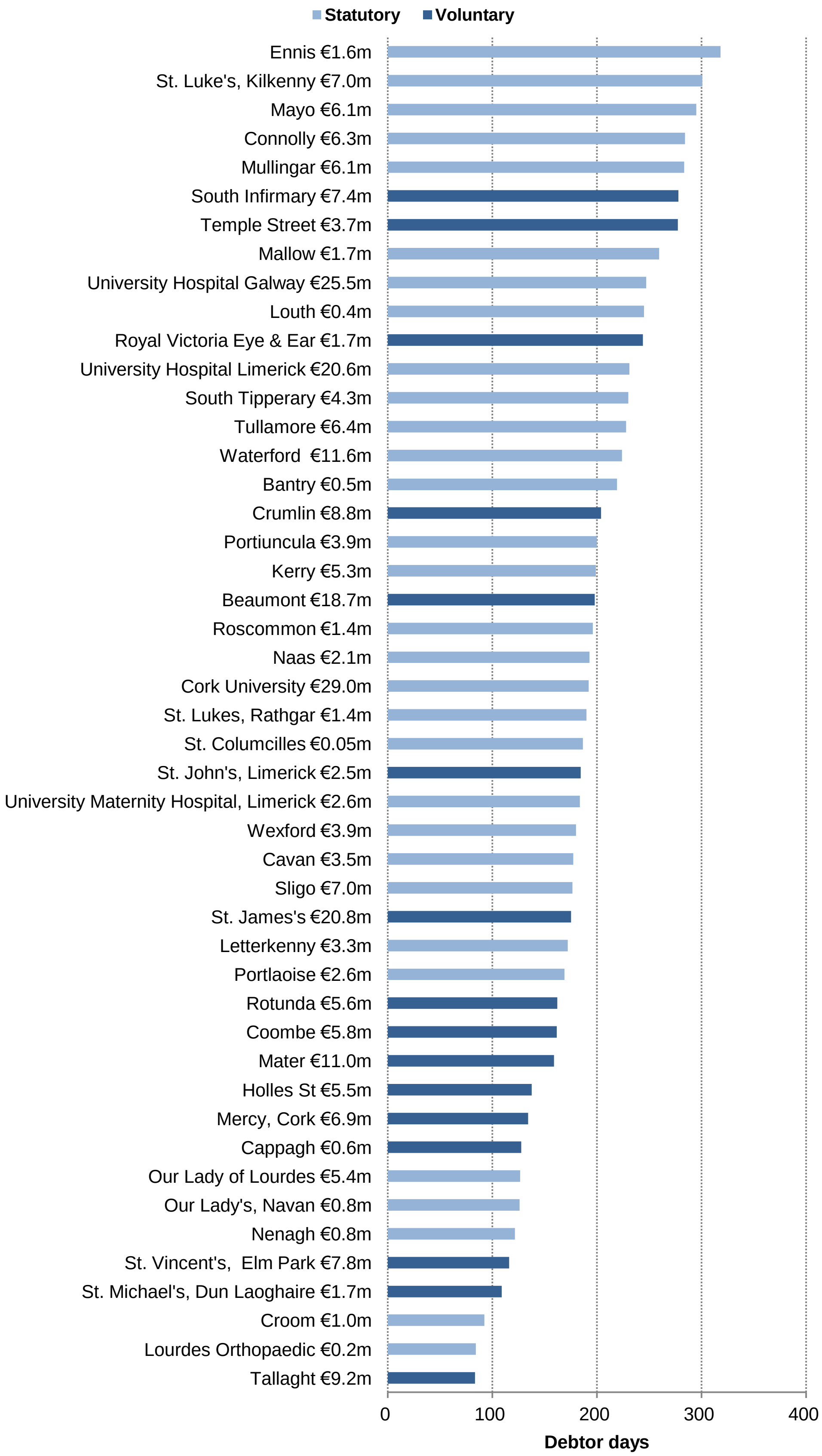
Recommendation 20.4

The HSE should agree clearly defined terms of payment and payment processes with the insurance companies. This will ensure that the claims being submitted by the hospitals are complete and can be processed efficiently by the insurance companies with a minimum of queries arising post submission.

Accounting Officer's response

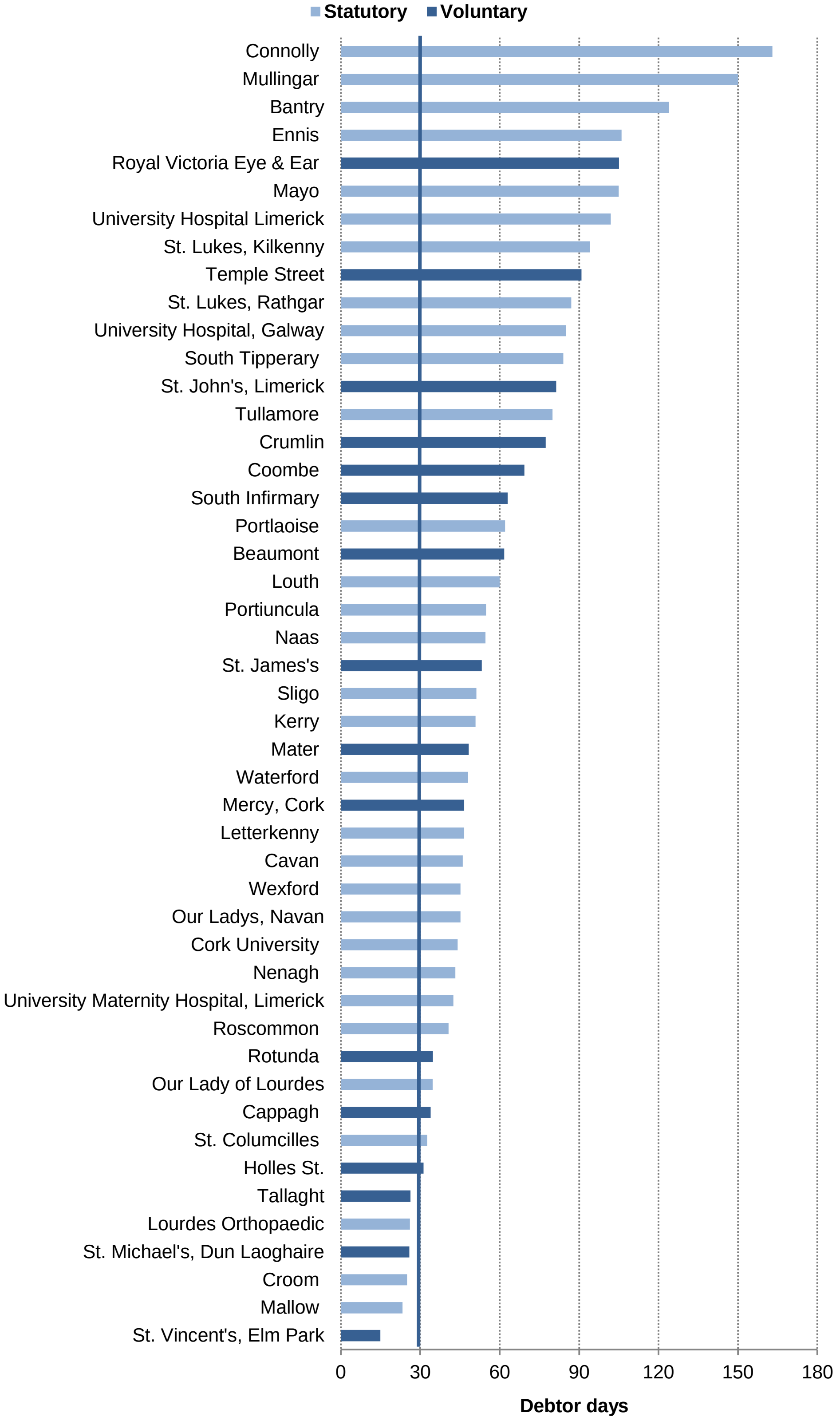
Agreed. The memorandum of understanding being developed with the private health insurance companies will define the terms of engagement with the hospitals in relation to the processes and timelines for submission, validation and payment of claims. The memorandum will also clearly define key terms such as what constitutes a valid claim, a queried claim and a returned claim.

Annex A Age of private in-patient debt in hospitals, at 31 December 2014



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

Annex B Age of private in-patient debt in hospitals, awaiting consultant action at 31 December 2014



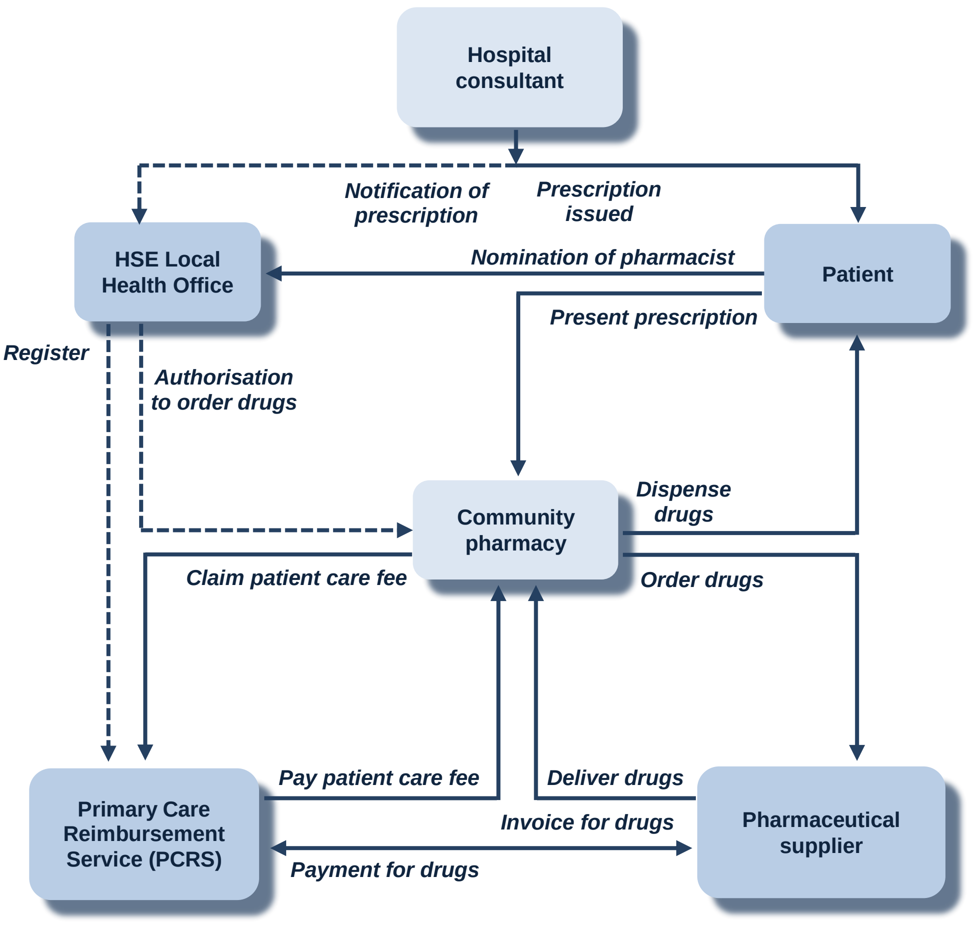
Source: Analysis by the Office of the Comptroller and Auditor General.

21 Control Over the Supply of High Tech Drugs and Medicines

21.1 The Health Service Executive (HSE) has special arrangements in place for the supply and dispensing of 'high tech' drugs to patients through community pharmacies.[1] Examples of the types of medicines available under those arrangements are anti-rejection drugs for transplant patients and chemotherapy drugs. While the arrangements in place do not constitute a formal payments scheme, they have been termed the high tech drugs scheme in HSE documentation. That term is used in this report, for convenience.

21.2 The high tech drugs scheme is administered by the HSE through the Primary Care Re-imbursement Service (PCRS) and the HSE's local health offices. Payments under the scheme comprise payments to pharmaceutical suppliers[2] and to community pharmacies.[3] The HSE pays pharmaceutical suppliers directly for the drugs and medicines and the community pharmacies receive a monthly patient care fee for overseeing the treatment. An overview of the scheme is presented in Figure 21.1.

Figure 21.1 Overview of High Tech Drugs Scheme



Source: Office of the Comptroller and Auditor General

1 The Health (Pricing and Supply of Medical Goods) Act 2013 sets out the statutory procedures governing the supply, re-imbursement and pricing of high tech drugs and medicines.

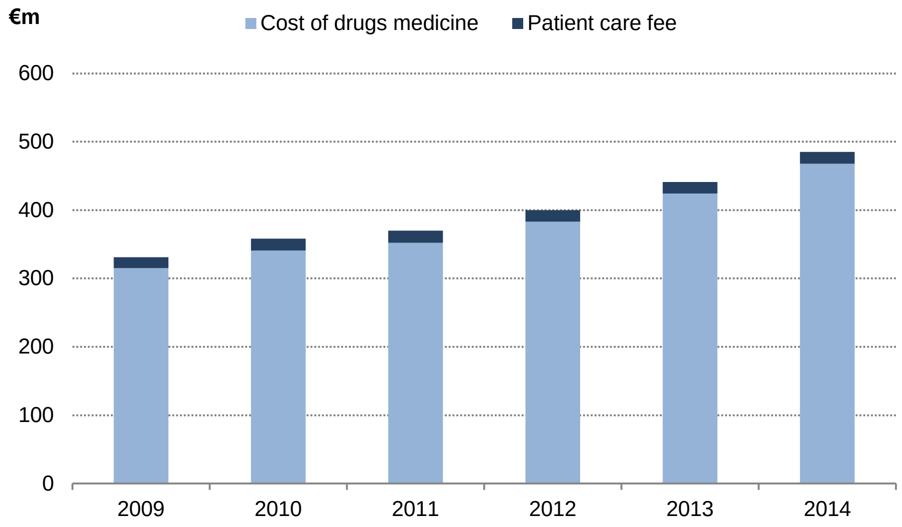
2 Authorised under SI No. 538 of 2007 Medicinal Products (Control of Wholesale Distribution) Regulations 2007.

3 Community pharmacy contractor agreement (excludes pharmacies operating in a hospital, nursing home or similar institution).

Expenditure on High Tech Drugs

21.3 Expenditure on the scheme was €485 million in 2014, representing an almost 50% increase when compared with 2009 (see Figure 21.2). While the patient care fee has remained relatively stable at around €17 million a year, expenditure on drugs and medicines has increased from €315 million in 2009 to €468 million in 2014.

Figure 21.2 High Tech Drug Scheme expenditure, 2009 to 2014



Source: Health Service Executive performance reports

21.4 The scheme is operated by community pharmacies who order the drugs and medicines directly from pharmaceutical suppliers and dispense to the patient. The value of stock on hand at pharmacies at the end of each year has increased in line with the increases in expenditure on the scheme. As at 31 December 2014, the value of stock held in community pharmacies was just under €45 million.

Focus of this Examination

21.5 The HSE incurs significant expenditure in relation to the provision of high tech drugs and medicines. In addition, the value of stocks held by pharmacies at any point in time is significant. This report sets out the results of an examination of the operation of the high tech drugs scheme carried out as part of the audit of the financial statements of the HSE for the 2014 year of account.

21.6 The examination focused on reviewing the controls in place over

- the ordering and dispensing of high tech drugs and medicines through community pharmacies
- the payments made to the community pharmacies and pharmaceutical suppliers
- the stock held by community pharmacies on behalf of the HSE.

21.7 This report does not examine the process by which high tech drugs and medicines are approved or the prices agreed for re-imbursement under the scheme.

Supply of High Tech Drugs and Medicines

21.8 A patient who, on discharge from a hospital, is prescribed one or more high tech drugs or medicines must nominate a community pharmacy where they propose to obtain the drugs or medicines. The local health office then advises the nominated community pharmacy of authorisation to supply those high tech drugs and medicines.

21.9 The nominated pharmacy orders the required high tech drugs and medicines directly from a pharmaceutical supplier. The HSE does not set a limit on what a pharmacy may order – the pharmacy is expected to anticipate the requirements of their patients and have available the necessary drugs and medicines for dispensing as required.

21.10 All of the drugs and medicines ordered by the pharmacy may not be used where, for instance

- a patient may not need the drug or medicine held by the pharmacy due to a change in their prescription during treatment, or due to the death of the patient, or
- a patient decides to present to a pharmacy, other than their nominated pharmacy, with a prescription form for high tech drugs or medicines and the patient is facilitated by that pharmacy.

21.11 Unless the pharmacy has another patient requiring the original drug or medicine ordered, these circumstances can give rise to excess stocks of high tech drugs and medicines being held by a community pharmacy, and (possible) destruction of such excess stocks.

Transfers between Community Pharmacies

21.12 Pharmacies are restricted under the Retail Pharmacy Businesses Regulations[1] in the transfer of medicinal products to another community pharmacy. The regulations permit inter-pharmacy exchange of medical products only where necessary to meet the immediate prescription needs of an individual patient. The regulations also provide that a detailed documented audit trail of any such exchanges should be maintained.

Returns to Pharmaceutical Suppliers

21.13 The HSE noted that legally, it is unable to intervene to transfer stock between pharmacies without a wholesaler license in its own right. The only opportunity therefore available to the HSE is for a pharmacy with excess stocks to return the drugs and medicines to the supplier for redistribution to another pharmacy through the supplier network.

21.14 The return of medicinal products is governed under EU regulations. The regulations have been codified by the Health Products Regulatory Authority[2] in a guide to suppliers in relation to the distribution of medicinal products.[3] The guide describes the action to be taken when medicinal products are returned for commercial reasons, for example, where the supplier has delivered the incorrect product or the pharmacy has ordered the product in error.

1 SI No. 488 of 2008

2 The Health Products Regulatory Authority (formerly the Irish Medicines Board) is the State entity responsible for regulating medicines, medical devices and health products in Ireland.

3 Guide to good distribution practice of medicinal products for human use, 10 April 2014. Based on European Commission guidelines of 5 November 2013 (2013/C 343/01).

21.15 The guide notes that products should normally be returned to the supplier within a ten day time frame of the pharmacy having received the drugs and medicines. It notes that there may be some exceptional circumstances whereby medicinal products may be returned outside the time frame, for example, where a small number of packs of medicinal products had been ordered to meet the anticipated needs of a patient to ensure continuity of treatment, but the patient's medication is suddenly changed or no longer required.

21.16 Where such deviations from the ten day time frame occur, a risk assessment must be performed by the supplier and justification for the stock return must be fully documented.

- The responsible person (an employee of the supplier) must approve each exception individually for return to saleable stock.
- The supplier must ensure that the correct storage conditions have been maintained during the period the product was outside their control.
- Special care must be exercised with the return of products requiring storage at low temperatures. In these cases, the supplier must have documented evidence available for review confirming that the product was maintained within the cold chain for the entire time during which it was outside of its control.
- A register or log of returns should be in place which should include all product details and reason for return.

21.17 In June 2013, the HSE sought to embed a returns system with the pharmaceutical suppliers in respect of non-refrigerated high tech stock no longer required. This excluded opened/partial packs, expired stock or stock within four months of expiry.

21.18 The HSE has stated that some suppliers co-operated with the returns system, resulting in returns of just over €1.4 million. However, a number of suppliers would not co-operate with the initiative and the HSE stated that it is proposing to address this issue in future agreements negotiated with the Irish Pharmaceutical Healthcare Association.

Payments to Community Pharmacies

21.19 Patients receiving care and treatment under the high tech drugs scheme will normally have complex medical needs. The scheme operates as a patient-specific care and treatment programme. Accordingly, the nominated pharmacy is paid a monthly patient care fee[1] in respect of registered patients, as follows.

- A patient care fee of €62.03 per month is payable to the community pharmacy nominated by a patient under the scheme where drugs and medicines prescribed under the scheme were dispensed in the relevant month.
- A reduced fee of €31.02 per month (up to a maximum of three consecutive months) is payable in relation to periods where drugs and medicines prescribed under the scheme are not dispensed. This recognises that while the patient may not be in receipt of drugs, there is a need for ongoing care and monitoring by the pharmacist.

