Comptroller and Auditor General

Report on the

Accounts of the Public Services 2016

September 2017

Report of the Comptroller and Auditor General

Accounts of the Public Services 2016

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 certain special reports.

Presentation of this Report

This is my report under Section 3 (10) of the 1993 Act relating to the 2016 financial year. The report is set out in four parts.

- Part 1 deals with matters relating to the Central Fund and the Exchequer.
- Part 2 outlines certain matters related to voted expenditure in 2016.
- 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 2016 to Dáil Éireann in accordance with Section 3 (11) of the 1993 Act.

Presentation of Appropriation Accounts 2016

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 2016 and, in an associated volume, submit those accounts, together with my audit certificates, to Dáil Éireann.

Seamus McCarthy

Seamus McCarthy
Comptroller and Auditor General

29 September 2017

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Accounts of the Public Services 2016

Central Government

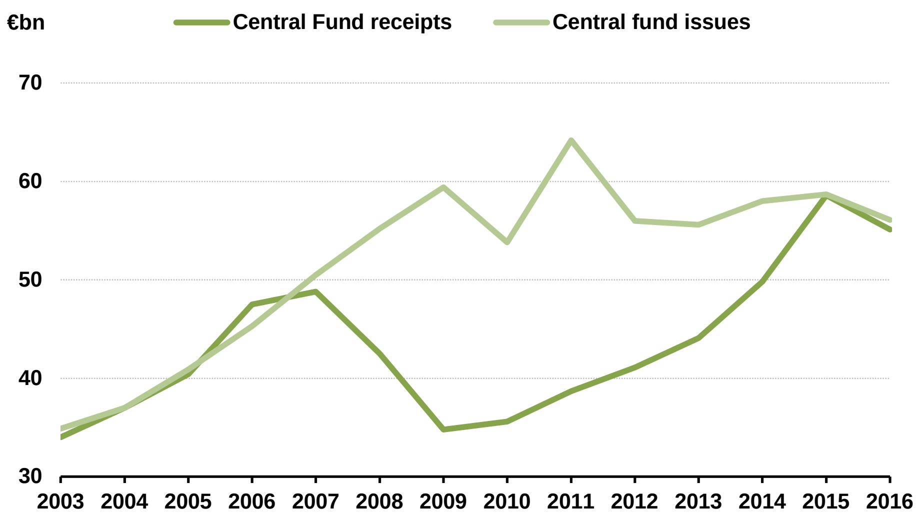
1 Exchequer Financial Outturn for 2016

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 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.

1.3 Excluding movement related to borrowing, Central Fund receipts and issues over the period 2003 to 2016 are set out in Figure 1.1.

Figure 1.1 Central Fund receipts and issues, 2003 to 2016.



Source: Finance Accounts 2003 to 2016

Exchequer balance

1.4 The Exchequer balance is the net surplus or deficit position of the Central Fund i.e. the surplus or deficit of Central Fund receipts over issues. The Exchequer deficit was €1 billion in 2016. The deficit in 2015 was €64 million.

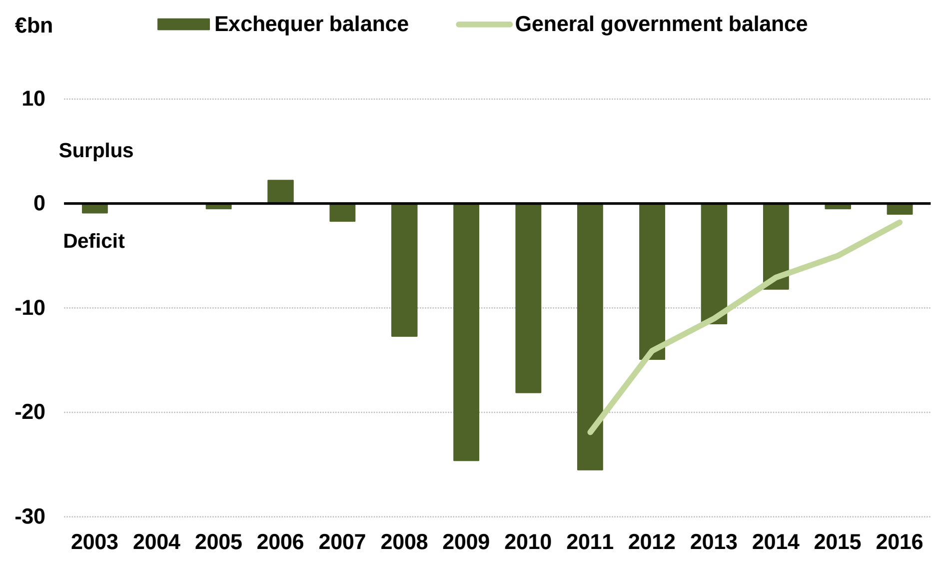
1.5 The general government balance is a broader measure than the Exchequer balance. It is used for fiscal monitoring under the European Union Stability and Growth Pact — the set of rules under which member states of the European Union must manage their public finances.