21.20 A high tech prescription claim form (with details of the type and quantity of high tech drugs and medicines dispensed) is completed each time drugs are dispensed to a patient registered under the scheme. This form is also signed by the patient (or a person acting on their behalf) confirming receipt of the medication.

1 SI No. 279 of 2013

21.21 Each month, the pharmacy sends the high tech prescription claim forms to the HSE for re-imbursement of the patient care fee.

Payments to Pharmaceutical Suppliers

21.22 Pharmaceutical suppliers submit their invoices to the HSE for payment on a monthly basis. The invoices contain details of the pharmacy the drug was delivered to, the drug code, quantity delivered and the price of the drug.

21.23 The standard controls in relation to the payment of invoices are that the purchaser ensures that it is paying the price agreed at the time of purchase and that it is paying for goods actually received. Such controls are set out in the HSE's National Financial Regulations, as follows.

- Purchasing – the creation of a purchase order is an important control since it provides a permanent record of what was ordered and the price agreed at the time the order was placed.
- Receipting – a key control within the receiving process is to ensure that the quantity and quality of goods specified have been satisfactorily delivered to meet the customer requirements.
- Payment – payment of invoices should only occur after proper sign-off of the satisfactory receipt of goods, services or works.

Agreement of Invoice Price and Purchase Order Price

21.24 The HSE noted that there have been two price reductions for drugs reimbursable under the high tech drugs scheme, on 1 March 2011 and on 20 June 2011. The suppliers have not reflected these agreed price reductions in their billing systems. As a result, the HSE amends the amounts invoiced by reference to the reduced prices recorded on the HSE's own systems.

21.25 Pharmaceutical suppliers submit details of their invoices to the HSE electronically. These files are uploaded to the HSE systems where the drug code and quantity details are linked to the price recorded on the system, thus calculating the amount due for payment.

21.26 As part of this examination, the five highest payments made by the HSE to the pharmaceutical suppliers in July 2014 were reviewed. While suppliers had submitted invoices totalling €31.6 million, the HSE reimbursed suppliers in line with the price reductions agreed and suppliers were reimbursed to the value of €29.7 million – a 6% reduction on the invoiced amount.

Control over Receipt of Drugs and Medicines

21.27 The drugs and medicines are sent from the supplier directly to the pharmacy. Where a pharmacy is claiming the higher patient care fee in relation to patients where drugs and medicines have been dispensed in the month, the pharmacy attaches a copy of the delivery docket (received from the supplier when the goods were delivered) and highlights the relevant entry. The HSE consider that this provides evidence that the pharmacy took delivery of this drug from a supplier.

21.28 However, one delivery docket may be used as evidence of delivery in relation to multiple claims. The fact that the delivery docket is copied and used multiple times reduces the effectiveness of this control. It is not clear how the pharmacist would establish which delivery docket related to the drugs and medicines dispensed in an individual claim.

21.29 In addition, the pharmacy has only to supply evidence that drugs and medicines were dispensed once in the month in order to claim the dispensing patient care fee. There is no requirement or incentive for the pharmacy to provide details of further drugs dispensed to that patient in the month. As a result, the details of drugs and medicines dispensed included on the patient claim may be incomplete.

Verification and Compliance Checks

21.30 On a monthly basis, the HSE carries out a number of post-payment desk-based verification and compliance checks in order to monitor the accuracy of claims by pharmacies, dentists and general practitioners.

21.31 One of the verification checks includes examination of claims submitted by ten pharmacists each month. The verification exercise includes two checks.

- The patient care fee claimed is examined. Where the higher patient fee is claimed, the HSE seeks evidence that relevant drugs were dispensed. The pharmacy forwards a copy of the form signed by the patient confirming receipt of the medication.
- Details on delivery dockets attached to the patient claim fee are matched against supplier invoices.

21.32 The HSE maintain a control sheet in relation to the desk-based reviews conducted. This records the number of dispensing dockets (signed by the patient) and the number of copy delivery dockets attached to the claims examined. In the case of each pharmacy, it notes the number of discrepancies identified and records whether the discrepancies have been resolved.

21.33 In relation to inspections conducted during 2014, the control sheet recorded that discrepancies were identified in relation to 62 of the 119 pharmacies examined. A total of 219 discrepancies were identified. At September 2015, 12 discrepancies in relation to three pharmacies had not been resolved. In each case, the control sheet noted that additional information requested from the pharmacy had not been provided.

21.34 The control sheet used does not record the value of the sample examined or the nature or value of the discrepancies identified. As a result, the HSE does not have information in relation to the incidence and value of errors arising in relation to claims from pharmacists. However, the HSE has stated that the discrepancies identified (now mostly resolved) did not involve under/over payment to pharmacies.

21.35 While the HSE compares details of the delivery dockets (appended to pharmacist patient claim fees) with those on supplier invoices, it does not conduct a full check on a sample of supplier invoices to ensure that all amounts invoiced relate to stock that was delivered to pharmacies.

Stock Controls

21.36 A key feature of a good stock control system is one where stock is physically checked and counted periodically and at each year end in order to confirm the existence of the stock, the valuation of the stock and to assess the condition of the stock held.

Annual Stock Count

21.37 The HSE do not carry out an annual stock take of high tech drugs and medicines in the community pharmacies. Instead, each pharmacy is issued with a stock return form for completion at the end of each year. The stock form asks the pharmacy to identify the quantity of each type of high tech drug and medicine stock on hand, broken down into the following categories

- normal stock being held for dispensing to patients
- out of date stock
- stock with no active patients.

21.38 The year end stock figure is derived from the returns made. Where a return is not made by a pharmacy, the HSE estimate the value of stock on hand. In respect of the year end 2014, 96% of pharmacies submitted a stock return. The total value of stock on hand at 31 December 2014 was estimated at €44.8 million, of which €2.7 million was reported to be out of date. Although the HSE receive information on the stock with no active patients from the pharmacies in their year end stock returns, they do not quantify the total value of such stock on hand at year end.

Periodic Stock Counts

21.39 Each year, the HSE carries out around 100 routine on-site inspections of pharmacies. The inspection focuses on how the pharmacy operates in terms of staffing and dispensing and includes an examination of the controls in place for refrigerated drugs and medicines, and for controlled drugs.[1]

21.40 Stock counts of high tech drugs and medicines do not form part of the pharmacy inspection programme. The HSE does not carry out periodic stock counts of the high tech drugs and medicines.

Conclusions and Recommendations

21.41 In 2014, the HSE incurred expenditure of €485 million on the high tech drugs scheme, comprising payments of

- €468 million to 18 pharmaceutical suppliers for the supply of drugs and medicines to pharmacies, and
- €17 million to pharmacies in respect of monthly patient care fees.

21.42 The HSE's system for making payments to the pharmacies and to the pharmaceutical suppliers is not a fully integrated electronic system. The absence of an integrated electronic processing system presents a number of risks to value for money.

1 Regulation of Retail Pharmacy Businesses Regulations 2008 (SI No. 488 of 2008)

21.43 It is important that the HSE has controls in place to ensure that drugs invoiced and paid for have, in fact, been delivered to pharmacies. Controls in this regard are inadequate. While the majority of expenditure on the scheme is incurred in relation to payments to suppliers, the checks conducted by the HSE are focused on checking the pharmacy's claim rather than the supplier invoices.

21.44 The HSE match copies of delivery dockets submitted by pharmacies with supplier invoices. This checks that the quantity of drugs and medicines received by a pharmacy are correctly invoiced. It would not detect instances where – through error or otherwise – a supplier invoices in respect of drugs and medicines not actually delivered.

Recommendation 21.1

Pending the introduction of a fully electronic purchasing and stock control system in relation to high tech drugs and medicines, the HSE should expand the post-payment checks conducted to include validation of a sample of supplier invoices. The results of this validation should be analysed to identify weaknesses in control procedures, the cause of errors and any suppliers with a high error rate on invoices submitted for payment.

Accounting Officer's response

Agreed. However, there are significant practical difficulties with its implementation. While it is accepted a full reconciliation of invoices should be completed, an electronic approach to this is necessary. Furthermore, stakeholder agreement on the delivery of such an electronic reconciliation/product tracking system would require that this is included as part of any new formal agreement with suppliers.

21.45 Effective stock control is important in ensuring that patient care needs are met at the lowest available cost. Excess expenditure in the scheme occurs where stock acquired by the pharmacy is not used. This may arise where the patient's prescription changes or the patient decides to use an alternative pharmacy and the pharmacy does not have another patient requiring the drug. In relation to ordering stock, it is important that the optimum balance is struck between ensuring that drugs are available to satisfy patient care needs in a timely way while minimising wastage due to excess stock. In general, pharmacies cannot return unused stock to suppliers or transfer stock to other pharmacies.

21.46 At the end of each year, the HSE requires each pharmacy to supply details of the stock of high tech drugs on hand, to identify stock which does not have an active patient, and stock which has gone out of date. Of the €45 million on hand at 31 December 2014, returns from individual pharmacies indicated that stock valued at €2.7 million had gone out of date. However, this is a measure of the wastage at a point in time, and probably understates the actual level of wastage of high tech drugs occurring in a year.

21.47 The HSE does not require pharmacies to complete declarations of stock disposal or destruction in relation to out of date stock. Furthermore, the HSE does not have information in relation to the level, cause and cost of wastage due to excess stocks.

21.48 The HSE does not compare the information received from the suppliers in relation to the quantity of drugs and medicines delivered to pharmacies with information received from pharmacies in relation to the quantity of drugs actually dispensed in order to calculate the level of wastage occurring. Monitoring this trend by individual pharmacy and by type of drug would allow the HSE to take action in relation to those areas where abnormal levels of wastage may be occurring.

Recommendation 21.2

The HSE should develop a fully integrated electronic processing system which would provide assurance that all stock paid for had, in fact, been delivered to pharmacies. In addition, a reconciliation of the quantity of drugs delivered, dispensed and stock on hand would allow it to monitor stock levels and thereby minimise losses due to excess stock holding.

Accounting Officer's response

Agreed. A project (Pharmacy Interface Project) is currently underway to deliver a number of enhancements. The scope of the project includes the electronic collection of additional data from pharmacies.

21.49 Excess stocks may arise in instances where a patient opts to use a different pharmacy from the one nominated on registration for the scheme. A pharmacy protocol issued by the HSE in December 2013 allows a patient to nominate a different pharmacy if the patient lives in the locality and wishes to obtain the high tech drugs from that pharmacy in future on a regular basis. While this allows the patient freedom of choice, in general it creates a risk of excess stocks in the pharmacy nominated at registration. The HSE does not have information in relation to the incidence of losses due to patients opting to use a different pharmacy.

Recommendation 21.3

The HSE should review its protocol in relation to patients changing pharmacies including use of the existing medicines transfer protocol so that, where possible, patients receive drugs ordered for them by the pharmacy nominated at registration.

Accounting Officer's response

Agreed. The HSE does not see circumstances whereby any protocol would be acceptable at a policy level which would prevent the free movement and choice of patients. There may be some scope to modify approval documentation to encourage the patient to delay movement until existing stock would be used.

21.50 In September 2011, the HSE requested pharmacies to co-operate in maximising a 'just in time' facility in order to reduce stock held to that compatible with immediate patient need. This was reiterated in June 2013 where pharmacies were again asked to maintain a minimum stock of high tech product.

21.51 The examination noted that the current stock level, where the equivalent of just over a month's supply of stock is held in pharmacies, seems high by reference to the frequency of delivery of drugs from suppliers and lead time for orders. However, the HSE has also noted that there have been some complaints from patients and patient advocates that patients had to wait over a weekend for essential stock to be delivered to the pharmacy from the suppliers.

Recommendation 21.4

The HSE should develop more detailed guidelines for pharmacies operating the high tech drugs scheme, setting out the optimum stock holding targets by category of drug, taking account of the cost of the drug and the number of patients requiring the drug.

Accounting Officer's response

Not agreed. It would not be feasible to implement this recommendation. Pharmacies have been asked to maximise a 'just in time' facility. However, the priority is ensuring that patients get the medicines they need when they need them.

21.52 In addition, the HSE does not at any stage conduct an independent check of stock levels in individual pharmacies. It requires pharmacies to provide details of stock on hand on an annual basis.

Recommendation 21.5

The HSE should include a review of high tech drugs as part of its normal pharmacy inspection programme. This could include a review of the overall stock levels, checks of a sample of high tech drugs and a review of the levels of high tech drugs disposed of as a result of being out of date.

Accounting Officer's response

Agreed. The HSE is working towards assigning additional staff to inspection work. This would allow for a greater number of inspections to be conducted and would also allow for the conduct of a stock count as part of the inspection.

The inclusion of a full count of stocks held in respect of the high tech drug scheme as part of the pharmacy inspection would have a significant resource impact and would deflect from other practice and patient care priorities.

Revenue

22 Revenue Debt Management

22.1 The Office of the Revenue Commissioners (Revenue) has two key strategic priorities for 2015 to 2017 – to make it easier and less costly to voluntarily comply with tax obligations, and to identify and confront non-compliance. Timely collection of outstanding revenue debt is an essential part of Revenue's compliance activities.

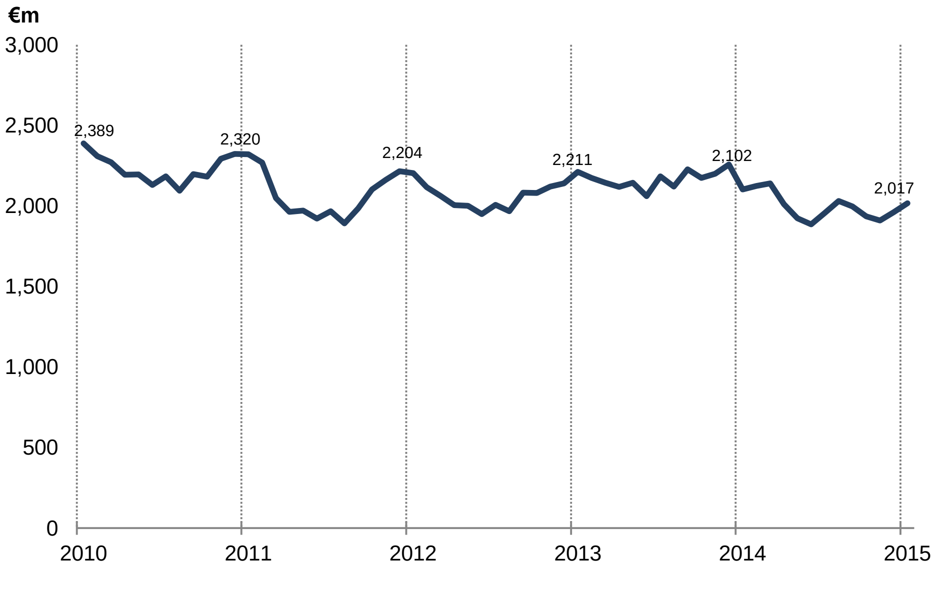
22.2 Within Revenue, primary responsibility for revenue debt management rests with the Collector General's Office which has responsibility for the collection of taxes and duties, and for their allocation to the appropriate taxpayer account and correct tax heading. The purpose of its debt management function is to ensure the timely collection of business and personal taxes for which Revenue has responsibility.

22.3 This report reviews Revenue's debt collection function. It looks at trends in the value of tax debt outstanding and the collection status and age of the debt. The process for writing down tax debt was also examined.[1]

Outstanding Tax Debt

22.4 The gross revenue debt outstanding at 31 March 2015 was €2,017 million, around 9% lower than at March 2013 (see Figure 22.1).[2]

Figure 22.1 Gross debt outstanding at month end, March 2010 to March 2015



Source: Estimates by the Office of the Revenue Commissioners.

Local Property Tax Debt

22.5 Revenue records indicate that, at the end of March 2015, around €95 million of pre-2015 Local Property Tax (LPT) was outstanding. Revenue stated that while LPT debt is included in its 'state of file' system, the records have not been fully tested and it does not include the outstanding LPT debt in its debt statistics.

1 Write-down of outstanding tax refers to the Revenue practice of classifying the tax as being uncollectible due to the circumstances of the taxpayer. The tax remains due to Revenue and, if the taxpayer's circumstances change, Revenue will endeavour to collect the amounts due.

2 Revenue generally reports the net tax outstanding – gross debt less VAT repayments due. At 31 March 2015, the net debt reported by Revenue was €1.7 billion, a fall of 16% in the two years since March 2013.

22.6 Revenue stated that a significant portion of the outstanding €95 million of pre-2015 LPT debt relates to arrears of Household Charge that have not yet been confirmed as properly due with the taxpayer. The amount quoted also includes LPT debts being paid under phased payments and estimated debts.

22.7 Figure 22.2 shows the gross outstanding amount by tax type and summarises the charges raised, the payments made and the amounts written down in the 12-month period ended March 2015.[1] The two largest categories of debt outstanding at that date, which accounted for over 60% of the total tax due, were Income Tax (€687 million excluding PAYE) and VAT (€551 million). The income tax debt is 28% of the charges raised in the year, whereas the VAT debt is 6%.

Figure 22.2 Movement in outstanding taxes and PRSI, 2014/15

Tax or levy[a]	Balance at 31 March 2014	Charges raised[b]	Tax paid[c]	Tax written down	Balance at 31 March 2015	Balance as % of charges raised
	€m	€m	€m	€m	€m	
VAT	594	9,781	(9,745)	(79)	551	6%
PAYE	118	11,357	(11,310)	(14)	151	1%
PRSI	143	8,066	(8,037)	(19)	153	2%
USC	39	3,587	(3,589)	(3)	34	1%
Income Tax	688	2,414	(2,378)	(37)	687	28%
DIRT	–	350	(350)	–	–	–
Corporation Tax	180	3,509	(3,531)	(2)	156	4%
Capital Gains Tax	237	436	(499)	(7)	167	38%
Capital Acquisitions Tax	36	353	(333)	–	56	16%
Relevant Contracts Tax	29	187	(187)	(4)	25	13%
Environmental Levy	38	12	(13)	–	37	308%
Air Travel Tax	–	7	(7)	–	–	–
Total	**2,102**	**40,059**	**(39,979)**	**(165)**	**2,017**	**5%**

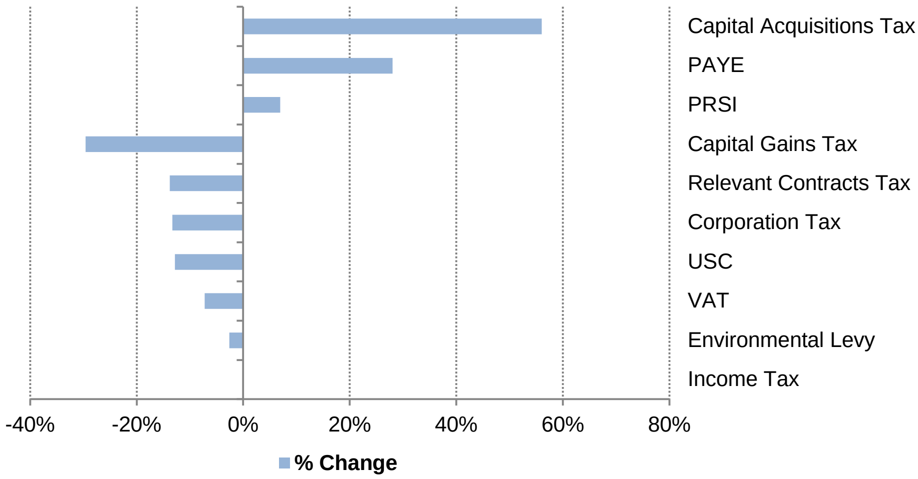
Source: Office of the Revenue Commissioners

Notes:
a Excludes Local Property Tax (LPT), because Revenue has not completed testing of LPT records in its debt reporting systems. The LPT paid in 2014 amounted to €493 million.
b Charges raised includes estimates in cases of non-filing.
c Tax paid includes cases where estimates are subsequently reduced by the caseworker.

22.8 Figure 22.3 shows the percentage changes in the level of outstanding debt during 2014. The largest reduction related to capital gains tax, which reduced by €70 million, or just under 30%, in the year. In contrast, the amount of tax outstanding in respect of capital acquisitions tax increased by 56%.

1 The debt outstanding and net charges exclude those taxes which are not the subject of deferred collection including Customs, Excise, Stamp Duty and that element of VAT associated with Customs and Excise.

Figure 22.3 Change in outstanding taxes, March 2014 to March 2015



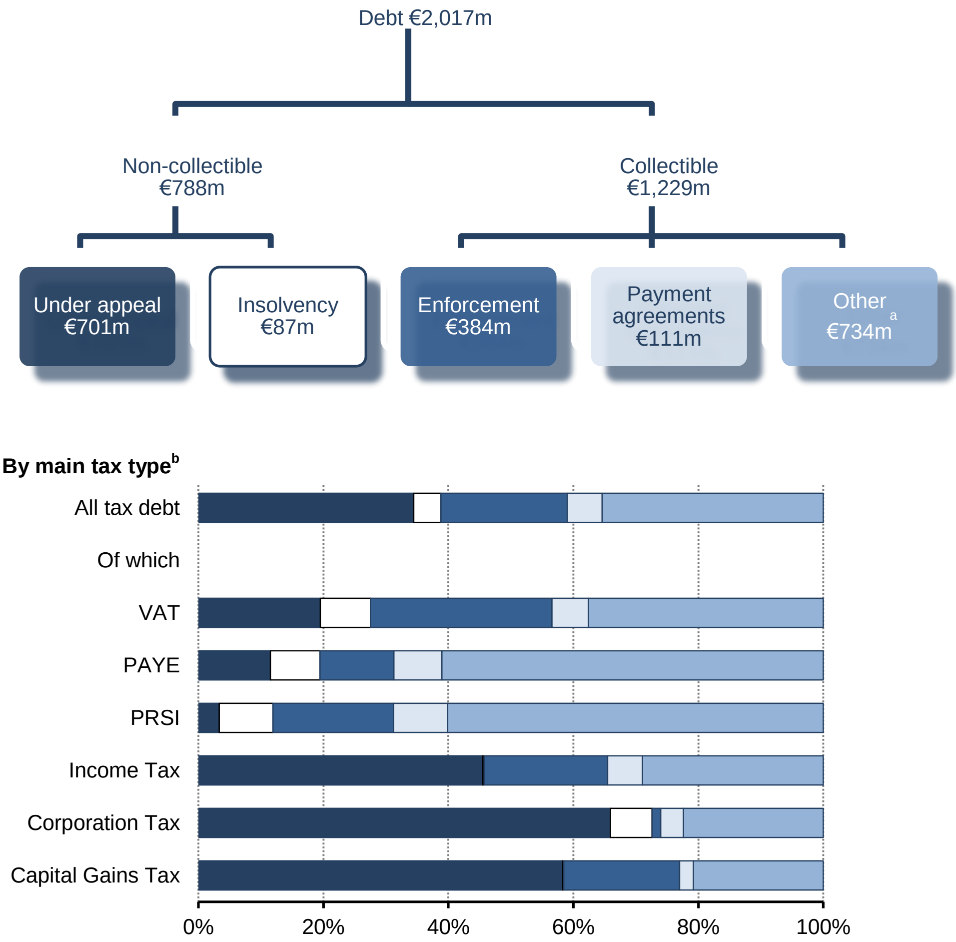
Source: Office of the Revenue Commissioners

Status of Outstanding Debt

22.9 Revenue categorises its outstanding debt in terms of its current status, using the following scheme (see Figure 22.4).

- Debt under appeal and unavailable for collection – where a taxpayer has appealed the value of the tax assessment, Revenue is precluded from collecting the debt.
- Debt not available for collection – the debt of taxpayers who are in liquidation, examinership or certain receiverships is regarded by Revenue as being effectively not available for collection.
- Debt available for collection – further categorised between amounts which are the subject of payment agreements with the taxpayer, are under enforcement either with the sheriff, or Revenue's solicitor or by way of attachment order, or other amounts which are subject to neither payment agreements nor enforcement proceedings.

Figure 22.4 Categorisation of tax debt, March 2015



Source: Office of the Revenue Commissioners

Note: a This debt was deemed by Revenue to be collectible, but at end-March 2015 was neither subject to payment agreement nor to any enforcement proceedings.

b These tax types represent 92% of all tax debt.

22.10 The two largest categories, taxes under appeal (€701 million) and collectible debt, not subject to enforcement arrangements or payment agreements (€734 million), are considered in greater detail below.

Debt Under Appeal

22.11 Responsibility for managing tax appeals is shared between Revenue and the independent Appeal Commissioners.

- Revenue has responsibility for assessing the validity of an appeal request, setting out and agreeing with the taxpayer the outline of the case and requesting an appeal hearing from the Appeal Commissioners.
- The Appeal Commissioners have responsibility for listing, hearing and determining appeals.

22.12 For an appeal to be considered valid, the taxpayer must lodge an appeal in writing with Revenue within the statutory time limit and specify the grounds of the appeal.[1] In the case of an appeal against an assessment, a taxpayer must pay his or her self-assessed tax liability before an appeal can be made. The net debt (Revenue's assessment less any tax paid) is recorded as the debt due.

22.13 Revenue's approach is to try to resolve appeals without going to an appeal hearing. If an appeal is not settled by agreement, an appeal hearing form (known as AH1) setting out details of the case is forwarded to the Appeal Commissioners with a request for an appeal hearing. This form is sent to the taxpayer who may, if not satisfied with the outline set out on the form, submit an additional independent statement. Revenue submits the form and the taxpayer's independent statement (if there is one), to the Appeal Commissioners with a request for a hearing. There is no statutory time limit within which Revenue must apply to the Appeal Commissioners for an appeal hearing date.

22.14 Following receipt of a request for an appeal hearing date, the Appeal Commissioners usually request written submissions from either or both parties. Following determination of an appeal, the Appeal Commissioners must record the determination and provide a copy to Revenue. Generally, the determination is provided to both parties at the final hearing.

22.15 Taxpayers may appeal decisions of the Appeal Commissioners to the Circuit Court for a complete re-hearing. Either the taxpayer or Revenue may refer a point of law arising on a decision of the Appeal Commissioners or of the Circuit Court to the High Court by way of case stated.

Reform of Tax Appeals System

22.16 Following a public consultation on the reform of the tax appeals system carried out by the Department of Finance, the system is about to undergo reform. The first stage of the process was the publication on 15 July 2015 of the Finance (Tax Appeals) Bill 2015. Revenue has established an internal Appeals Project Group to prepare for and oversee the implementation of the revised appeal process.

Status of Tax Appeals, June 2015

22.17 Revenue maintains an internal 'appeals dashboard' which provides current information on the status of tax appeals as a whole. At mid-June 2015, the dashboard showed that €716 million of tax was under appeal. The bulk of the cases (just over 80% by value) had not been heard by the Appeal Commissioners at that date. The status of the appeals as shown by Revenue's records is set out in Figure 22.5.

1 Time limits for making appeals are laid down in tax legislation.

Figure 22.5 Status of tax debt under appeal, mid-June 2015

Status	Number of cases	Debt amount	
		€ million	%
Cases not yet heard by Appeal Commissioners			
Hearing date not yet requested[a]	1,705	351	49
Hearing date requested from Appeal Commissioners	247	162	23
Hearing listed by Appeal Commissioners	86	67	9
Cases heard by Appeal Commissioners			
Hearing complete – case still open	15	8	1
Circuit Court (re-hearing of appeal)	36	51	7
High Court (case stated)	103	19	3
Supreme Court (appeal of High Court decision)	3	51	7
Not classified			
Not classified	63	7	1
Totals	**2,258**	**716**	**100**

Source: Office of the Revenue Commissioner

Note: a Including 823 cases (with total tax under appeal of €28 million) where the result of test cases, either before the Appeal Commissioners or the courts, are awaited.

Test Cases

22.18 A test case may be referred to the Appeals Commissioners where a number of appeals are received by Revenue relating to a common or related matter. Revenue selects a case which, in its view, is representative of the other cases and this case goes to the Appeal Commissioners and, if the determination of the Appeal Commissioners is appealed, to the courts.

Appeal Commissioner Hearings

22.19 The Appeal Commissoners have reported that they process, on average, around 40 cases per month, with an average processing time of 12 weeks per case.[1] This suggests that the Appeal Commissioners have, on average, around 120 cases on hand at any given time. However, Revenue records show that, at mid-June 2015, 333 cases were with the Appeal Commissioners awaiting hearing of which 247 were awaiting a hearing date, and 86 cases had been listed for hearing.

22.20 This suggests that the average waiting time reported by the Appeal Commissioners may relate only to cases for which a hearing date has been set. It would be more meaningful to measure the elapsed time from the date of Revenue's referral to the Appeal Commissioners to the date an appeal hearing decision is delivered.

22.21 In order to reconcile the case load data, the Accounting Officer of the Appeal Commissioners was asked to provide the following information.

- The number of cases on hand where the Revenue Commissioners had requested an appeal hearing date but the date had not yet been set and
- the number of cases on hand where the date for the appeal hearing had been set but the case had yet to be heard.

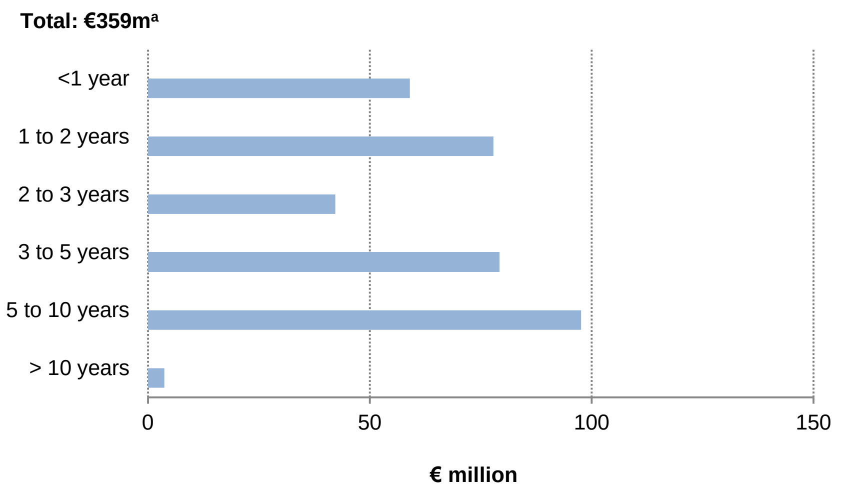
1 Revised Estimates for Public Services 2015

22.22 Notwithstanding the Accounting Officer's obligation under Section 10 of the Comptroller and Auditor General (Amendment) Act 1993 to provide information requested for the purposes of the examination, he did not provide the requested information. He was issued with a copy of the draft report, with an accompanying request for the additional information, on two occasions. He did not respond to either request. Consequently, the examination team has been unable to compare the information provided by Revenue regarding the number of cases referred to the Appeal Commissioners with the Appeal Commissioners' own records.

Cases Where a Hearing Date Has Not Yet Been Requested

22.23 In mid-June 2015, almost half of the debt under appeal was classified by Revenue as 'hearing date not yet requested' from the Appeal Commissioners. The gross debt involved (excluding repayment claims) amounted to €359 million. The examination reviewed the age of this debt, from the date that Revenue put a 'collection stop' on the debt (see Figure 22.6).

Figure 22.6 Tax Appeals – cases for which no hearing date had been requested at mid-June 2015



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

Note: a Hearing dates had also yet to be requested for a further €2.9 million of debt where the results of test cases are awaited. That debt is not included in the analysis in Figure 22.6.

22.24 In mid-June 2015, half of the debt for which no hearing date for an appeal had been requested by Revenue was over three years old, including 28% that was over five years old.

22.25 €67 million of the debt was in respect of cases where Revenue recorded that it was either considering whether to engage legal counsel or legal counsel had been engaged. 58% of this debt was more than three years old.

22.26 Revenue have pointed out that some of the older cases may in fact be at a later stage in the process and that Revenue districts have recently been instructed to update the information on Revenue's systems with the correct status of the appeals.

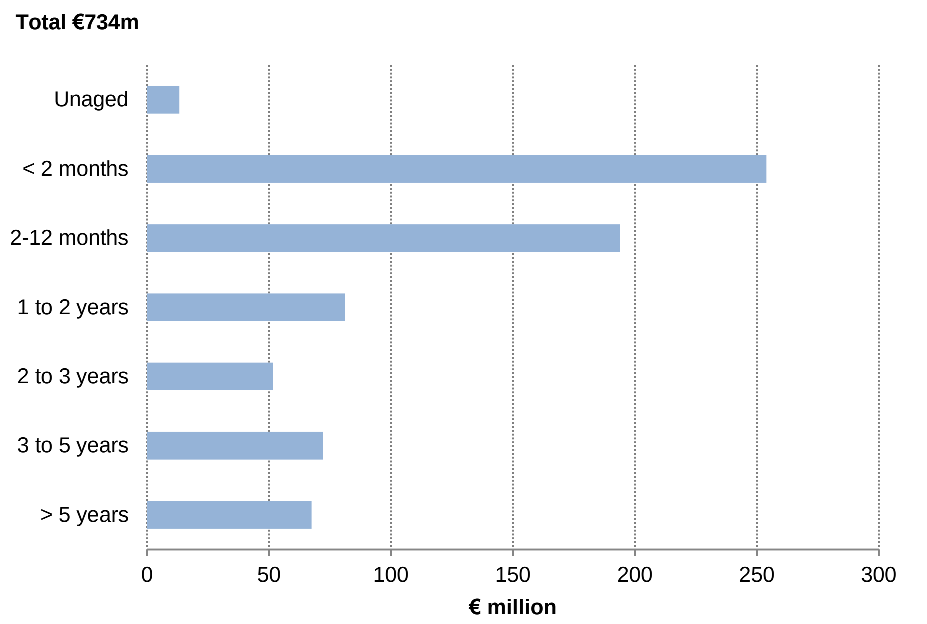
Debt Available for Collection

22.27 A review by the Organisation for Economic Cooperation and Development (OECD) noted that the older tax debt is, the higher the risk of non-payment of that debt.[1]

22.28 At the end of March 2015, €734 million of the tax debt was classified as available for collection but was subject to neither payment agreements nor enforcement proceedings.

22.29 The examination reviewed the aged analysis of this debt classified by start date of the debt (see Figure 22.7).[2]

Figure 22.7 Debt – no enforcement proceedings or payment agreements in place, as at March 2015, by debt start date



Source: Office of the Revenue Commissioners

22.30 At the end of March 2015, around 61% of the €734 million of debt that was neither subject to payment agreement nor to any enforcement proceedings was less than one year old. Revenue noted that around €254 million of this recent debt was less than two months old, and was at the initial stage of the collection cycle. Revenue stated that, of the €194 million which was more than two months old and less than a year old

- €97 million is either under current investigation or has had a recent intervention
- €67 million is not under intervention and is made up mainly of smaller debts of less than €5,000
- €3 million is classified as post-enforcement – initial enforcement actions have failed and Revenue is considering what alternative actions need to be taken
- for the remaining €27 million, 'stops' that defer its collection have been put in place, for a variety of reasons e.g. the case is under audit.

1 *Working Smarter in Tax Debt Management, 2014*

2 For purposes of aged analysis of its debt, Revenue defines the debt start date as the latest of one of the following (a) the date the charge giving rise to the debt came on the taxpayer's record, (b) the due date for the tax or (c) the release date of an appeal stop.

22.31 €286 million (39%) of this debt was over a year old. Revenue stated that almost €170 million of this is either under current intervention or has had a recent intervention. Of the remaining €116 million

- €58 million is not under intervention and is made up mainly of individual amounts less than €5,000
- €20 million is classified as post-enforcement – enforcement actions have failed and Revenue is considering what alternative actions need to be taken
- for the remaining €38 million, 'stops' that defer its collection have been put in place, for a variety of reasons e.g. the case is under audit.

Write-down of Tax Debt

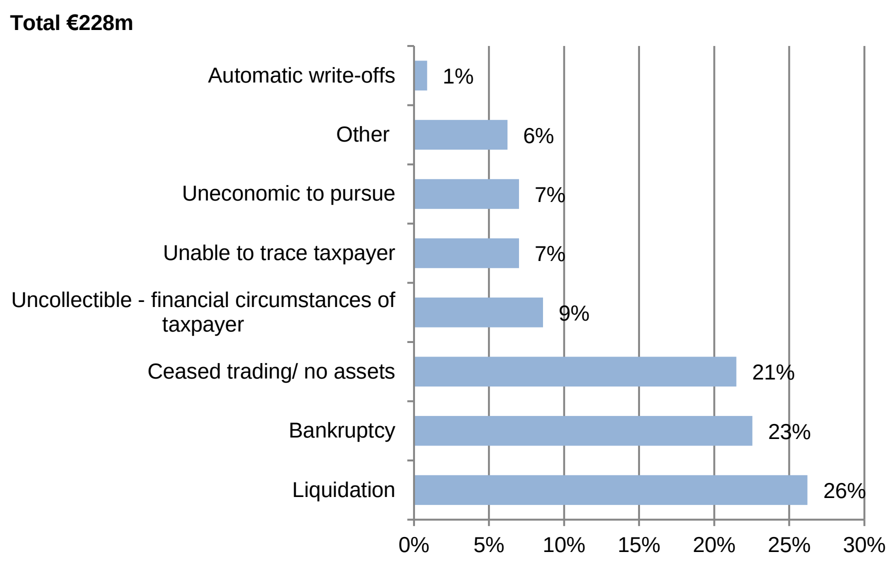
22.32 It is good practice to regularly review the age of debt and the likelihood of its collection. Procedures and controls are required to deal with uncollectible debt, so that management can focus on debt with a reasonable prospect of collection.

22.33 In 2014, a total of €228 million of taxes and PRSI was written down by Revenue. Of this amount, €226 million was written down on a case-by-case basis, around 13% less than in 2013.[1] Companies going into liquidation and bankruptcies were the most frequent reasons for write-downs (see Figure 22.8).

22.34 There were 48 cases where the amount written down exceeded €0.5 million. The average write-down in these cases was €1.6 million and in total these 48 cases accounted for 36% of the write-downs.

22.35 While most of the debt is written down on a case-by-case basis, small debts due in respect of around 140,000 cases, totalling around €2 million (an average of less than €15 each) were written down on an automated basis. Automatic write-down of small debts occurs when a debt is more than five years old.

Figure 22.8 Reasons for tax write-downs, 2014



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

1 Revenue uses the term 'write-down' instead of 'write-off' because tax that is written down remains on the taxpayer's record and can be recovered if the taxpayer's circumstances change.

22.36 In most cases, the write-down covers all outstanding tax debt. However, in some cases the taxpayer may be in a position to make some payments towards the tax due but unable to pay the debt in full, in which case a partial write-down of the debt may be undertaken.

22.37 Four economic sectors accounted for 60% of the total tax written down in 2014. The total amounts written down for these sectors were

- wholesale and retail trade sector – €38 million (17%)
- construction sector – €35 million (15%)
- accommodation and food service activities – €22 million (10%)
- ‘other services’ activities – €41 million (18%).

22.38 Write-downs remained stable or decreased in all sectors during 2014, with the exception of ‘other services’ activities, which increased from 2% of total write-downs to 18%.

Approval for Tax Write-downs

22.39 All write downs are formally approved by the Chairman of Revenue. Each year, Revenue’s internal audit unit audits a sample of the cases with write-downs to ensure that the write-downs are in accordance with Revenue’s procedures.

22.40 During 2014, the internal audit unit carried out a review of €56.1 million of write-downs, 21% of the total amounts written down in 2013. Internal audit concluded that write-downs carried out by Revenue during 2013 were generally in accordance with procedures, but noted some instances where recording of write-down activity did not take place in accordance with Revenue’s internal guidelines.

22.41 The examination reviewed a number of write-downs in 2014 – the ten largest cases and five further cases selected at random. The examination found that the write-downs in the cases reviewed had all been approved in accordance with Revenue’s procedures.