1 Examples of State revenue 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.

1.6 The general government balance is a standard measure of fiscal performance of the general government sector i.e. central government, local authorities, non-commercial State sponsored bodies, and funds such as the Social Insurance Fund managed by government bodies. It does not include commercial State sponsored bodies.

1.7 Figure 1.2 shows both the Exchequer balance over the period 2003 to 2016, and the general government balance for 2011 to 2016. This indicates that the measures are relatively close over that period, with the exception of 2015. The difference in that year arises mainly from the treatment of transactions relating to financial sector stabilisation measures.

Figure 1.2 Exchequer balance, 2003 to 2016 and general government balance 2011 to 2016



Source: Finance Accounts 2003 to 2016; CSO Government Income and Expenditure 2011 to 2016 (July 2017 results).

Central Fund receipts and issues

1.8 An analysis of receipts and issues of the Central Fund for the years 2012 to 2016 is set out in Figure 1.3.

Central Fund receipts

1.9 Receipts into the Central Fund in 2016 totalled €55.1 billion. This represented a decrease of €3.5 billion (6%) relative to 2015 receipts. There was a significant reduction in capital receipts because a number of transactions in 2015 relating to financial sector stabilisation measures were of a one-off nature.[1] In addition, the repayment of advances was significantly lower than in 2015, because there was a reduction in the need for cash flow advances to the Social Insurance Fund.

1 See Chapter 3 for further details of financial sector stabilisation measures.

Figure 1.3 Composition of Central Fund receipts and issues, 2012 to 2016[a]

Receipts	2012	2013	2014	2015	2016
	€m	€m	€m	€m	€m
Current receipts					
Tax revenue	36,646	37,806	41,282	45,601	47,864
Transfer from Local Government Fund	—	—	520	481	318
Central Bank surplus income	958	1,152	1,225	1,719	1,800
Dividends from State bodies	112	264	475	551	269
Other current revenues	1,695	1,260	746	765	717
Capital receipts					
Loans/advances repaid[b]	1,077	1,098	4,987	5,348	2,143
Financial sector stabilisation measure receipts	—	2,311	—	3,682	1,871
Sale of mobile phone licences	450	60	—	—	—
National Lottery licence receipts	—	—	405	—	—
Aer Lingus share capital disposal	—	—	—	335	—
Other capital receipts	150	113	131	106	75
Total receipts	**41,088**	**44,064**	**49,771**	**58,588**	**55,057**
Issues					
Issues for voted expenditure	44,950	43,072	42,224	42,863	43,986
Service of national debt	5,823	7,459	7,579	7,107	6,845
Contribution to EU budget	1,393	1,726	1,685	1,952	2,023
Oireachtas Commission	105	101	101	106	114
Loans/advances[b]	1,485	1,444	4,875	5,111	2,320
Financial sector stabilisation measures	1,575	1,060	100	30	4
Irish Water capital contributions and loans	—	—	461	96	184
Transfer to Local Government Fund (Local Property Tax)	—	—	484	461	463
European Stability Mechanism capital contribution	510	510	255	—	—
Securities market programme related payment	—	—	31	—	—
Payments in respect of pension schemes (s. 48(b) Pensions Act 1990)	—	—	—	43	13
Ireland Strategic Investment Fund	—	—	—	335	—
Payments to local authorities to repay HFA loans	—	—	—	427	—
Other payments	139	195	165	121	123
Total issues	**55,980**	**55,567**	**57,960**	**58,652**	**56,075**
Deficit for the year	**14,892**	**11,503**	**8,189**	**64**	**1,018**

Source: Finance Accounts 2012 to 2016

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

b See Annex 1A for further details.