22.42 The examination also reviewed the files of the sample cases for evidence of the actions taken by Revenue to pursue the debts prior to write-down of the debt, including evidence of demands being issued, follow-up by case workers and enforcement actions. In 13 of out 15 of the cases reviewed, there was evidence of appropriate action being taken by Revenue to pursue the outstanding debt in advance of the write down. In the remaining two cases, while paper files were not available, Revenue provided evidence of follow up action that was recorded on its IT systems.

Benchmarking Tax Debt Collection Process

22.43 In October 2014, the OECD published a study report entitled *Working Smarter in Tax Debt Management*. Ireland (represented by Revenue) was one of 14 countries that contributed to the development of the report. The report provides an overview of the modern tax debt collection function. It identified certain essential features of a modern debt collection function. Figure 22.9 summarises those features, and Revenue’s current status in relation to each.

Figure 22.9 Essential features of modern tax debt management

Essential features	Key elements	Present in Revenue
Organisation	Specialist function established	✓
Key performance indicators	Appropriate performance indicators	✓ (partially)
Advanced analytics	Deep insights from data, enabling highly segmented approach to taxpayer	✓ (partially)
Treatment strategies	Range of interventions available	✓
Call centre	Dedicated outbound call centre	✗
Debtors who have gone abroad	Use of exchange of information agreements	✓

Source: OECD (2014), Working Smarter in Tax Debt Management; analysis by the Office of the Comptroller and Auditor General.

✓ Feature/element present in Revenue; ✓ partially present; ✗ not present.

22.44 As a general comment on the review, the Accounting Officer stated that it was accepted at the outset of the OECD study that national revenue bodies differ in a number of important ways, including in respect of their institutional legacies and the tax systems they administer. The work was therefore intended to inform revenue bodies rather than support a standard approach to tax administration, which may be neither practical nor desirable.

Organisation of Debt Collection

22.45 The OECD report notes that debt collection is a specialist function and needs to be organised as such. It states that it makes sense to group some specific types of taxpayer together, for example large businesses, when planning debtor interventions. For the more numerous debtors in the small and mid-sized business segment, the use of analytics is more important in choosing the correct intervention.

22.46 Revenue's debt collection is managed within a number of areas of the Collector General's Division including

- 24 debt management units, which manage cases involving collectible outstanding debt of the main business taxes
- the Services and Transactions Taxes Unit and Dividend Withholding Tax Unit manage debt related to a number of other taxes[1]
- the Local Property Tax branch operates a separate compliance program outside of the normal debt management units to pursue amounts outstanding.

1 Dividend Withholding Tax, Professional Services (Withholding) Tax, Life Assurance Exit Tax, Investment Undertaking Tax, Deposit Interest Retention Tax, Advanced Corporation Tax, Capital Acquisitions Tax, Environmental Levy and Air Travel Tax.

22.47 In addition, Revenue has five specialist units which manage particular higher-risk categories of debt cases.

- The Commonality Unit manages cases linked by common company directors where the debt exceeds €250,000.
- The Phoenix Unit manages cases involving businesses linked through principals involved in previously failed businesses where limited liability protection resulted in non-payment of fiduciary taxes (e.g. PAYE, USC).
- The Dedicated Enforcement Unit undertakes collection enforcement action of a more complex nature.
- Two insolvency units have overall responsibility for managing Revenue's response where cases are going through a formal insolvency process i.e. liquidation, receivership, examinership and bankruptcy cases.

Key Performance Indicators

22.48 The OECD report notes that choosing the correct performance indicators is essential if the day-to-day operations of the collection function are to remain aligned with the desired outcomes. It states that performance should be measured at three levels.

- Strategic – the level at which the overall performance in tax revenue and debt collection can be measured.
- Operational – measures the effective execution of particular aspects of debt collection or debt management.
- Individual – based on critical elements and standards, for example service levels (calls answered) and timeliness of getting cash to bank.

Figure 22.10 OECD proposed indicators for revenue debt managment

Proposed strategic indicators	Used by Revenue
Size of debt book	✓
Ratio of collectible debt to net tax collections	✗
Proportion paid on time	✓
Recovery rate	✓
Costs of collection	✓
Write-off	✓
Paid against forecast	✗
Proposed operational indicators	
Enforcement indicators – directly linked to specific collection activities such as: the number of summons, seizures, court cases, bankruptcies or cases that have been handled over a certain period.[a]	✓
Inventory – indicators that can be linked to the number of debts, such as tax debts older than a certain period of time (age); and other volume measures, such as the number of cases managed by a call centre; or the number of reminders sent to debtors.	✓

Source: OECD (2014), Working Smarter in Tax Debt Management; analysis by the Office of the Comptroller and Auditor General.

Note: a Revenue generally does not set targets in these operational areas.

✓ Used by Revenue; (targets are set and performance is monitored against these) ✓ partially used; (performance is monitored but targets are not set) ✗ not used.

22.49 There is scope in Revenue to increase the number of indicators it uses to set performance targets and to measure and report on performance against the targets at both the strategic and the operational level.

22.50 The Accounting Officer considers that Revenue has appropriate indicators currently in place at both strategic and operational levels. At the strategic level, the indicators that are used are outcome based (debt reduction and payment/return compliance targets) and these are considered more appropriate than output measures. These outcome measures are drilled down to individual Debt Management Unit (DMU) levels. At the operational level, output measures are used. For example, the number and value of enforcements and the number of contacts and decisions made within each DMU are maintained and monitored at operational level and are used as comparators across the DMUs.

Advanced Analytics

22.51 The OECD report concluded that revenue bodies can not afford to treat all debtors in the same way, believing that this gives the deliberately non-compliant too much scope to play the system and results in actions that are ineffective, or unnecessary.

22.52 The use of advanced analytics within a tax debt environment makes it possible to use all the information revenue bodies hold about taxpayers in order to accurately target non-compliant taxpayers with the right intervention at the right time. The aim is to eliminate the cost of ineffective interventions and improve revenue flow. Advanced analytics of data held should assist revenue bodies to obtain deep insights, to enable highly segmented approaches to taxpayers, to predict behaviours and events with a reasonably high degree of certainty and, in some instances, to prescribe actions.

22.53 Revenue uses a number of computerised systems within its debt management function, but these focus on the outstanding debts rather than the debtor. They include

- the arrears case analysis tool (ACAT) – this is a real-time analytical tool used to examine and prioritise debt available for collection, by reference to size of debt, within five main tiers
- the 'state of file' system – this summarises liabilities, collections and balances classified by tax type and categorised within their availability for collection.

22.54 The Accounting Officer pointed out that while analysis in the first instance is always debt based, Revenue uses a number of different IT systems across its debt management operations to identify and intervene in the riskiest cases. Non-compliance with return filing and payment obligations is a major factor used by Revenue's risk evaluation and analysis programme (REAP) in profiling individual cases. There are a significant number of such rules in REAP contributing to the overall risk score.

22.55 The Active Intervention Management (AIM) system is used to select cases based on either returns or money outstanding (or a combination of both), while the ACAT allows managers to drill down into the debt figures and identify the individual debt cases. ACAT also supports sector specific analysis and associated case selection. Managers are fully trained in the application of both systems and are tasked with identifying and dealing with the riskiest cases. All of the DMUs are subject to monthly review to ensure collection/compliance targets are being met and that the right cases are selected for intervention.

22.56 Revenue has recently released phase one of a "compliance dashboard" that further enhances Revenue's analytical capability. The dashboard, when fully operational, will allow managers to very closely monitor compliance changes at individual case level or at sector level. The new system is already operational for VAT, PAYE/PRSI/USC/LPT (PREM) and RCT. The remaining taxes will be included in the phase two release (due in October 2015).

Debt Treatment Strategies

22.57 The OECD report notes that a debt management function needs to be able to choose from a number of interventions, ranging from initial measures to prevent taxpayers falling into debt, through to tough enforcement measures. Initial strategies identified in the report include influencing taxpayer behaviour through communication, providing online services and making payment easier e.g. through online payment or instalments. Other strategies include follow-up phone calls and face-to-face meetings with taxpayers prior to enforcement action being undertaken.

22.58 Revenue has a number of the measures identified by the OECD in place including a wide range of online services, facilities for payment of taxes by instalments and (where necessary) use of face-to-face meetings with taxpayers.

Call Centre

22.59 The OECD report notes that a dedicated outbound call centre – which initiates telephone contact with tax debtors – occupies a central role in the advanced management of tax debts. The report states that, for example, Sweden uses outbound calls to target new high risk debtors and noted that 80% of debtors contacted in this way made payments.

22.60 Revenue has a dedicated inbound call centre for providing assistance to taxpayers. However, there is no dedicated outbound system focusing on debt management in place.

22.61 The Accounting Officer pointed out that in 2014 a pilot experiment for the smallest debts (tier five debt), using pro-active outbound calls, produced disappointing results when compared to a similar sized team using current intervention methods.

22.62 The team making outbound calls failed to meet its debt reduction target for the period while the comparative team exceeded its target by 12%. Analysis of the pilot period confirmed that the outbound team had a far higher rate of return calls to deal with, often because the taxpayers were not prepared for the initial contact and required time to gather relevant information or accounts. Additional contacts were also necessary where taxpayers required further clarifications regarding issues or possible options.

22.63 The comparative team had much less return contact because the taxpayers were provided with all of the relevant information in a clearly set out format and were given a period of time to consider the issues and the various options available to them before replying.

22.64 The Accounting Officer noted that the pilot results were consistent with those achieved by the Canadian tax authority, which operates a combined outbound/inbound call service.

Views of the Accounting Officer

22.65 The Accounting Officer stated that, while a dedicated outbound call centre system is not in place, Revenue monitors its high risk larger cases very carefully and, where necessary on a case-by-case basis, makes outbound calls, for example if payments/returns have not arrived by the due date. This is particularly relevant in the larger cases that are very closely monitored where calls will be made if returns/payments have not been received by the due date. Revenue does not consider that the use of dedicated outbound call centres would add value to its debt management operations.

22.66 The Accounting Officer also pointed out that the outbound call centre models identified in the OECD study operate on the basis of delivering the first level interventions and then passing the non-engaging cases back to the ‘local offices’ for escalation. This runs contrary to the evolving and successful structure operated by Revenue over the past 20 years. The key component of the operating structure places responsibility and accountability for all aspects of debt management within any case with a particular team. This structure has produced excellent results over the years, which is clearly evidenced by the high compliance rates achieved, particularly over the very difficult ‘down-turn’ years.

Debtors Who Have Gone Abroad

22.67 The OECD report notes that as people and businesses are increasingly mobile internationally, the number of tax debtors who have left the country in which a tax debt was incurred is increasing. This poses collection challenges for revenue bodies. One of the key ways identified in the report to find a taxpayer who has moved to a different jurisdiction is through the issue of a request for exchange of information as provided for in a bilateral, regional or multilateral exchange agreement.

22.68 During 2014, Revenue made 55 debt-related mutual assistance requests to other EU member states. Just over €300,000 in payments was received in 2014, following mutual assistance requests.

Conclusions and Recommendations

22.69 The gross tax debt due at end-March 2015 was just over €2 billion, having fallen by 9% in the two years to that date.

22.70 35% of tax debt is classified as non-collectible because it is under appeal. However, there is inconsistency between the status of cases as recorded on Revenue's systems and the number of cases recorded by the Appeal Commissioners. The inconsistency suggests that the average waiting time reported by the Appeal Commissioners may relate only to cases for which a hearing date has been set and does not include the time between referral by Revenue and the setting of a hearing date. However, because the Accounting Officer of the Appeal Commissioners did not cooperate with this examination, it was not possible to establish the timeliness of processing of appeals by that Office.

22.71 At mid-June 2015, Revenue had yet to request hearing dates from the Appeal Commissioners for around 50% of the tax under appeal. Half of this debt is over three years old, including 28% that is over five years old. There is a significant risk that this debt may be incorrectly classified by Revenue.

Recommendation 22.1

Revenue should review the classification of appeal cases in its records to ensure that the classifications are correct and that actions appropriate to the status of each case are taken in a timely manner.

Accounting Officer's response

Agreed. This exercise has already been actioned under the remit of the appeals reform project. One of the tasks being carried out in the project is to address any inaccuracies in the data currently provided through the appeals dashboard. In mid-July 2015, Revenue started an examination of all appeals with a view to updating and correcting the information on the appeals dashboard.

22.72 Over one-third of the debt was classified as collectible but was subject to neither payment agreements nor enforcement proceedings. €286 million (39%) of this debt was over one year old.

Recommendation 22.2

Revenue should review debt which is classified as collectible and which is more than one year old but on which no agreement has been reached with the taxpayer for its payment and where Revenue has not initiated enforcement action, to determine what actions might be taken to collect the debt.

Accounting Officer's response

Agreed. Revenue fully recognises that the best chance of collection is at the early stages of debt arising. In this regard, Revenue has achieved full coverage in tiers one to four i.e. the larger debts. However, full coverage is not possible in the lower tier five tranche due to the volume of cases versus resources available. Revenue is currently reviewing how tier five cases are worked to increase the scope for earlier interventions in these cases.

22.73 Revenue's debt management structure has many of the features identified as essential components of a modern debt management system as identified in an OECD report. The report identifies two elements – the use of advanced data analytics to enable segmented approaches to be taken to taxpayers and the use of call centres to follow up on outstanding debt – that have not yet been fully adopted by Revenue, while Revenue's performance indicators are also not as extensive as those recommended in the OECD report.

Recommendation 22.3

Revenue should develop a more comprehensive range of performance indicators, and make greater use of advanced data analytics as outlined in the recent OECD Report.

Accounting Officer's response

Agreed.

Performance Indicators

Revenue will continue to review its performance indicators on a regular basis, and take international best practice into account.

Advanced Analytics

Revenue is committed to the use of advanced analytics to support our compliance and service programs and has recently recruited a Chief Analytics Officer.

Revenue's analytical capability includes its Active Intervention Management system and Arrears Case Analysis Tool, its new compliance dashboard as well as its 'state of file' system and debt forecasting capabilities.

Following the completion of stage two of the compliance dashboard (planned for October 2015) a 'close recommendation engine' will be added in 2016, which will include a data analytics package that will link together the state of file, ACAT and compliance dashboard data and assist caseworkers decision-making using advanced analysis, and further case segmentation.

23 Revenue's Contractors Project

23.1 In the course of tax audit activity and other assurance checks in 2010 and 2011, Revenue identified a practice whereby individuals were offering their services as contractors to clients through the use of intermediaries – usually a limited company. The intermediary companies treated the individual contractor, who was usually a director of the company, as an employee to whom it paid a salary, on which tax was paid through the PAYE system. Features of many of the intermediary companies identified by Revenue included

- the contractors generally owned or controlled the intermediary companies
- the companies had small numbers of employees (frequently a single employee who was a sole owner/director)
- the company was providing the contractor's services to a single client – there did not appear to be a substantial business apart from this
- the intermediary companies paid high levels of (untaxed) expenses to the contractors when compared with the contractors' salaries.

23.2 Revenue concluded that some contractors were using the intermediary companies to allow them to operate as PAYE taxpayers while, in practice, they extracted a large part of the company's contract income as tax-free expenses. Arising from this, Revenue initiated a pilot targeted audit programme, the 'Brass Plate' project, in late 2012. The pilot project was carried out in Revenue's South-West region.

The 'Brass Plate' Pilot Project

23.3 The aim of the pilot project was to review tax practices within the contracting sector and to develop a methodology to identify and deal with cases which showed patterns of excessive expenses or incorrect tax treatment of expenses. By June 2013, the yield from the pilot project was €4.6 million (see Figure 23.1). 71% of the targeted cases had resulted in payment due to Revenue and fifteen cases were published in the tax defaulters' list in An Iris Oifigiúil.

Figure 23.1 Brass Plate project – summary of outcomes at June 2013

Completed audits [a]	185
Proportion of yielding cases	71%
Total yield	€4.6 million
Tax	*€2.8 million*
Interest	*€0.9 million*
Penalties	*€0.9 million*
Average yield per yielding case	€35,000

Source: Office of the Revenue Commissioners

Note: a The audits completed were in respect of 119 companies and 66 directors. Eight audits of director-employees which had not been completed at June 2013 were transferred to the subsequent contractors project.

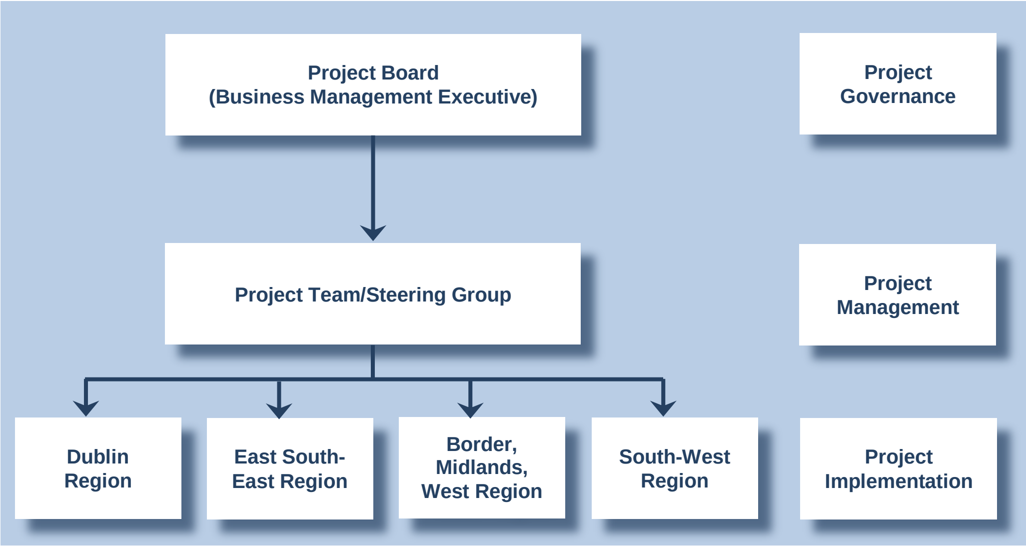
23.4 On review of the findings of the pilot programme and taking into account the identified high risk of non-compliance with tax requirements, Revenue expanded the programme into a national project, known as the contractors project.

23.5 This report reviews the operation of the contractors project.

Project Governance

23.6 Revenue adopted a formal project management structure for the operation and management of the contractors project (see Figure 23.2).

Figure 23.2 Project structure



Source: Office of the Revenue Commissioners

23.7 The project board comprised the members of Revenue's Business Management Executive.[1] Its main functions were to approve the project initiation document and any subsequent changes to the project, monitor progress and assess the final outcome. The project board agreed that

- A list of cases for audit were to be prepared by the planning division and circulated for review at local level within the four Revenue regions. Each region was to select 200 cases for audit.
- Specific resources were to be assigned to the cases in each region.
- The audit approach was to carry out desk-based audits spanning the four years 2008 to 2011.
- The approach to the project was to be standardised to ensure consistency in engagement with, and treatment of, taxpayers.

1 The Business Management Executive is a sub-group of Revenue's Management Advisory Committee.

Selection of Cases for Audit

23.8 In the normal course of business, the majority of cases selected for tax audits are determined by Revenue auditors reviewing the risk rating of the taxpayer using Revenue's risk evaluation and analysis programme (REAP). However, a review of the pilot programme noted that of the original cases identified for review, very few had been ranked in the top 100,000 cases in REAP.

23.9 For the contractors project, Revenue's planning division identified the population of cases from which each region would select cases for audit using the same criteria that had been applied in the pilot programme. These were

- ***Directors' remuneration filter*** – over 400,000 corporation tax returns from companies for the years 2009, 2010 and 2011 were analysed to identify companies which met the following criteria[1]
  - turnover or sales within certain parameters
  - salaries/wages and staff expenses, for staff other than directors, lower than a certain amount. The purpose was to identify companies where the bulk of remuneration was likely to have been paid to directors
- ***NACE code filter*** – the 111,000 cases identified in the first filter were classified by their NACE code.[2] Revenue then identified cases with one of 13 NACE codes where, based on Revenue's experience in the pilot project and analysis of data on P35 forms, it considered the risk of non-compliance to be highest. Three categories accounted for two-thirds of the 23,000 cases identified at this stage
  - business and other management consultancy activities
  - engineering activities and related technical consultancy
  - computer consultancy activities
- ***Expenses filter*** – further analysis of the 23,000 cases identified at the second filter stage was carried out in order to identify cases with a high proportion of expenses. Cases were selected if they met any one of the following criteria
  - motor, travel and subsistence expenses were greater than a certain percentage of turnover or sales
  - 'other expenses' were greater than a certain percentage of turnover or sales
  - motor, travel and subsistence expenses combined with 'other expenses' were greater than a certain percentage of turnover or sales.

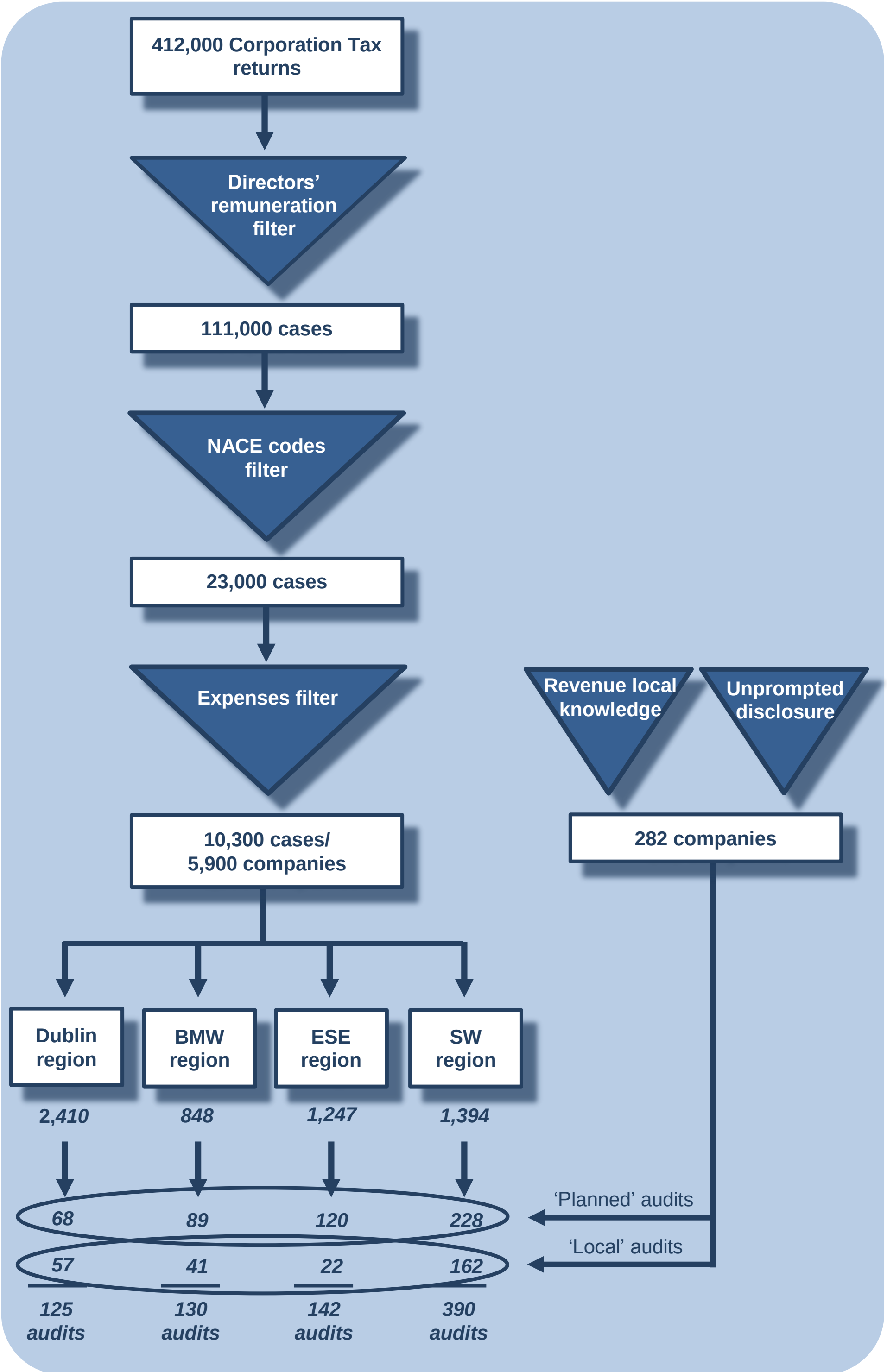
23.10 The resulting schedule of 10,300 cases was forwarded to the four regions, which were each asked to select 200 cases for audit from the schedule. The project board subsequently reduced this to 100 cases to be selected from the schedule drawn up by the planning division, and decided that the regions could supplement the list from the planning division with additional locally-selected cases.

23.11 The filtering/case selection process is summarised in Figure 23.3.

1 Companies were included for each year in which they met the criteria – a single company could be included up to three times.

2 The statistical classification of economic activities in the European Community (commonly referred to as NACE) is a standard European industry classification system. On Revenue's registration system, all taxpayer cases are assigned a single NACE code. This reflects the primary income source, even where the taxpayer engages in multiple trades or activities.

Figure 23.3 Contractors project – central identification of potential audit cases

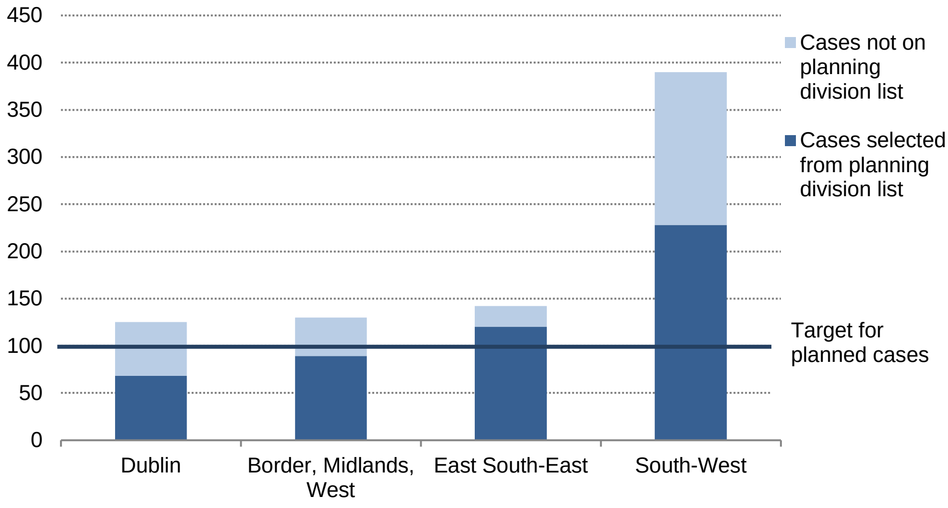


Source: Office of the Revenue Commissioners

Selection of Cases for Audit at Regional Level

23.12 Central guidelines were not issued to the regions about how to select cases for audit from the planning division list. Ultimately, audits were carried out in respect of 787 cases (1,369 separate audits), including some that had been carried forward from the pilot programme.[1] Around two-thirds of the cases (505) were selected from the companies identified by Revenue's planning division (see Figure 23.4). The balance of cases were selected at regional or district level using local knowledge or were reviewed following an unprompted qualifying disclosure by a taxpayer.

Figure 23.4 Contractors project – cases audited at regional level



Source: Office of the Revenue Commissioners

23.13 The project was carried out through desk audits performed by over 100 Revenue case workers. The South-West region, where the pilot programme had been carried out, carried out audits in respect of almost 400 cases, or just over 50% of all cases. Only two of the regions achieved the target of 100 cases from the planning division list. The East South-East region was the only one to create a centralised project team.

23.14 A review undertaken by Revenue during the last quarter of 2014 noted that, for audit selection purposes, the NACE codes provided by taxpayers at registration time prove to be too generic in some cases to ascertain accurately the nature of the business being carried out.[2]

23.15 In total, of the yielding audits that had been completed by December 2014, 90% were in respect of taxpayers registered under one of the 13 high risk NACE codes. In three-quarters of the yielding audit cases identified at regional level, the companies were registered under one of these 13 codes, but the companies had not been identified as potential audit cases by the filtering undertaken by the planning division.

1 Audits of 779 companies and 590 directors.

2 This examination found that the companies audited were registered under 37 different NACA codes – while the cases selected by the planning division were registered under the 13 'high-risk' codes, cases identified at regional level were registered under those codes and under an additional 24 NACE codes.

Project Outcome

23.16 Issues identified by Revenue in the course of the project included

- payments in respect of travel, subsistence and other expenses which were not related to business activity and on which no tax had been paid
- payments for travel from a contractor's home to their normal place of work on which no tax had been paid
- deductions claimed for pensions which were not actually made or were subsequently cancelled and the funds reimbursed
- salaries paid to family members of the contractor where there was no evidence that work had been carried out by the recipient of the salary, or where the salary paid to family members was excessive relative to the work actually undertaken
- several variants of the basic intermediary model existed – for example, where a number of individuals are employees of an intermediary company that in turn contracts for the provision of their services to the client company, or where a small number of individuals jointly form an 'umbrella' company.

23.17 By the end of December 2014, just over 80% of the 787 audit cases had been closed by Revenue. The total yield was €15.4 million, of which €14.3 million arose from company audits and the balance from audits of directors. The proportion of yielding cases was high – at 79% – and the average yield, per yielding case, was just under €30,500 (see Figure 23.5).

Figure 23.5 Contractors project – closed cases, December 2014

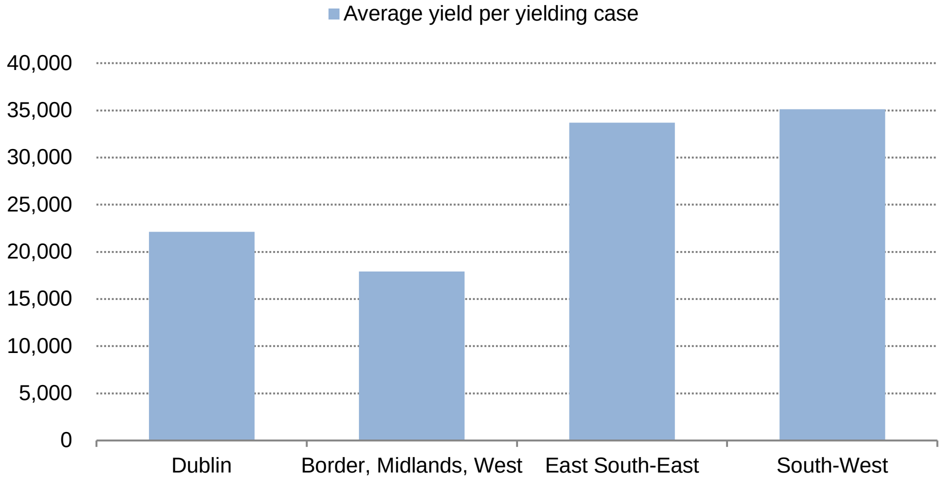
	Planned cases	Local cases	Total
Total cases	505	282	787
Closed cases (at Dec 2014)	396	241	637
Closed yielding cases	308	196	504
Proportion of yielding cases	78%	81%	79%
Total yield	€9.6 million	€5.8 million	€15.4 million
Tax	*€6.1 million*	*€3.7 million*	*€9.8 million*
Interest	*€1.7 million*	*€1.1 million*	*€2.8 million*
Penalties	*€1.8 million*	*€1.0 million*	*€2.8 million*
Average yield per yielding case	**€31,200**	**€29,600**	**€30,450**

Source: Office of the Revenue Commissioners

23.18 One NACE code (engineering activities and related technical consultancy) accounted for two-thirds of the cases and 69% of the total yield. The yield for each NACE code and the number of cases is set out in Annex B.

23.19 There was a significant variation in the average yields across the regions. The average yield was highest in the South-West region and, overall, 60% of the total yield came from cases there. Average yields in the Dublin region were over a third lower than the yields in the South-West region (see Figure 23.6).

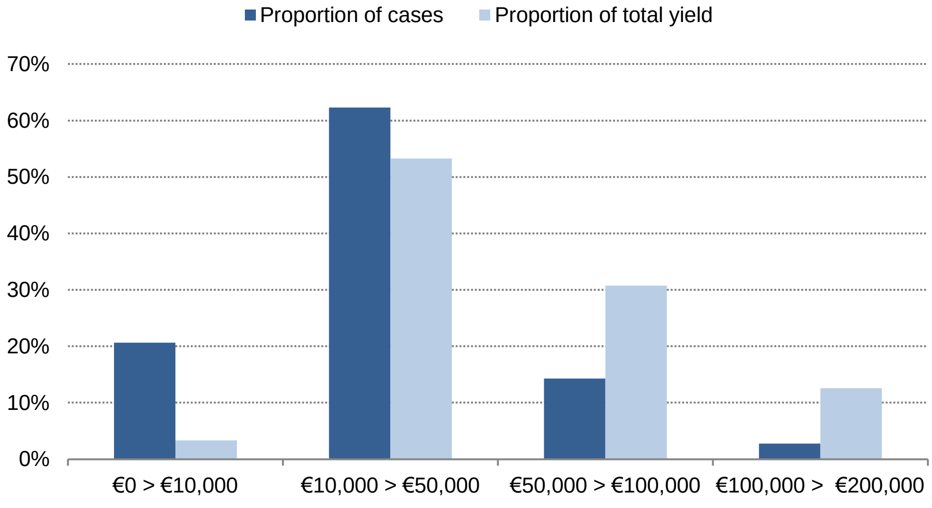
Figure 23.6 Contractors project – closed cases by region, December 2014



Source: Office of the Revenue Commissioners

23.20 The yield in just over 20% of cases was less than €10,000, averaging €5,000 per case. 14 cases (3%) yielded between €100,000 and €200,000 each, of which 12 were audits in the South-West region (see Figure 23.7).

Figure 23.7 Contractors project – proportions of cases and total yield for selected yield ranges



Source: Office of the Revenue Commissioners

Comparison with Random Audit Programme

23.21 Revenue operates a random audit programme with around 400 audits of randomly selected individual taxpayers and businesses commenced annually. The results of the random audit programme for the four years 2008 to 2011 (the same years as those covered by the contractors project) showed that[1]

- additional taxes were levied as a result of random audits in about one-third of cases audited
- the average yield per yielding audit over the period was around €17,000. The yield fell consistently between 2008 and 2011 from €22,000 to just over €11,000.

Engagement with Tax Practitioners and Representative Groups

23.22 Arising from its experience in the pilot programme, Revenue identified a number of risks at the planning stage of the contractors project, including the risk that queries and demands for clarifications might lead to delays.

23.23 In order to address these, Revenue engaged with tax practitioners and contractors representative groups mainly thorough issuing two tax briefings and correspondence with the Irish Taxation Institute, to clarify what the contractors project entailed and, inter alia, the circumstances in which expenses of travel and subsistence may be reimbursed free of tax.[2] Among the issues addressed in the briefings were

- Because of the nature of the tax underdeclarations found in the programme, Revenue took the view that it was required to treat them as stemming from deliberate behaviour, with the appropriate level of penalties. Penalties could be mitigated if taxpayers made qualifying disclosures. In order to facilitate disclosure, Revenue would provide assistance, where required, to those experiencing difficulty. Revenue also asked tax agents to encourage relevant clients to make unprompted qualifying disclosures.
- In arriving at audit outcomes, Revenue would not seek to 'gross up' expenses in calculating the tax underpayment, on the understanding that there would be strict compliance with the laws in future.

Qualifying Disclosures

23.24 Disclosures were made in 59% of yielding cases, of which 77% were prompted disclosures (see Figure 23.8).

1 Chapter 25, Report on the Accounts of the Public Service 2012.

2 The tax briefings were issued in July and November 2013.

Figure 23.8 Contractors project – yield on closed cases, December 2014

	Qualifying disclosure – unprompted	Qualifying disclosure – prompted	No disclosure	Total
Closed yielding cases	70	228	206	504
Total yield	€2.1 million	€8.2 million	€5.1 million	€15.4 million
Tax	*€1.5 million*	*€5.1 million*	*€3.2 million*	*€9.8 million*
Interest	*€0.4 million*	*€1.4 million*	*€1.0 million*	*€2.8 million*
Penalties	*€0.2 million (13% of tax due)*	*€1.7 million (33% of tax due)*	*€0.9 million (28% of tax due)*	*€2.8 million (28% of tax due)*
Average yield per yielding case	**30,000**	**36,000**	**24,800**	
Interest and penalties as a proportion of the total yield	29%	38%	37%	36%
Number of yielding cases to which penalties were applied	70 (100%)	211 (93%)	179 (87%)	460 (91%)

Source: Office of the Revenue Commissioners

23.25 In a submission to the project board in October 2014, the project team noted that the offer to assist in making disclosures had turned out, in hindsight, to have been a mistake. The team found that a number of agents submitted grossly inadequate or incomplete disclosures and slowly increased the amounts in the disclosures in the expectation of securing the lowest settlement. The submission noted that it was not uncommon for the final settlement to be three or four times the amount of the original disclosure, even where that disclosure had been prepared by experienced agents.

23.26 During the project, taxpayers were represented by over 435 agents, of which five agents represented 30% of the yielding cases and the total yield. Following discussions with some agents, and review of the files of around 3,000 contractors, Revenue opened an additional 235 audit cases. In late 2014, Revenue noted that the initial results of these audits included an audit yield of around €250,000 from the first 27 cases (around €9,300 per case) where disclosures had been lodged with Revenue.

Interest and Penalties

23.27 Interest and penalties amounted to 36% of the total yield in the contractors project. This compares with averages of between 20% and 25% for all yielding audits (around 5,800) conducted by the regions in 2012.[1] Overall, penalties were applied in over 90% of the contractor project cases.

1 Chapter 27, Report on the Accounts of the Public Service 2012.

Grossing Up of Expenses

23.28 Employers are required to make appropriate tax deductions in relation to payments made to employees. However, Revenue may agree that the tax due may be paid either by the employee or by the employer.

- Where the employee pays the tax, amounts due in respect of income tax, Universal Social Charge (USC) and Pay Related Social Insurance (PRSI) are calculated on the basis of the amount received by the employee – no grossing up takes place.
- Where the payment was made on a net pay basis and the employer pays the liability on the employee's behalf, the amounts due should be determined by reference to the 'grossed–up' value of the benefit, that is, the notional amount which, if income tax, USC and PRSI were deducted from it, would leave the employee with a net amount which would be equal to the payment they actually received. The grossed–up amount is determined by reference to each individual employee's marginal rate of tax, USC and PRSI rates. The amount to be paid by the employer is the difference between the grossed–up amount and the payment to the employee.

Example: Impact of Grossing Up

The impact of grossing up on the tax due for an employee in respect of payment for expenses on which tax was incorrectly not deducted is set out below. It is assumed the employee is liable for income tax at 41%, PRSI at 4% and USC at 7% (totalling 52%).

	Tax, USC and PRSI applied	
	No grossing up	**After grossing up**
Disallowance of expenses payment to employee	€1,000	€1,000
Total income tax, USC and PRSI rate	52%	52%
Taxable amount	€1,000	€2,080 (€1,000/0.48)
Income tax, USC and PRSI due	€520	€1,080

Source: Analysis by the Office of Comptroller and Auditor General

23.29 Revenue did not gross up expenses for the contractors project audits. In a tax briefing in 2013, Revenue stated that it had adopted this approach on the understanding that the parties concerned would comply strictly with the law in the future. If Revenue had grossed up the expenses, the project would have provided substantial additional yield.

23.30 Revenue stated that

- A legal basis for grossing up exists in situations where there is evidence that the payments made to employees are, by agreement between the employer and employee, on a 'net pay' basis or where the employer agrees to meet the grossed–up liability.
- In the cases selected for the contractors project, payment was received by a contractor's company on foot of an invoice for work done. The total received was then divided between expenses and salary, with PAYE, PRSI and USC deducted from the salary portion. In circumstances where the expenses were overstated or incorrectly claimed, the amount of invalid expenses is the amount from which tax, PRSI and USC should have been withheld. Grossing up the full expenses to a higher amount is not appropriate in those circumstances.
- There may have been cases where grossing up could have been considered but the experience of the early cases indicated that the number of these would be very small. Revenue therefore decided that the advantages of minimising technical negotiation and simplifying the process as much as possible outweighed any potential gain from seeking to re-gross expenses.