1.10 Total tax revenue in 2016 was €2.3 billion higher than in 2015, with increased receipts for most taxes. The largest increases were in respect of income tax (up €810 million or 4%), corporation tax (up €480 million or 7%), value added tax (up €476 million or 4%) and excise (up €420 million or 8%).

Central Fund issues

1.11 Issues from the Central Fund in 2016 amounted to €56.1 billion, which represents a decrease of €2.6 billion, or 4%, on 2015. Significant components were

- issues for voted services increased by 3%
- payments related to servicing of borrowing undertaken by the NTMA were €6.8 billion in 2016, 4% lower than 2015
- reduction of €2.8 billion in loans and advances (as mentioned above).

Government funding of Irish Water

1.12 In 2016, Irish Water received €184 million from the Central Fund in the form of a capital contribution. A working capital loan of €96 million issued from the Central Fund in 2015 was also converted into a capital contribution in December 2016. The Central Fund has previously provided loans, capital contributions and equity investment to Irish Water. Irish Water has also received subventions from the Local Government Fund and loans from the Ireland Strategic Investment Fund (see Figure 1.4).

Figure 1.4 Government funding of Irish Water, 2013 to 2016

	2013 €m	2014 €m	2015 €m	2016 €m	Total €m
Grants and capital contributions					
Local Government Fund subventions	—	439	399	652	1,490
Department of Housing, Planning and Local Government	1	—	—	—	1
Central Fund capital contributions	—	407	—	280[a]	687
Share capital acquired in Irish Water[b]	—	—	54	—	54
Total grants and capital contribution	**1**	**846**	**453**	**932**	**2,232**
Loans					
Central Fund convertible loan[b]	—	54	(54)	—	—
Central Fund working capital loan	—	—	96	(96)	—
Ireland Strategic Investment Fund[c]	250	50	—	—	300
Total loans	**250**	**104**	**42**	**(96)**	**300**
Total	**251**	**950**	**495**	**836**	**2,532**

Source: Finance Accounts 2013 to 2016; Local Government Fund Accounts 2013 to 2016; Department of Housing, Planning and Local Government.

Notes:
a Comprises €184 million issued from the Central Fund in 2016 and conversion of a working capital loan of €96 million.
b Convertible debt instrument issued by Irish Water in 2014 and held by the Minister for Finance converted into an equity holding in Irish Water in September 2015.
c The aggregate €300 million facility provided in 2013 and 2014 was refinanced and replaced by a new €300 million ISIF facility in September 2015 (and extended in September 2016). ISIF also made a €150 million facility available to Irish Water but no funds had been drawn down against that facility up to the end of 2016.

Local Property Tax transfer

1.13 Local Property Tax (LPT) is collected by the Revenue Commissioners and remitted to the Exchequer as part of the tax revenue receipts. From 2014, the Minister for Finance is required to transfer an amount equivalent to LPT so remitted, including any interest paid by taxpayers during the year, from the Central Fund to the Local Government Fund. In 2016, €463 million of LPT receipts remitted to the Exchequer were paid to the Local Government Fund.

Contribution to the EU budget

1.14 Ireland's contribution to the EU budget in 2016 amounted to €2 billion, an increase of 20% when compared to 2014. The largest element of the contribution to the EU budget is a uniform percentage levied on the Gross National Income (GNI) of each member state.

Exchequer assets and liabilities

1.15 The Finance Accounts do not include a balance sheet, notwithstanding the substantial level of Exchequer financial assets and liabilities that exist. Exchequer borrowing is reported on in Chapter 2 Government Debt.

Cash and financial assets

1.16 The level of cash and other financial assets held by the Exchequer fell from €13.6 billion at end 2015 to €11.1 billion at end 2016 (see Figure 1.5). The reduction of just over €2.4 billion (18%) reflected the impacts of the deficit of €1 billion and net debt repayments of €1.4 billion in the year.

1.17 The balance on the Central Bank Exchequer account was €8.4 billion at the end of 2016, an increase of €421 million on the balance at the end of 2015. Exchequer deposits in commercial banks fell by €1.6 billion during the year to €199 million.