Project Review

23.31 A review presented to the project board in October 2014 noted that, overall, the contractor project had been successful and that it had shown that abuse of the tax system was taking place in the contracting sector and that concerted action had been required to address taxpayer behaviour and ensure greater compliance in the future. The review also made a number of recommendations including that

- the project as configured should be wound down with the orderly closure of the remaining cases
- a review should be carried out of 2014 corporation tax filings in the contracting sector to assess the extent to which filing behaviour had changed
- for future national projects, a more thorough pre-launch scoping of the project should be carried out to identify and anticipate issues which could hinder implementation
- each region would be encouraged to continue to audit similar cases using lessons learned from the project, until such time as it becomes clear that the original problems giving rise to the project have been largely mitigated
- the recognition of region/district discretion should continue for future projects, but a much tighter measurement regime would be needed to identify local and regional variations
- the role of Revenue's Business Management Executive as project board has great value, but consideration should be given to a subordinate senior management group comprising a principal officer from each region involved, chaired by a project owner to decide operational issues.

23.32 The review also noted that the use of a centralised project team in the East South-East region had led to greater consistency in the approach when compared with other regions.

Conclusions and Recommendations

23.33 Revenue's targeted audit programme of intermediary contractor companies identified yields totalling €20 million inclusive of tax due, interest and related penalties.

23.34 The audits carried out under the initiative were targeted effectively, based on two strategies – planned cases using automated filtering, and selection of cases using the 'local knowledge' of Revenue officials. Overall, 79% of closed audit cases resulted in financial yield. Both case selection strategies had similar rates – 76% for the planned cases, and 85% for cases selected using local knowledge. The average yield was similar for both selection methods, at around €30,000 per yielding case.

23.35 The level of underpayment of tax in the audited intermediary companies indicates that non-compliance may have been a deliberate feature of some such structures. Revenue is satisfied that, having acted in a significant and visible manner in the course of the project, undesirable practices are being addressed, and that there is considerably more clarity around the treatment of expenses in contractor type cases. The lessons learned in the course of the project have been disseminated to Revenue districts, which are expected to review and audit further individual cases as appropriate.

23.36 Less than one in ten of the companies identified through automated filtering were subject to audit. Even in those cases, the audit focus was on the period 2008 to 2011. It is unclear when public awareness of Revenue's approach might have resulted in a change in behaviour among tax advisors and taxpayers, and higher compliance.

23.37 In notifying the four regions about the filtered cases, Revenue set a target level of 100 audit cases per region. The implied national target of 400 cases was achieved, but the practice at regional level varied, ranging from 68 cases audited in the Dublin region to 228 cases audited in the South-West region. Overall, companies on the planning division list were six times more likely to have been selected for audit in the South-West region than in Dublin.

23.38 Because Revenue did not provide guidance on how filtered cases were to be selected for audit, the selection methods varied across regions. This results in difficulties in interpreting the results. Random selection of cases for audit would mean that the yield results identified would be likely to be representative of the tax gap for the cases in each region and could be extrapolated to give an estimate of the tax gap nationally. Using other methods of selection means that the potential yield from the audited cases may not be representative.

23.39 Irrespective of the method of selection of such cases, a concern remains that there may be significant tax still unpaid in respect of directors' expenses in intermediary company structures for the period 2008 to 2011, and possibly for later periods until the results of the contractors project audits became publicised among taxpayers and agents.

23.40 The concentration of audits on a small number of NACE codes appears to have been effective. However, the filters used to reduce the number of potential audit cases to just under 6,000 companies resulted in exclusion from the audit frame of a significant number of non-compliant cases. The high incidence of the same NACE codes in the audit cases selected using local knowledge confirms this.

Non-standard Features of the Audits

23.41 Revenue decided to apply two features in carrying out its contractors project that are not standard in its general approach to audit.

- Revenue deviated from its normal practice by offering to assist taxpayers in making qualifying disclosures. However, this did not enhance the process – Revenue found that it led to a number of agents submitting grossly incomplete disclosures and that it was not uncommon for the final settlement to be three or four times the amount of the original disclosure, often after protracted negotiations.
- Revenue did not 'gross up' the amounts that had been paid tax free but on which Revenue found that tax was due. It did this on the understanding that there would be strict compliance with the tax laws in the future. It is not clear that this practice took account of the fact that the contractors concerned were often both employers and directors/owners of the companies.

Views of the Accounting Officer

23.42 Revenue has concluded that the offer to assist taxpayers in making qualifying disclosures did not enhance the process and does not intend to repeat that approach.

23.43 Revenue considers that there are significant issues to be addressed in relation to grossing up and sanctions to be applied when non-operation of PAYE is discovered in the course of Revenue audit. The contractors project has been a catalyst in drawing attention to these issues.

23.44 Revenue is currently reviewing the appropriate treatment of the non-operation of the PAYE system. The subject has been considered by Revenue's Management Advisory Committee and, depending on the outcome of the review, recommendations for legislative change may emerge. If proposals for legislative changes do emerge, Revenue will give careful consideration to ensuring that such legislation does not result in any perceived benefit to an employer who does not apply the law correctly.

23.45 Where, in future, Revenue comes across the repeat non-operation of PAYE on expenses in cases settled under the contractors project, Revenue will seek evidence of an 'after PAYE deductions' arrangement and grossing up will be pursued as part of the resultant settlement if such evidence exists. Revenue will also consider the level of penalties to be applied for repeat breaches of the rules.

Risk Assessment

23.46 Reimbursement of expenses, incurred necessarily in the performance of the duties of the employment or office, to employees without deduction of tax is a long standing administrative practice accepted by Revenue. Revenue recognises that the employer company is best positioned to ensure that the tax treatment of expenses is operating correctly and that the proper requisite records are being maintained. The practice streamlines the handling of expense claims, and alleviates the burden on employees of waiting up to a year to recoup expenses.

23.47 A distinction could be made in the permitted treatment of expenses reimbursement in the case of company directors who are also salaried employees. However, Revenue has pointed out that, in general, precisely defining the situations in which a director employee would be denied tax-free reimbursement would be difficult and could result in undue hardship for compliant director employees. Revenue's strategy is to address any non-compliance in this area through audit/review rather than remove the benefit of the practice from all director employees of intermediary companies.

23.48 At the commencement of the contractors project, there were existing REAP rules that identified the type of risk in the contractors project, but these had rated highly very few cases identified as yielding in the initial screening. Two new rules have been added in REAP (in September 2013 and in February 2015) to identify cases that fit the criteria for risk in relation to the contractors project. The formulation of these new rules was based on input from officers engaged on the contractors project and have identified additional cases with risk similar to the project cases.

Recommendation 23.1

In designing future audit programmes such as the contractors project, Revenue should specifically test the effectiveness of the rules in REAP and consider what changes might be required to enhance REAP arising from the results of the audits.

Accounting Officer's response

Agreed. One of the principles upon which the REAP system is based concerns the updating of REAP rules with feedback from successful audits and projects by Districts. The addition of further REAP rules arising from the National Contractors Project is an example of the value of such feedback. Revenue will continue to specifically test the effectiveness of REAP rules in reviewing future projects.

Taxpayer Behaviour

23.49 A key aim of Revenue compliance interventions is to encourage changes in taxpayer behaviour, where non-compliance is occurring. In the course of the contractors project, Revenue invited tax agents to encourage clients to make unprompted voluntary disclosures. Following discussions with some agents, and review of the files of around 3,000 contractors, Revenue opened an additional 235 audit cases. There remains a risk that not all owners of intermediary companies are aware of the issue around drawing payments from their companies in the form of tax-free expenses.

Recommendation 23.2

In order to ensure, to the extent possible, that owners of intermediary companies are fully aware of Revenue's approach to the payment of tax free expenses and of the level of non-compliance it found in the course of the contractors project, Revenue should consider notifying them directly of the outcome of the contractors project. The company owners could be requested to review their tax returns, paying particular attention to areas of risk that Revenue identified during the project, and to make voluntary disclosures where necessary.

Accounting Officer's response

Agreed. The policy of encouraging taxpayers to regularise tax and duty defaults features prominently in the code of practice for Revenue audit and other compliance interventions. Opportunities afforded range from self correction without penalty to the making of qualifying disclosures and the benefits attaching to same. Revenue will consider how best to make contractors aware of their obligations.

Future National Projects

23.50 Overall, the contractors project was well structured. There was a pilot project, an effective governance structure, planning to identify potential cases and a project review, towards the end of the project, to identify lessons learned from the project.

23.51 The post-project review by Revenue noted that, for future national projects, a more thorough pre-launch scoping of the project should be carried out to identify and anticipate issues which could hinder implementation. That review also noted that the use of a centralised project team in the East South-East region had led to greater consistency in the approach when compared with other regions.

Recommendation 23.3

There may be lessons arising from the contractors project that are relevant for future national projects. In order to ensure that such are transferred, Revenue should consider how the learning can be formally captured, for example in a procedures manual for project management in compliance interventions that are undertaken nationally.

Accounting Officer's response

Agreed. Revenue's Project Management Office, which was developed to support governance of IT projects played an important supporting role in the contractors project. The success of this involvement has resulted in setting up a Business Project Management Unit to provide procedural and governance support for national projects.

Annex A – Disclosures and Penalties

Following notification by Revenue of an audit, taxpayers may take steps to correct their tax returns by making a 'prompted disclosure' to Revenue. Where a prompted disclosure: is a disclosure of complete information relating to a tax liability; is made in writing; and is accompanied by payment in full of the tax or duty and any interest due on the late payment or an agreed phased payment arrangement that complies with Revenue's instalment arrangement procedures, it is considered to be a 'qualifying disclosure'. One of the effects of a valid qualifying disclosure is to reduce penalties that are applied for tax default, including avoidance of publication of settlement details.

An unprompted voluntary disclosure occurs where the taxpayer makes a disclosure before a letter notifying the taxpayer of an audit issues or, in the case of an investigation, prior to commencement of the investigation.

Penalties rates for defaults on or after 24 December 2008

Qualifying disclosure and taxpayers co-operation	**Category of default**	**Prompted disclosure**	**Unprompted disclosure**
All qualifying disclosures in this category	Careless behaviour without significant consequences	10%	3%
First qualifying disclosure in these categories	Careless behaviour with significant consequences	20%	5%
	Deliberate behaviour	50%	10%
Second qualifying disclosure in these categories	Careless behaviour with significant consequences	30%	20%
	Deliberate behaviour	75%	55%
Third or subsequent qualifying disclosure in these categories	Careless behaviour with significant consequences	40%	40%
	Deliberate behaviour	100%	100%

No qualifying disclosure	**Category of default**	**No co-operation**	**Co-operation only**
All defaults where there is no qualifying disclosure	Careless behaviour without significant consequences	20%	15%
	Careless behaviour with significant consequences	40%	30%
	Deliberate behaviour	100%	75%

Note: This table refers to defaults that occurred on or after 24/12/2008 (Finance No. 2 Ac 2008), where the taxpayer makes a qualifying disclosure and also to defaults where no qualifying disclosure is made. The tax geared penalty is a percentage of the underpaid tax.

Annex B – Contractors project, Yield by NACE category

	Total yield	Yield – cases on planning division list	Yield – cases identified at regional level	Total cases	% of cases	% of yield
NACE categories used to filter returns	**€000**	**€000**	**€000**			
7112 – Engineering activities and related technical consultancy	10,593	6,991	3,602	328	65.1%	69.0%
7022 – Business and other management consultancy activities	1,098	933	175	50	9.9%	7.2%
6202 – Computer consultancy activities	874	608	266	29	5.8%	5.7%
7490 – Other professional, scientific and technical activities	441	337	104	11	2.2%	2.9%
6201 – Computer programming activities	331	278	53	12	2.4%	2.2%
6209 – Other information technology and computer service activities	173	123	50	5	1.0%	1.1%
7120 – Technical testing and analysis	152	146	6	8	1.6%	1.0%
5829 – Other software publishing	96	83	13	4	0.8%	0.6%
6619 – Other activities auxiliary to financial services, except insurance and pension funding	92	92	–	1	0.2%	0.6%
7021 – Public relations and communication activities	5	5	–	2	0.4%	–
7311 – Advertising agencies	3	3	–	1	0.2%	–
7320 – Market research and public opinion polling	2	2	–	1	0.2%	–
7312 – Media representation	–	–	–	–	–	–
NACE categories identified at regional level						
2562 – Machining	211	n/a	211	6	1.2%	1.4%
9806 – Schedule E, director only	191	n/a	191	14	2.8%	1.2%
9803 – Case III only	145	n/a	145	1	0.2%	0.9%
7410 – Specialised design activities	121	n/a	121	4	0.8%	0.8%
7111 – Architectural activities	116	n/a	116	5	1.0%	0.8%
4322 – Plumbing, heat and air-conditioning installation	103	n/a	103	2	0.4%	0.7%
0150 – Mixed farming	86	n/a	86	1	0.2%	0.6%
4120 – Construction of residential and non-residential buildings	85	n/a	85	3	0.6%	0.6%
6820 – Renting and operating of own or leased real estate	70	n/a	70	5	1.0%	0.5%
0240 – Support services to forestry	67	n/a	67	1	0.2%	0.4%

	Total yield	Yield – cases on planning division list	Yield – cases identified at regional level	Total cases	% of cases	% of yield
9412 – Activities of professional membership organisations	57	n/a	57	1	0.2%	0.4%
7219 – Other research and experimental development on natural sciences and engineering	53	n/a	53	1	0.2%	0.3%
6920 – Accounting, bookkeeping and auditing activities; tax consultancy	36	n/a	36	2	0.4%	0.2%
6831 – Real estate agencies	34	n/a	34	1	0.2%	0.2%
5610 – Restaurants and mobile food service activities	30	n/a	30	1	0.2%	0.2%
6832 – Real estate agencies	28	n/a	28	1	0.2%	0.2%
2013 – Manufacture of other inorganic basic chemicals	26	n/a	26	1	0.2%	0.2%
4741 – Retail sale of computers, peripheral units and software in specialised stores	22	n/a	22	1	0.2%	0.1%
2110 – Manufacture of basic pharmaceutical products	17	n/a	17	1	0.2%	0.1%
	15,358	**9,601**	**5,767**	**504**		

Source: Office of the Comptroller and Auditor General

Other Matters

24 Accounts of the National Treasury Management Agency

24.1 Section 12 of the National Treasury Management Agency Act 1990 (the 1990 Act) (as amended) 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, and to submit them for audit by the Comptroller and Auditor General. Following completion of the audit, the NTMA must submit the accounts to the Minister, who in turn must present the accounts to the Houses of the Oireachtas.

24.2 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 2014 under that section of the 1990 Act.

Accounts of the NTMA 2014

24.3 The accounts of the NTMA for 2014 have been audited. My reports on the audits were issued on 16 June 2015. Copies of the accounts, together with my reports on the audits, were presented by the Minister to the Houses of the Oireachtas on 27 July 2015.

24.4 I am satisfied that the accounts properly present the transactions of the NTMA for 2014 and its balances at year end.

24.5 The accounts audited under section 12 of the 1990 Act (as amended) are as follows

- national debt of Ireland
- NTMA administration account
- Post Office Savings Bank Fund financial statements
- State Claims Agency financial statements
- Ireland Strategic Investment Fund financial statements.[1]

24.6 For the year ended 31 December 2014, the Capital Services Redemption Account which had been accounted for separately in prior years has been incorporated into the accounts of the national debt of Ireland[2] and the Small Savings Reserve Fund was dissolved.[3] The Minister has approved the revised format of the national debt accounts.

24.7 In accordance with section 12 of the 1990 Act (as amended), the accounts of the NTMA are required to note a record of expenses incurred in relation to its activities in respect of the

- National Pensions Reserve Fund
- National Development Finance Agency (prior to dissolution)
- National Asset Management Agency.

1 The first reporting period for the Ireland Strategic Investment Fund is the period from 22 December 2014 to 31 December 2014.

2 Section 99 of the Finance Act 2014

3 Section 98 of the Finance Act 2014

Functions, Roles and Staffing of the Agency

24.8 The NTMA was originally set up in 1990 to manage Ireland's national debt. It has since evolved into a complex organisation with multiple functions. These functions were further expanded under the National Treasury Management Agency (Amendment) Act 2014 (the 2014 Act).

24.9 The 2014 Act provided for

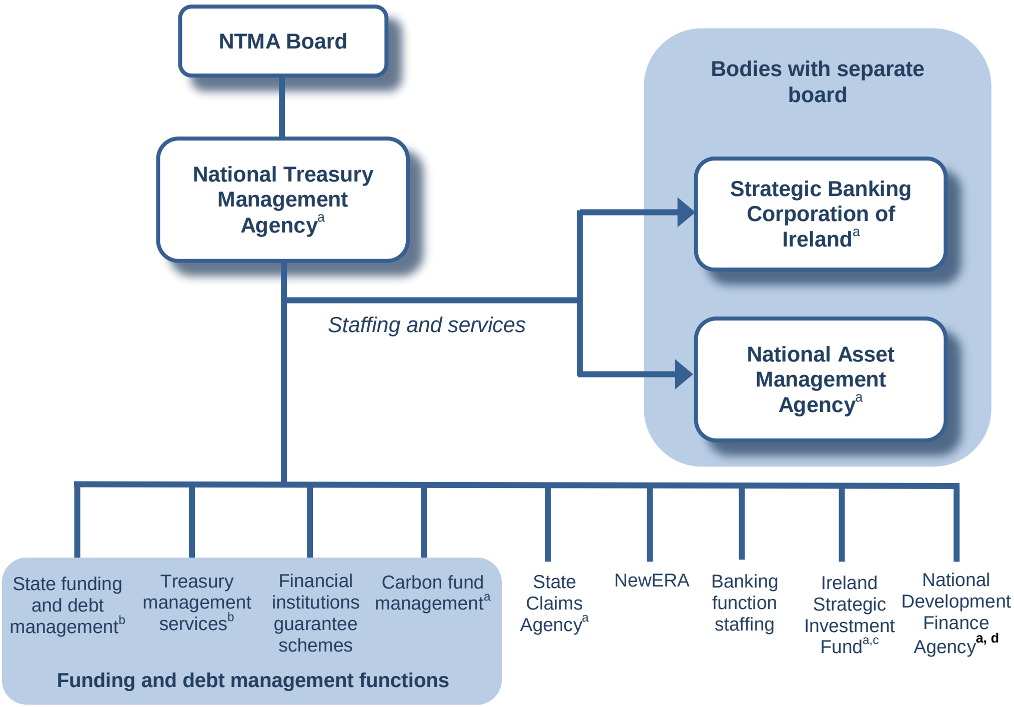
- the NTMA's NewERA functions being placed on a statutory basis
- the establishment of the Ireland Strategic Investment Fund (ISIF) with a mandate to invest on a commercial basis in a manner designed to support economic activity and employment in Ireland
- the transfer of the National Pensions Reserve Fund's (NPRF's) assets to the ISIF
- the State Claims Agency's legal costs function being placed on a statutory basis
- the transfer of the National Development Finance Agency's (NDFA's) functions to the NTMA.

24.10 The NTMA assigns staff to the National Asset Management Agency (NAMA) and the Strategic Banking Corporation of Ireland (SBCI) and also provides them with business and support services and systems.

24.11 The 2014 Act streamlined the NTMA's governance structures to enable a more integrated approach to the performance of its functions. In December 2014, the NTMA was reconstituted as a board with a Chairperson and eight other members with over-arching responsibility for all of the NTMA's functions (not including NAMA and the SBCI which have their own separate boards). The NTMA's former Advisory Committee and State Claims Agency Policy Committee were dissolved in December 2014, and the NDFA was dissolved in January 2015. The NPRF Commission was also reduced to one member (the NTMA's Chief Executive). Once all the NPRF's assets are legally transferred to the ISIF, the NPRF Commission will also be dissolved.

24.12 The revised structure of the NTMA, following these amendments is outlined in Figure 24.1.

Figure 24.1 Revised structure 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 case of State funding, debt management and treasury management services, separate financial statements will continue to be prepared for the Dormant Accounts Fund, the Post Office Savings Bank Fund and the national debt.
- c Financial statements for the NPRF will continue to be prepared until all assets are transferred to the Ireland Strategic Investment Fund.
- d The National Development Finance Agency was dissolved on 26 January 2015 as a separate statutory body.

Funding, Debt and Treasury Management

24.13 The NTMA borrows on behalf of the Exchequer and manages Ireland's national debt. At end-2014, the national debt – which takes account of cash and other financial assets - amounted to €182.3 billion (2013: €173.9 billion).

24.14 Details of the structure of the national debt and trends in Government debt are included in Chapter 2.

24.15 The NTMA performs a number of other debt management and treasury functions, including

- treasury operations for NAMA, ISIF, SBCI and Irish Bank Resolution Corporation Limited (in special liquidation) (IBRC)
- providing a central treasury service for State bodies and local authorities
- managing the assets of the Dormant Accounts Fund and the Post Office Savings Bank Fund.

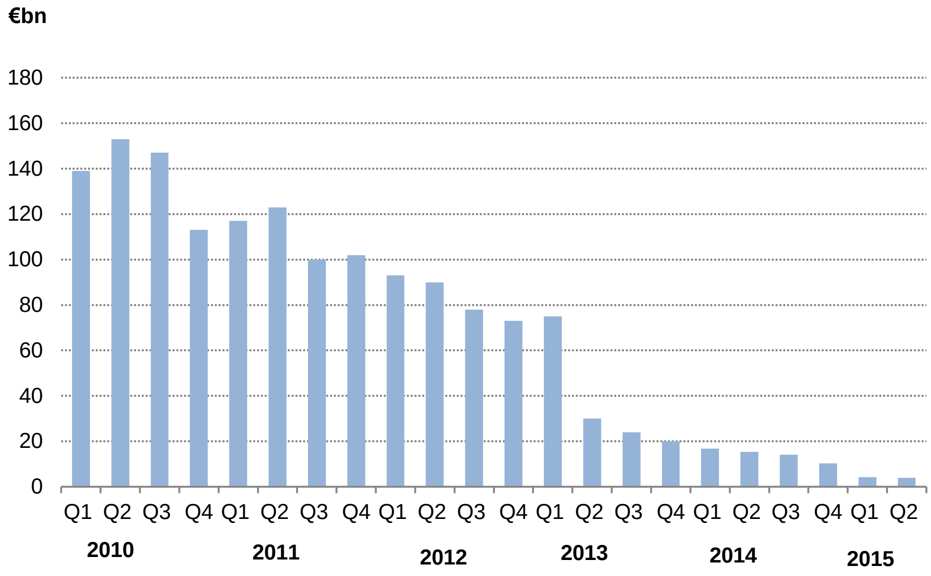
Financial Institutions Guarantee Schemes

24.16 Certain eligible liabilities, including deposits and debt securities of up to five years maturity in participating institutions are guaranteed by the Minister under the Credit Institutions (Eligible Liabilities Guarantee) Scheme 2009 (the scheme). The NTMA was appointed as scheme operator by the Minister for Finance.[1]

24.17 Each institution with liabilities guaranteed under the scheme is required to pay a fee. The amount received in 2014 was €179 million (2013: €576 million).[2] The Accounting Officer of the Department of Finance is accountable for the fees received.

24.18 On 26 February 2013, the Minister announced the closure of the scheme to all new liabilities with effect from midnight on 28 March 2013. Amounts covered by the scheme when it closed totalled €74.6 billion. At end-2014, amounts covered by the scheme totalled €10.3 billion. This had reduced further to €4 billion at end-June 2015 (see Figure 24.2).

Figure 24.2 Covered liabilities under the Eligible Liabilities Guarantee Scheme, 2010 to end-June 2015



Source: Department of Finance

24.19 A number of claims under the scheme were made following the liquidation of IBRC in February 2013. In March 2013, the Minister delegated further functions to the NTMA.[3]

- Verification of claims for payment in respect of a deed of guarantee put in place on 29 November 2010 in relation to certain derivative contracts entered into by IBRC.
- Payment of amounts due under the deed of guarantee.

24.20 Payments under Financial Institutions Guarantee Schemes to end-June 2015 totalled just over €1.1 billion (see Figure 24.3).

1 SI No. 490 of 2009

2 These are receipts in 2013 and 2014 on a cash basis. Fees are paid quarterly in arrears. Receipts in respect of 2013 and 2014 on an accruals basis were €421 million and €155 million, respectively.

3 SI No. 85 of 2013

Figure 24.3 IBRC payments under Financial Institutions Guarantee Schemes, 2013 to end-June 2015

	2013	2014	January to June 2015	Total
Payment Type	**€m**	**€m**	**€m**	**€m**
Deposits [a]	63.9	74.6	3.5	142
Bond holders [a]	934	–	–	934
Derivatives [b]	37.5	–	–	37.5
Total payments	**1,035.4**	**74.6**	**3.5**	**1,113.5**

Source: National Treasury Management Agency

Notes: a Payments made under the Credit Institutions (Eligible Liabilities Guarantee) Scheme.

b Payments made under the IBRC Deed of Guarantee.

24.21 The NTMA as scheme operator has lodged two claims with the Joint Special Liquidators of IBRC for the repayment of amounts paid out under the scheme and estimated accrued interest. The amounts claimed were

- €0.98 billion in respect of payments to bondholders, including expenses and accrued interest up to 31 December 2014
- €0.14 billion in respect of payments to depositors, including expenses, accrued interest and outstanding scheme fees up to 30 March 2015.

24.22 On 30 September 2013, the Department of Finance lodged a claim with the Joint Special Liquidators of IBRC under the IBRC deed of guarantee totalling €37.8 million, which includes accrued interest of €0.3 million up to that date.

Carbon Fund Management

24.23 The Carbon Fund was established by the Carbon Fund Act 2007. The NTMA administers the purchase of carbon credits required to meet Ireland's climate change obligations through the Carbon Fund. The purchase of carbon credits has been suspended since February 2009. At end-2014, the Carbon Fund held assets with an acquisition value of €99 million (2013: €99 million).

24.24 The Carbon Fund is accounted for separately and does not form part of the NTMA's accounts for the purposes of section 12 of the 1990 Act (as amended). The financial statements of the Carbon Fund are audited under the Carbon Fund Act 2007.[1]

1 The report on the audit of the Carbon Fund was issued on 16 June 2015.

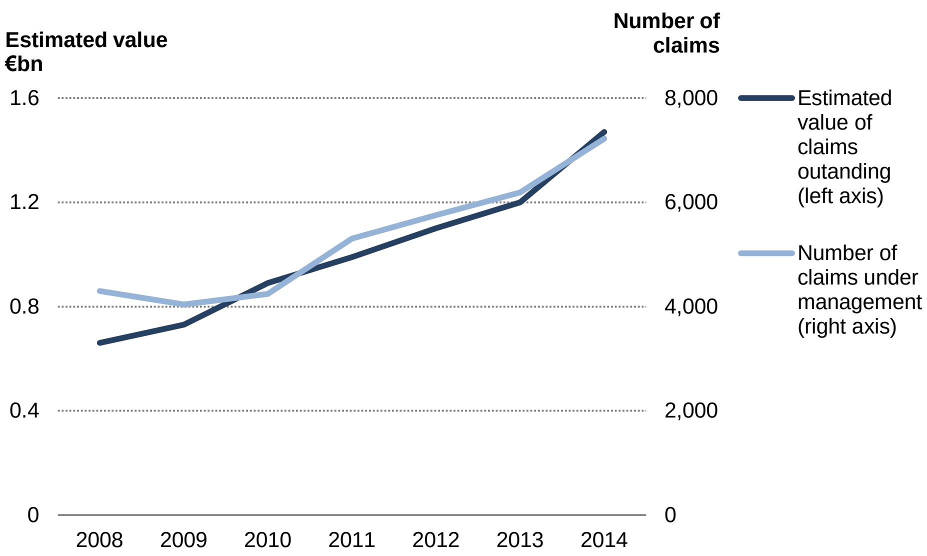
State Claims Agency

24.25 The NTMA manages personal injury, property damage and clinical negligence compensation claims on behalf of certain delegated State authorities. In addition, it has a risk management role, advising and assisting those State authorities in minimising their claim exposures. It also considers and manages third party cost claims arising from certain Tribunals of Inquiry. When performing these functions, the NTMA is known as the State Claims Agency (SCA). At 31 December 2014, the SCA's remit covered 117 State authorities. In June 2015, a delegation by Government increased the number of State authorities within the SCA's remit to 129.[1]

24.26 Awards and associated claim costs of the SCA in 2014 amounted to a total of €141.4 million (2013: €139.6 million). These costs are recoupable from the relevant State authorities availing of the SCA services. In addition, the NTMA incurred €13.5 million in administrative costs in the performance of its SCA functions. These administrative costs are included in the administration expenses of the NTMA and are charged on the Central Fund.

24.27 The cost of settling the claims that were outstanding at 31 December 2014 has been estimated by the SCA at €1.47 billion (2013: €1.2 billion). This estimated cost has been increasing since 2008. The number of claims under management has been increasing since 2009 (see Figure 24.4).

Figure 24.4 Cost of claims outstanding and claims under management for the State Claims Agency, year-end 2008 to 2014



Source: National Treasury Management Agency

1 SI No. 237 of 2015

NewERA

24.28 The New Economy and Recovery Authority (NewERA) was initially set up on a non-statutory basis following a Government announcement in September 2011. The NewERA functions were established on a statutory basis in December 2014 on commencement of the relevant sections of the 2014 Act. The NTMA describes itself as NewERA when carrying out these functions.

24.29 NewERA's functions include the provision of financial and commercial advisory services to a relevant Minister of Government in respect of a designated body under his/her remit or in relation to any other State body or assets held.[1] The relevant Ministers retain their current responsibilities and shareholdings in these bodies. The financial and commercial advisory services provided include advice relating to the following matters

- exercise of rights attaching to shares held by a relevant Minister in a designated body
- governance of a designated body
- financial and commercial operation of a designated body, including rate of return on capital expected from it and appropriate dividend policy
- protecting, enhancing or realising value of any interest held by a relevant Minister in a designated body
- corporate strategy and capital and investment plans
- acquisitions or disposals of any interest in the designated body, and any winding up, reorganisations and restructurings of the designated body
- appointment and remuneration of the chairperson, members, directors or chief executive of the designated body.

24.30 Expenditure incurred by the NTMA in 2014 in relation to NewERA was mainly in relation to the provision and/or procurement of [2]

- financial and commercial advice to Government in relation to the disposal of State assets, including the sale by Ervia (formerly Bord Gáis Éireann) of its Bord Gáis Energy business which completed on 30 June 2014, and the sale by the ESB of two non-strategic power plants
- corporate finance and governance advice in relation to the governance, financial and commercial aspects of certain State bodies/assets including Irish Water
- activities to facilitate investment to support economic activity and employment in the energy, water, telecommunications and forestry sectors.

24.31 Dividends to the State arising from the sale of the Bord Gáis Energy business and planned subsequent re-gearing are estimated to be up to €1 billion (€150 million of this was paid in 2014). The sale by the ESB of the power plants had the specific objective of delivering special dividends to the value of €400 million to the Government (€197 million from the sales proceeds were paid as special dividends to the Exchequer in 2014 and the balance of €203 million was paid in January 2015).

1 Currently the designated bodies are the Electricity Supply Board, Eriva, Bord na Mona plc, Coillte Teoranta, Eirgrid plc, Irish Water and any subsidiaries or any company in which such designated body has an interest.

2 The costs of NewERA functions are not separately disclosed in the NTMA's administration account.

24.32 Where any Minister holds shares or assets in a body that is not designated for NewERA purposes, or has general responsibility for, or has any function in relation to a body, NewERA may provide in relation to such bodies

- financial and commercial advisory services
- advisory and project management services for acquisition or disposal of any interest or assets and any winding up, reorganisation or restructuring.

24.33 In 2014, NewERA finalised its financial review of RTÉ (a redacted version of this was published by the Minister for Communications, Energy and Natural Resources in April 2015). The review analysed RTÉ on a group and divisional basis and included a benchmarking exercise of its financial performance relative to selective peer broadcasting organisations.

Banking System Functions Staffing

24.34 The Minister delegated certain banking system functions to the NTMA in March 2010.[1] The delegation related, in particular, to management of the State's interest in the credit institutions covered by the banking guarantees and the negotiation of capital support to those institutions. The delegation was revoked in August 2011[2] and the NTMA's Banking Unit has since then been seconded to the Department of Finance.

24.35 At the direction of the Minister, costs of the Banking Unit, comprising staff costs and certain professional advisor costs, continue to be met by the NTMA. The total costs incurred are not disclosed separately in the NTMA's administration account or in the allied services note of Vote 7 Office of the Minister for Finance. No professional advisor costs were incurred in 2014.

Ireland Strategic Investment Fund

24.36 The Ireland Strategic Investment Fund (ISIF) was established on 22 December 2014 on the commencement of the relevant sections of the 2014 Act. At that date, the assets and the liabilities of the National Pension Reserve Fund (NPRF) became the assets and liabilities of the ISIF with the exception of certain foreign assets and liabilities which will remain assets and liabilities of the NPRF until their transfer to the ISIF in due course. The statutory mandate of the ISIF is to invest on a commercial basis in a manner designed to support economic activity and employment in the State.

24.37 At 31 December 2014, the ISIF held net assets of €22.2 billion. The net assets comprised €7.2 billion in a discretionary portfolio and €15 billion in the directed investment portfolio.

- The discretionary portfolio consists of investments made in accordance with the relevant sections of the 2014 Act, where the NTMA holds or invests the assets of the ISIF on a commercial basis in a manner designed to support the economic activity and employment in the State.
- The directed investment portfolio is subject to directions given by the Minister for Finance.[3] Any interest or other income received in respect of deposits and or securities held in the directed portfolio are transferred to the discretionary portfolio and are held or invested by the NTMA in accordance with ministerial direction.

1 SI No. 115 of 2010

2 SI No. 395 of 2011

3 Section 43 of the 2014 Act provides that the Minister may give a direction to the NTMA in relation to the holding and management of a directed investment, the exercise of any voting or other rights attaching to a directed investment, and the disposal of a directed investment.

24.38 €1.6 billion was transferred to the Exchequer (on 19 March 2015) at the direction of the Minister for Finance, from cash held in the ISIF in the directed investment portfolio. These funds had been held since the disposal of Bank of Ireland preference shares.

24.39 The NTMA incurred costs of €182,000 in its role as controller and manager of the ISIF in 2014.

National Pensions Reserve Fund

24.40 The NTMA is Manager of the National Pensions Reserve Fund (NPRF). Following commencement of the relevant sections of the 2014 Act on 22 December 2014, all remaining assets and liabilities of the NPRF were derecognised by the NPRF Commission for accounting purposes and presented in the ISIF financial statements for the period ending 31 December 2014.

24.41 From 22 December 2014, the NPRF Commission consists of a single commissioner, (the Chief Executive of the NTMA) who is required by the 2014 Act to do everything that is reasonably practicable to give effect to the transfer of any remaining assets governed by foreign law. The legal transfer of foreign assets must be done in conjunction with the relevant counterparty. This process is ongoing and foreign assets valued at €1.8 billion remained in the NPRF at 31 December 2014. At 30 June 2015, the market value of assets remaining to be transferred to the ISIF was €121 million.

24.42 The NTMA incurred costs of €6.2 million in 2014 (2013: €3.9 million) in its role as Manager of the NPRF. This is disclosed in the NTMA's administration account but is not recouped by the NTMA.

Ministerial Directions Issued in 2014

24.43 Under sections 19 (B) and 20 (B) of the National Pensions Reserve Fund Act 2000 (as amended), the Minister for Finance may give directions to the NPRF Commission in relation to the management of certain investments. The Minister issued the following directions in 2014.

- On 15 May 2014, the Minister directed the NPRF Commission to execute a letter of consent to effect a capital reorganisation in AIB which included a reduction in capital. The AIB shares held by the NPRF Commission transferred to the NTMA on 22 December 2014 on commencement of the relevant sections of the 2014 Act.
- On 10 September 2014, the Minister directed the NPRF Commission to dispose of certain securities and to provide funds of €10 million to the SBCI for the purpose of funding the Minister's subscription for shares in the SBCI.
- On 30 October 2014, the Minister directed the NPRF Commission to provide a loan facility of €240 million to the SBCI. To facilitate drawdowns of the loan, the NPRF Commission was also directed to dispose of certain securities and to hold the proceeds of these disposals in short-term securities and/or on deposit. This loan facility transferred from the NPRF Commission to the NTMA on 22 December 2014 on commencement of the relevant sections of the 2014 Act.

National Development Finance Agency

24.44 Prior to 27 January 2015, the National Development Finance Agency (NDFA) was a separate statutory body that acted as the statutory financial advisor to State authorities in respect of all public investment projects with a capital value over €20 million. It also had responsibility for the procurement and delivery of public private partnership projects in sectors other than transport and the local authorities and the direct procurement of certain education projects.

24.45 The NDFA, although a separate statutory body, performed its functions through the NTMA. Third party fees and expenses incurred by the NDFA in the performance of its procurement and advisory functions amounted to €5 million for the period ending 26 January 2015 (2013: €5.7 million). These expenses are recoupable from the relevant State authorities availing of NDFA services. A further €9 million (2013: €7.1 million) was incurred by the NTMA in the performance of its other NDFA functions.[1] The amount incurred is not recouped by the NTMA.

24.46 Under the provisions of the 2014 Act, the NDFA was dissolved on 26 January 2015 and the related NDFA legislation was repealed.[2] At the same time, the relevant statutory functions were given to the NTMA and all property, rights and liabilities of the NDFA transferred to the NTMA. When performing these functions, the NTMA may describe itself as the NDFA.

National Asset Management Agency

24.47 The NTMA assigned staff and provided services to the National Asset Management Agency (NAMA) during 2014. NTMA incurred costs of €53.9 million (2013: €40.8 million) in that regard, which was recharged to NAMA.[3]

- €44.7 million (2013: €33.6 million) was incurred in respect of staff costs. This comprised €40.9 million for staff directly employed by the NTMA and assigned to NAMA (369 staff at 31 December 2014), and €3.8 million in respect of the apportioned remuneration cost of NTMA employees operating shared services including IT, human resources and finance.
- €9.2 million in respect of other costs was incurred by the NTMA, including rent, office services and consultancy costs.[4]

Strategic Banking Corporation of Ireland

24.48 The Strategic Banking Corporation of Ireland (SBCI) was established in September 2014 as a private limited company under the Strategic Banking Corporation of Ireland Act 2014.

24.49 The SBCI's purpose is to avail of both national and international sources of funding for the purpose of making low cost credit available to Irish small and medium enterprises (SMEs).[5]

1 In these comparisons, it should be noted that 2013 was a 12-month period and 2014 was an extended period up to 26 January 2015.

2 The report on the audit of the final financial statements of the NDFA issued on 16 June 2015.

3 The total administrative costs of NAMA were €135 million in 2014 (€124 million in 2013).

4 See NAMA financial statements 2014. The report on the audit of NAMA issued on 29 April 2015.

5 SMEs are defined in accordance with Article 2 of EC Recommendation 2003/361/EC (6 May 2003).

24.50 The functions of the SBCI include the following

- to provide, and promote the provision of, additional credit in a prudent manner to enterprises or other persons in the State, in particular SMEs
- to design, or cause to be designed, credit facilities which consistently address the financial needs of borrowers, in particular SMEs, be they related to growth, investment or operational needs
- to facilitate the operation of diverse credit markets and to encourage an increase in the number of providers of finance to borrowers in the State and to contribute to the diversity of the types of finance available in the State
- to source international funding to facilitate lending and provide finance to projects which promote the economic development of the State.