Figure 1.5 Movements in Exchequer cash and financial asset balances, 2012 to 2016

Movement in year	2012	2013	2014	2015	2016
	€m	€m	€m	€m	€m
Balance at 1 January	**17,692**	**23,850**	**23,601**	**14,759**	**13,554**
Net Exchequer borrowing/ (repayment) in year[a]	21,050	11,254	(653)	(1,141)	(1,417)
Exchequer deficit	(14,892)	(11,503)	(8,189)	(64)	(1,018)
Balance at 31 December	**23,850**	**23,601**	**14,759**	**13,554**	**11,119**

Composition of cash and financial assets at 31 December	2012	2013	2014	2015	2016
	€m	€m	€m	€m	€m
Central Bank Exchequer account	15,280	4,432	4,089	7,964	8,385
Commercial bank deposits[b]	3,020	11,068	5,540	1,779	199
Non-Irish treasury bills	1,045	3,041	1,474	1,184	—
SBCI medium-term guaranteed notes[c]	—	—	—	—	85
Loans to Housing Finance Agency	3,982	3,704	3,145	2,424	2,032
Collateral funding	523	1,356	511	203	418
Balance at 31 December	**23,850**	**23,601**	**14,759**	**13,554**	**11,119**

Source: Finance Accounts 2012 to 2016

Notes:
a 2012 and 2013 figures exclude Government bonds to the value of €3.5 billion issued 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.

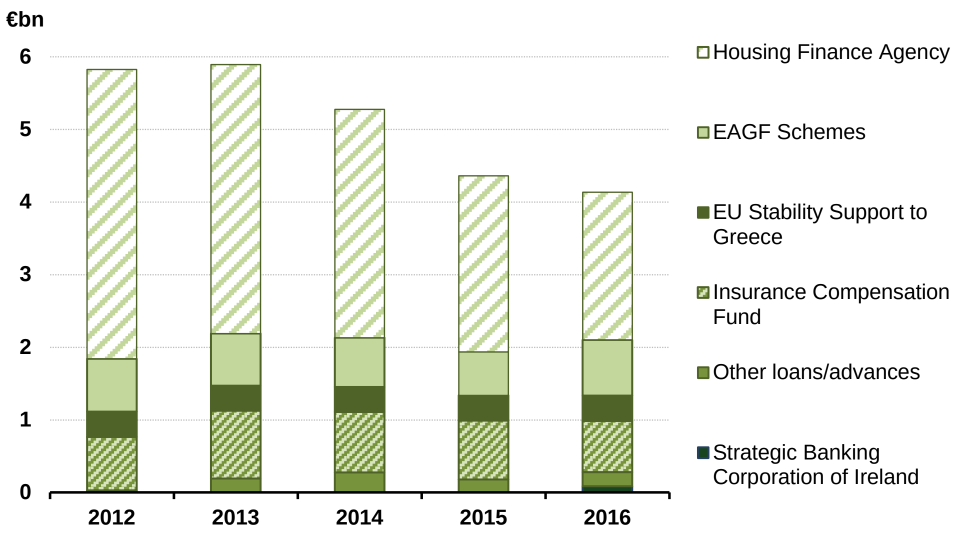
b Includes collateralised deposits and tri-party repurchase agreements.

c Strategic Banking Corporation of Ireland (SBCI) was established under the Strategic Banking Corporation of Ireland Act 2014. Its aim is to ensure access to flexible funding for Irish small and medium enterprises by facilitating the provision of lower cost of funding and flexible products. The issued share capital of the SBCI is owned solely by the Minister for Finance.

Exchequer loans and advances

1.18 Loans and advances provided from the Central Fund, and outstanding at the end of 2016, comprised lending of €2 billion to the Housing Finance Agency in the form of guaranteed notes, and other loans totalling €2.1 billion. This included lending of €85 million provided in 2016 to the Strategic Banking Corporation of Ireland in the form of guaranteed notes. The outstanding balances for the major categories of loans and advances at year end are shown in Figure 1.6. In addition, the Exchequer is entitled to reimbursement of contributions provided to the Credit Institutions Resolution Fund in 2011 and to the Credit Union Fund in 2012 (€250 million was provided to each fund).

Figure 1.6 Year-end balances on Central Fund loans and advances, 2012 to 2016



Source: Finance Accounts 2012 to 2016

1.19 The Insurance Compensation Fund was established primarily to provide a minimum level of protection for policy holders where a non-life insurance company goes into administration or liquidation. The Fund has received Exchequer loans of over €900 million. It receives contributions from insurance companies calculated as a percentage of the aggregate of gross premiums.[1] Contributions are collected by the Revenue Commissioners. The Exchequer loans outstanding at end 2016 amounted to €706 million.

European Commission decision on State aid

1.20 Following an investigation launched in 2014, the European Commission published its final decision in August 2016 concerning two tax rulings by the Revenue Commissioners on the attribution of profits to branches of the Apple Group. The Commission's decision is that those rulings conferred an advantage to Apple Group companies and constituted State aid.

1.21 The legal basis for the Commission's decision has been rejected by the State and an annulment application has been lodged with the General Court of the European Union in November 2016. In the interim, Ireland is obliged to collect the estimated value (including interest) of the alleged State aid from the Apple Group. It is planned that the sum collected from Apple will be placed in an escrow account, pending the outcome of the legal proceedings.

1 Section 7, Insurance (Amendment) Act 2011

Annex 1A Loans and advances, 2012 to 2016

	2012 €m	2013 €m	2014 €m	2015 €m	2016 €m
Housing Finance Agency					
Opening balance	3,848	3,982	3,704	3,145	2,424
Net movement in the year	134	(278)	(559)	(721)	(392)
Closing balance	**3,982**	**3,704**	**3,145**	**2,424**	**2,032**
Strategic Banking Corporation of Ireland					
Net movement in the year	—	—	—	—	85
Closing balance	**—**	**—**	**—**	**—**	**85**
European Agricultural Guarantee Fund					
Opening balance	720	730	715	677	599
Repayments	(720)	(730)	(715)	(677)	(599)
Loans issued	730	715	677	599	770
Closing balance	**730**	**715**	**677**	**599**	**770**
Social Insurance Fund					
Opening balance	55	—	15	—	—
Repayments	(355)	(285)	(4,015)	(4,365)	(1,370)
Advances	300	300	4,000	4,365	1,370
Closing balance	**—**	**15**	**—**	**—**	**—**
Insurance Compensation Fund					
Opening balance	280	735	933	833	812
Repayments	—	—	(100)	(100)	(106)
Loans issued	455	198	—	79	—
Closing balance	**735**	**933**	**833**	**812**	**706**
EU Stability Support to Greece					
Opening balance	346	346	346	346	346
Repayments	—	—	—	—	—
Loans issued	—	—	—	—	—
Closing balance	**346**	**346**	**346**	**346**	**346**
Other loans and advances					
Opening balance	32	30	178	273	177
Repayments	(2)	(83)	(157)	(260)	(68)
Loans issued	—	231	252	164	180
Closing balance	**30**	**178**	**273**	**177**	**193**[a]

Source: Finance Accounts 2012 to 2016

Note: a In 2016, a loan of €96 million to Irish Water was converted into a capital contribution. This was a 'non-cash' transaction but reduces the amount of loans outstanding at the end of 2016 by €96 million.

2 Government Debt

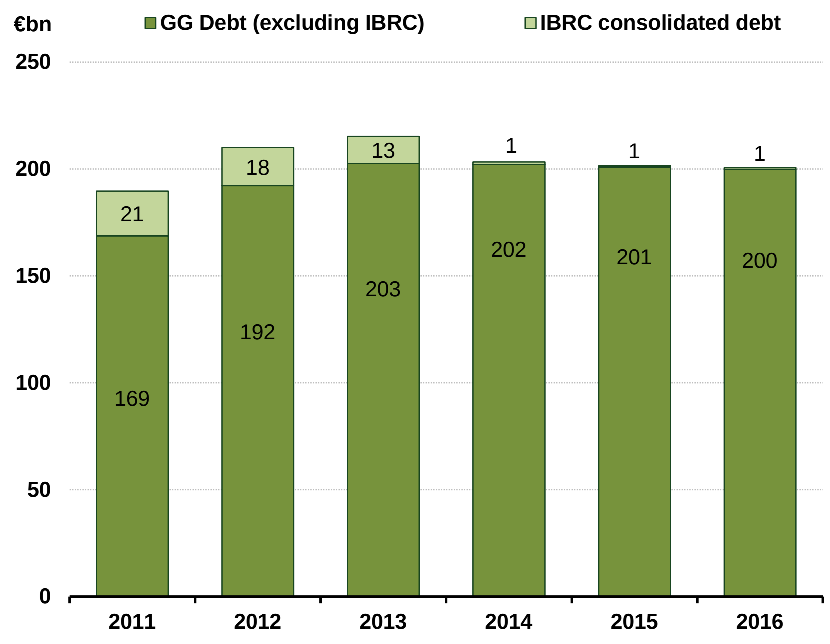
2.1 Revenues from taxation and other charges represent the primary source of State funding. The State has also borrowed substantially to bridge the gap between its revenues and expenditure. This report outlines the trend and composition of the government debt and the cost of debt service.