24.51 The NTMA provides the SBCI with business and support services and systems, staff and treasury services and advice in connection with debt securities and borrowings. The NTMA incurred costs of €0.7 million for the provision of these services in 2014. These costs were recharged to the SBCI.

24.52 The first set of audited financial statements for SBCI will cover the period from its formation on 12 September 2014 to 31 December 2015.

Staff Distribution

24.53 Staff numbers in the NTMA increased in 2014 as a result of the NTMA's additional responsibilities. At end-2014, staff numbers totalled 759 (2013: 657). The assignment of staff to the various functions and activities of the NTMA at year end for 2011 to 2014 is set out in Figure 24.5.

Figure 24.5 NTMA staffing distribution at year end, 2011 to 2014

	2011	2012	2013	2014
Business units				
Funding and debt management	12	14	15	19
Ireland Strategic Investment Fund/National Pensions Reserve Fund	10	13	15	33
State Claims Agency	63	69	77	91
NewERA	6	12	13	14
Banking Unit [a]	9	12	14	13
National Development Finance Agency	34	44	52	63
National Asset Management Agency	193	224	331	369
Strategic Banking Corporation of Ireland	–	–	–	3
Corporate functions				
Finance, technology and operation	71	73	95	112
Legal, compliance, HR and internal audit	21	21	24	22
Risk	9	12	15	14
Other	5	6	6	6
Total	**433**	**500**	**657**	**759**

Source: National Treasury Management Agency

Note: a On secondment to the Department of Finance.

Conclusion

24.54 The 2014 Act has streamlined the governance arrangements for the NTMA, and has brought about significant changes to its statutory remit. The 2014 Act has also resulted in a substantial reorganisation and re-orientation of functions, with significant implications for the scope and format of the financial statements, and has presented an opportunity for the NTMA to eliminate anomalies and to streamline its financial reporting.

24.55 I have previously recommended that the NTMA take a consistent approach to the disclosure of the overall costs associated with each of the key services and functions that it undertakes. The Chief Executive at the time undertook to bring the recommendation to the attention of the Agency members. The audit of the 2014 NTMA financial statements by my staff noted the commitment of management and those charged with governance to address that recommendation as part of the 2015 financial reporting cycle.

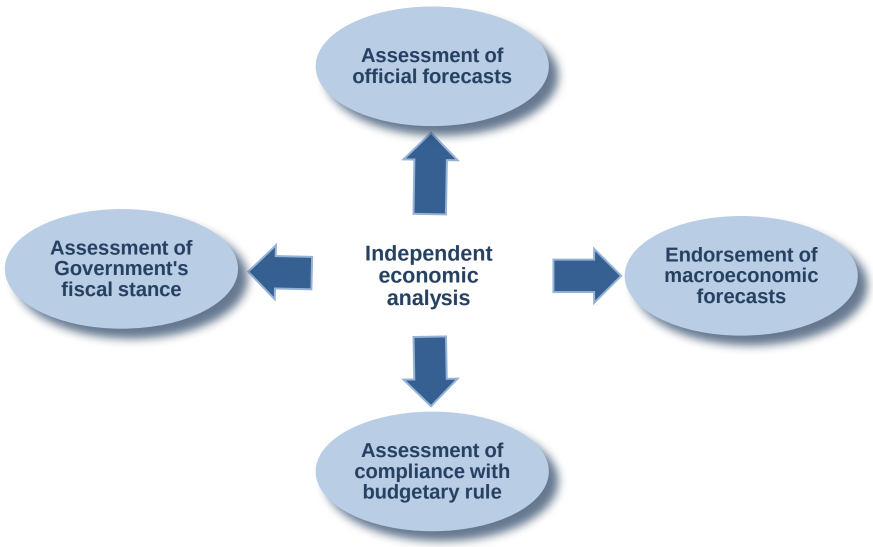
25 Irish Fiscal Advisory Council

25.1 The Irish Fiscal Advisory Council (the Council) was formally established as an independent statutory body under the Fiscal Responsibility Act 2012 (the Act) with effect from 31 December 2012.[1] The overall purpose of the Council is to provide independent assessments of the Government's budgetary plans and projections and to inform public discussion of economic and fiscal matters.

25.2 The functions of the Council are summarised in Figure 25.1. It is charged with

- assessing the official forecasts produced by the Department of Finance (the Department) in spring and autumn each year[2]
- assessing whether the fiscal stance of the Government is conducive to prudent economic and budgetary management with reference to the EU Stability and Growth Pact[3]
- monitoring and assessing whether the general government budgetary position is either in balance or in surplus, or is moving at a satisfactory pace towards that condition (the 'budgetary rule' as set out in the Act), and assessing whether any non-compliance is as a result of exceptional circumstances
- endorsing, as it considers appropriate, the macroeconomic forecasts prepared by the Department, on which the budget and stability programme update are based.

Figure 25.1 Functions of the Irish Fiscal Advisory Council



Source: Irish Fiscal Advisory Council

1 The Council was set up on an interim basis in July 2011.

2 In accordance with the Act, official forecasts are the macroeconomic and budgetary forecasts published by the Department of Finance for the purposes of fiscal planning.

3 The Stability and Growth Pact is a rule-based framework for the coordination of national fiscal policies in the EU.

Accounts of the Fiscal Council

25.3 The Chair of the Council is the officer accountable for the preparation and presentation of the financial statements for audit. Sections 10 (1) to 10 (3) of the schedule to the Act requires the Council to keep accounts of receipts and expenditure in the form approved by the Minister for Finance, and to submit them for audit by the Comptroller and Auditor General. On completion of the audit, a copy of the audited accounts must be given to the Minister, who in turn must lay the accounts before the Houses of the Oireachtas.

25.4 Separately, Section 10 (4) of the schedule to 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 Council each year. This is the report for 2014 under that section.

25.5 The accounts of the Council for 2014 have been audited. My report on the audit was issued on 24 July 2015. The accounts and report were laid before both Houses of the Oireachtas on 28 July 2015.

25.6 I am satisfied that the accounts properly present the transactions of the Council for 2014 and its balances at year end.

Membership and Staffing

25.7 The Act sets out that the Council shall consist of five members, including the Chair. Appointments are made by the Minister for Finance with the term of office generally being four years. Council members may not serve for more than two consecutive terms.

25.8 Since the resignation of a Council member in late May 2015, the Council has consisted of four members. The Council member vacancy is currently being advertised on Stateboards.ie. The Department expect the position to be filled within the six-month timeline relating to vacancies on the Council set out in the Act.

25.9 The Council is currently supported by five staff, comprising four economists and an administrator.

Funding

25.10 The Council is funded from the Central Fund of the Exchequer, subject to an inflation-indexed annual ceiling amount.[1] The funding ceiling for 2014 was €820,000.

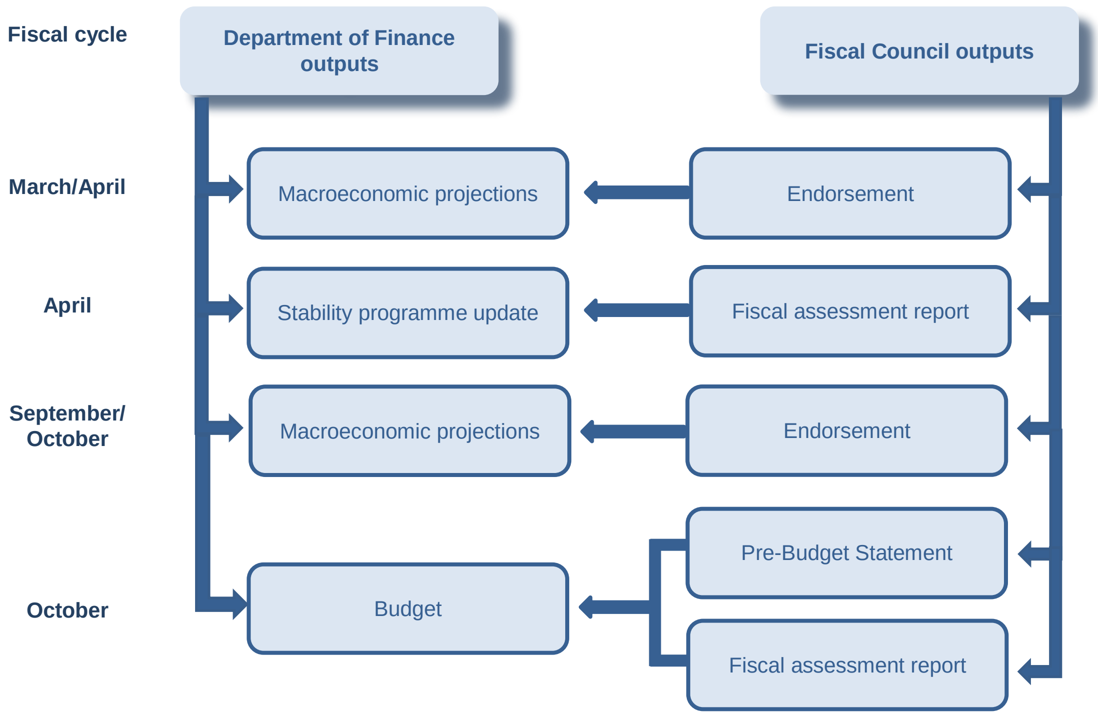
25.11 Expenditure of the Council totalled €606,000 in 2014, of which 60% related to salary costs. The largest element of the Council's non-pay administration expenditure related to an Economic and Social Research Institute (ESRI) administration fee in respect of accommodation costs and support services which totalled around €100,000. Fees and expenses incurred in relation to Council members for 2014 totalled just over €64,000. Expenses incurred by Council members mainly reflect travel and subsistence costs incurred by international and non-Dublin based members attending Council meetings in Dublin.

1 Section 9 of the Schedule to the Act provides for the funding source and limit.

Activity of the Council

25.12 The Council produces a number of annual outputs in response to outputs from the Department. Figure 25.2 shows these outputs.

Figure 25.2 Irish Fiscal Advisory Council outputs



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

25.13 The Council also produces stand-alone analytical notes and working papers on themes related to its mandate.

Endorsements

25.14 The endorsement function was added to the Council's mandate by way of an amendment to the Act in July 2013. This amendment reflected an agreement at European level that stability programme updates and budgets should be based on macroeconomic forecasts produced or endorsed by an independent body.[1]

25.15 The aim of the endorsement process is to ensure that forecasts are unbiased and as realistic as possible. The Council has developed its own forecasting methods and analytical capacity in order to provide a benchmark set of projections against which to assess the Department's forecasts.

25.16 A memorandum of understanding was agreed between the Council and the Department in respect of the endorsement function.[2] The agreement includes details on the coverage of the macroeconomic forecasts endorsed, the information requirements and the approach to be followed.

1 Regulation (EU) No 473/2013 of the European Parliament and of the Council, of 21 May 2013

2 The memorandum of understanding is available at www.fiscal council.ie and www.finance.gov.ie

25.17 Each endorsement is issued by way of a formal letter from the Chair of the Council to the Secretary General of the Department, at least five working days prior to publication of the related stability programme update or budget. Similarly, if the Council concludes that it is not in a position to endorse the macroeconomic forecasts, it is also required to provide a letter setting out the reasons for non-endorsement at least five working days prior to issue of the stability programme update or of the budget.

25.18 To date, the Council has endorsed the macroeconomic forecasts underlying Budgets 2014 and 2015. The latter was endorsed by the Council on 6 October 2014.

25.19 By April each year, EU member states are required to submit stability programme updates to the European Commission, including an update on the economic and fiscal outlook covering the short and medium term. On 31 March 2015, the Council endorsed the macroeconomic forecasts for the years 2016 to 2020 underlying Ireland's stability programme update 2015.[1]

Fiscal Assessment Reports

25.20 The Council produces fiscal assessment reports in respect of the Department's macroeconomic and budgetary forecasts twice yearly – in June and November – following publication of the stability programme update and the budget. Under the Act, these reports must be copied to the Minister and subsequently published within ten days.

25.21 The Minister for Finance formally responds to the Council’s fiscal assessment reports.

25.22 As set out in paragraph 25.2, the Council is required to assess the appropriateness of the Government's fiscal stance with reference to the EU Stability and Growth Pact. It is also required to assess compliance with the budgetary rule as set out in the Act.

25.23 Eight assessment reports have been produced and published on the Council's website up to June 2015. Each of the assessment reports have found the Government's macroeconomic forecasts to be broadly appropriate and its fiscal stance to be conducive to prudent economic and budgetary management.

25.24 The assessment reports prior to 2015 do not refer to any instances of non-compliance with the budgetary rule. The most recent fiscal assessment report published by the Council in June 2015 noted that the stability programme update (SPU) 2015 for 2016 is not in line with the requirements of the budgetary rule or the SGP on a forward-looking basis (see Figure 25.3).

1 The Council also endorsed the macroeconomic forecasts underlying Ireland's stability programme update 2014.

Figure 25.3 Fiscal Assessment Report, June 2015 – key findings

- The recovery in the Irish economy has gathered momentum with stronger growth and lower unemployment benefitting the public finances.
- An important accomplishment of recent years has been the institutionalisation of a new budgetary framework. If respected, this framework provides an important safeguard against a return to the boom-bust cycle.
- The plan in stability programme update 2015 (SPU 2015) for 2016 is not in line with the requirements of the domestic budgetary rule or the preventive arm of the stability and growth pact (SGP) on a forward-looking basis.
- The budgetary projections in SPU 2015 do not present a full picture of the likely costs of demographic ageing and cost pressures in delivering existing programmes, as well as not taking into account explicit Government commitments to reduce taxes.
- Post-2016, the medium-term projections for expenditure and tax revenue in SPU 2015 do not fully meet the requirements of a medium-term fiscal plan as envisaged in the Government's budgetary framework.
- The move to annual revisions to the allowable expenditure growth under the expenditure benchmark has removed the multi-year anchor from the domestic medium-term expenditure ceilings.
- Alternative models for estimating Ireland's medium-term potential growth should be developed.

Source: Irish Fiscal Advisory Council

Other Publications

25.25 In addition to its primary output (fiscal assessment reports), the Council also publishes analytical notes and working papers. The Council published six analytical notes in 2014.

Pre-Budget Statement

25.26 The Council published its first pre-budget statement in September 2014 in advance of Budget 2015, which was delivered on 14 October 2014. The report set out the macroeconomic and fiscal context in which Budget 2015 would be framed. A Dáil debate on the report was held on 21 October 2014. The Council envisages that a similar statement will be published annually.

25.27 The Council's key recommendation in the statement was the view that the most appropriate course of action for Budget 2015 was the full implementation of the final instalment of the planned consolidation programme, a €2 billion budget adjustment.

25.28 A €2 billion budget adjustment was not implemented in Budget 2015. Tax cuts and spending increases outlined in Budget 2015 totalled approximately €1 billion.

Peer Review of the Council

25.29 In 2015, the Council commissioned an external evaluation to assess the functioning of the Council with respect to its mandate under the Act and its performance as an independent fiscal institution in support of sustainable growth in Ireland.

25.30 The evaluation team comprised three members with expertise in macroeconomics, fiscal policy and public policy.[1] The Council published the review on its website in June 2015. The review concluded that the Council has fulfilled all the tasks that are expected from an independent fiscal institution and that it has been visible in public debate, increasing transparency and public knowledge about fiscal matters. The review also noted that there is scope for enhancing the output and impact of the Council. The main conclusions and recommendations of the review are set out at Annex A.

25.31 The Council has stated that it is in the process of preparing an implementation plan on foot of the recommendations made in the evaluation report. The plan will detail the actions required to address the report's findings and will set out a timeframe for the completion of these actions. The implementation plan will be considered by the Council and its audit committee, and progress in implementing the relevant recommendations will be monitored on an ongoing basis.

1 The evaluation team members were Professor Lars Jonung (Chair), Professor Iain Begg and Mr Michael G Tutty.

Annex A IFAC Peer Review – Summary of Main Conclusions and Recommendations

The IFAC Mandate

The mandate of IFAC is clear and stipulates exactly what IFAC is supposed to produce. No disputes concerning the interpretation of the mandate of IFAC have surfaced as far as we know. IFAC has emerged as a credible independent institution on the basis of its mandate.

- We see no reasons to change the mandate of IFAC at this stage.
- Although the evaluation team heard a number of arguments for a broadening of the mandate of IFAC, this should only be considered after a further period during which the Council is able to grow into its current role.
- IFAC should have a clear say, through its Chairman, in setting the criteria for the selection of new members of the Council.
- The present number of five members of the Council (as specified in the Act) should be maintained.
- The recruitment of Council members from outside Ireland, Irish nationals or non-nationals, should continue to be encouraged to ensure a diverse range of skills on the Council.
- The recruitment of members should reflect the balance of analytic needs and be open to differing specifications of skills as retiring members are replaced.

The Financial and Human Resources

IFAC has been sufficiently endowed with financial and human resources, although in an international budgetary comparison IFAC is one of the smallest of all independent fiscal institutions. The Council works well as a team and has good relations with the staff of IFAC.

- The staff of IFAC is young, capable and dedicated. As some of them are on secondment and thus likely to turn-over fairly rapidly, as well as being at a stage in their careers where they will be looking to move to more senior jobs, this could lead to problems of retention of the 'institutional memory' and consistency of approach and messages.
- Steps should be taken to make work at IFAC still more attractive, for example by encouraging staff to work on academic publications (as happens in DG ECFIN of the European Commission and many central banks) and boosting participation in professional conferences. IFAC should be able to meet any ensuing costs within its current budget.
- IFAC should have a stronger right, preferably a statutory right, to obtain information covering relevant public sector authorities as recommended for independent fiscal institutions by the OECD.

The Output of IFAC

The overall output of IFAC has steadily improved. We regard it today as of high quality. Still, the challenge for IFAC is to maintain and improve its analytical capacity. The credibility and impact of IFAC's publications and recommendations hinge upon its analysis. Here we have some recommendations to foster IFAC's performance. IFAC should consider

- putting more stress on long-term fiscal issues, such as long-term debt sustainability
- complementing its recommendations on the deficit with some more discussion of likely developments in the wider economic context and any resulting uncertainties
- deepening its interaction with the academic community, for example by setting up an academic advisory panel
- developing and using models with a focus on government deficits and debt sustainability and purchasing econometric studies of interest from university departments or organisations with advanced modelling capacity
- commissioning background studies
- canvassing external views on the structure and presentation of its reports and offering a simplified and shorter summary
- including a post mortem section in the Fiscal Assessment Report
- making all data used in tables and charts in the Fiscal Assessment Report downloadable in excel format.

The Impact of IFAC and its Communication Strategy

IFAC is accepted and respected across the political spectrum. Still its communication strategy can be improved in a number of ways. Specifically, IFAC should consider

- producing a 4/5 page summary of FAR reports in simple language for the general public
- employing infographics to a greater extent as a way of presenting its reports
- organising an annual conference on its outputs and on Irish fiscal policy
- producing shorter explanatory notes aimed at members of the Oireachtas and similar interested parties, including journalists, covering emerging themes
- developing shorter, more popular versions of reports which convey the key messages but offer links to the more detailed material
- appointing a part-time member of staff (or sub-contractor) to deal with external communications
- broadening its website to include a section aimed at lay readers including fact-sheets on important fiscal issues, up-to-date charts on key Irish economic data and links to international websites of similar character
- being active in social media.

The EU Framework and the Irish Fiscal Framework

The Irish system of fiscal surveillance is well incorporated within the EU framework. IFAC is viewed as a successful domestic institution by the EU representatives that we have talked to. In a European perspective, it is valuable to have domestic ownership of fiscal surveillance. Here, IFAC has an important role to play.

- Within reason, serving as a bridge between Brussels and Dublin, fostering the exchange of views and information between the European Commission, the European Council and the Government of Ireland and other Irish actors.
- Developing its analytical capacity on issues pertaining to the EU framework of fiscal surveillance such as the output gap, taking account of the specific nature of the Irish economy.
- Continuing to take an active part in the newly established network of European independent fiscal institutions as well as in other international networks for fiscal councils.