General Government Debt

2.2 The most comprehensive measure of state indebtedness is general government debt (GGDebt), an internationally standardised measure of debt which all EU countries are legally obliged to use in their twice-yearly reporting 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 DAC, or commercially-operated State companies which cover a majority of their operating costs through sales.[2]

2.3 Ireland's GGDebt at the end of 2016 is estimated by the Central Statistics Office (CSO) at €200.6 billion, marginally lower than at end-2015 (see Figure 2.1).

Figure 2.1 Trend in general government debt, 2011 to 2016



Source: Central Statistics Office. For further details see Annex 2A, Figure 2A.1

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; debt securities; and loans.

2 The CSO publishes a register of public sector bodies which lists bodies within the scope of GGDebt.

2.4 The ratio of GGDebt to gross domestic product (GDP) is a standard debt sustainability measure applied for the purposes of comparison across the EU.[1] At the end of 2016, Ireland's GGDebt as a proportion of GDP was 73%, having declined from a peak of around 120% at end-2012 (see Figure 2.2).

2.5 The decline in the GGDebt to GDP ratio since 2013 has been more heavily influenced by the growth in GDP than by the reduction in nominal debt. The nominal level of GGDebt fell by 6.8% between 2013 and 2016; the nominal level of GDP increased by almost 53% over the same period, mainly due to an exceptional increase in 2015. The substantial upward revision to estimated GDP for 2015 has been attributed to the activities of a small number of large multinational firms and the relocation to Ireland of a limited number of big economic operators.

2.6 A comparison of GGDebt as a proportion of GDP across the 28 EU member states at end-2016 shows that 12 member states had higher GGDebt to GDP ratios than Ireland, with Greece having the highest ratio (179%) (see Annex 2B).

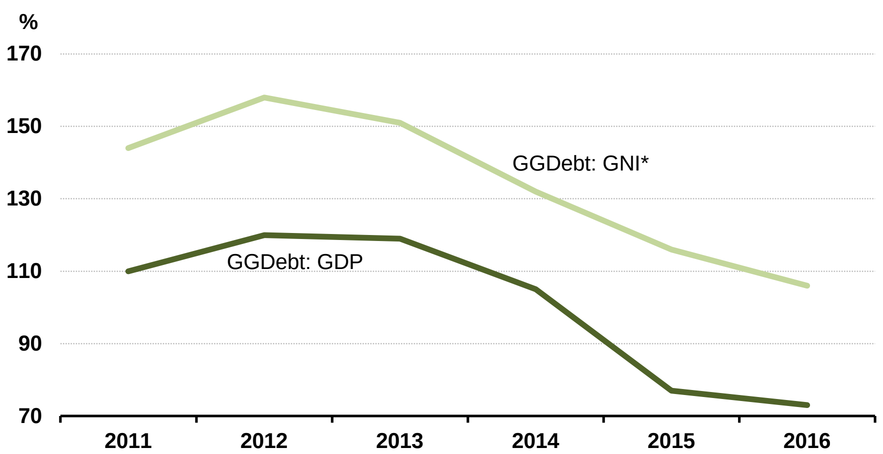
Other economic indicators

2.7 Although GDP continues to be the indicator that is used when measuring Ireland's performance in respect of the EU debt targets, other measures have been recommended, due to the difficulty of representing the complexities of economic activity in highly globalised economies using the standard indicators. The Economics Statistics Review Group (ESRG), convened by the CSO in September 2016, recommended the development of an indicator GNI*.

*GNI**

2.8 GNI* is defined by the CSO as 'gross national income adjusted for profits of re-domiciled firms, depreciation on research and development-related intellectual property imports and aircraft leasing'.[2] The CSO first reported the GNI* indicator in July 2017, for the period 1995 to 2016.[3] GNI* was estimated to be significantly lower than GDP. As a result, the ratio of GGDebt to GNI* is significantly higher than GGDebt to GDP. GGDebt to GNI* peaked at 158% in 2012, and fell to 106% by 2016 (see Figure 2.2).

Figure 2.2 GGDebt as a proportion of GDP and of GNI*, 2011 to 2016



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

1 The Stability and Growth Pact is a set of rules designed to ensure that countries in the EU pursue sound public finances and coordinate their fiscal policies. The Pact requires countries in the EU to have a GGDebt to GDP ratio no greater than 60%, or if the debt level is above 60%, to reduce the ratio at a steady pace to 60%.

2 The derivation of GNI* is outlined in Annex 2C.

3 CSO July 2017 publication *Quarterly National Accounts*. Annex 2C shows the adjustments made by the CSO to move from GDP to GNI* for the period 2011 to 2016.

Other debt sustainability indicators

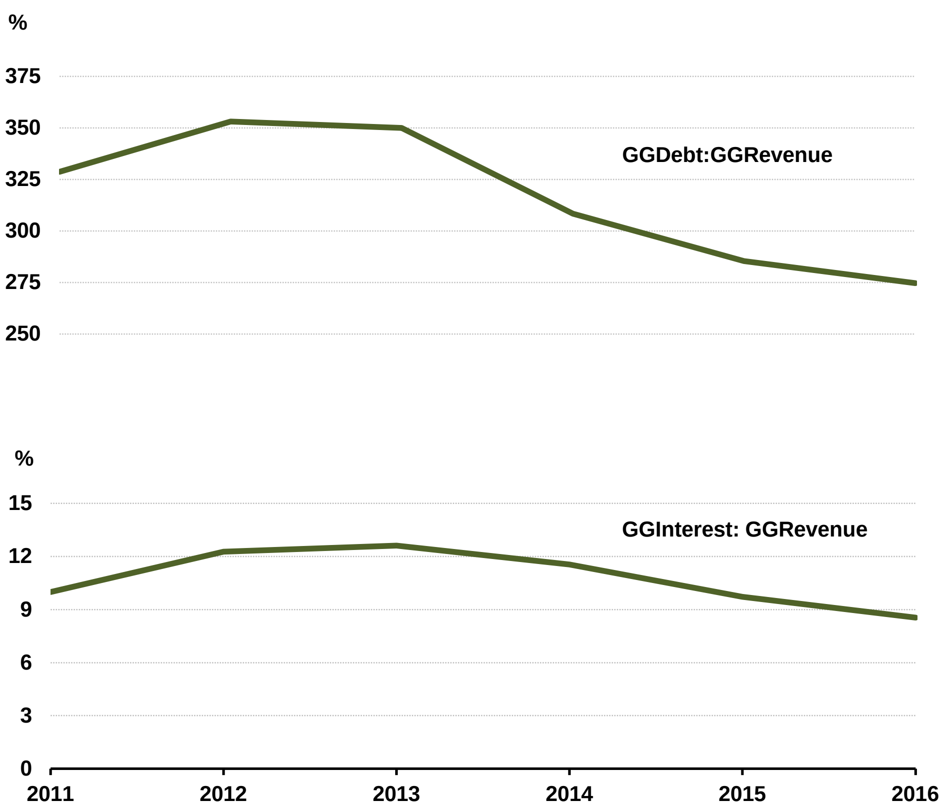
2.9 GNI* is an indicator that is unique to Ireland. A number of other measures that are standardised across EU member states can also be used when considering the sustainability of Ireland's debt burden. These include

- the ratio of GGDebt to general government revenue (GGRevenue) and
- general government interest (GGInterest) as a proportion of GGRevenue.

2.10 GGRevenue is a standardised measure compiled in accordance with the classifications in ESA2010.[1] Ireland's GGRevenue was estimated at €72.6 billion in 2016.[2] Ireland's GGDebt at end-2016 as a proportion of GGRevenue was 276% having peaked at around 353% in 2012 (see Figure 2.3). Only three EU member states – Greece, Portugal and Italy – had a higher GGDebt to GGRevenue ratio than Ireland in 2016 (see Annex 2B).[3]

2.11 General government interest (GGInterest) is a standardised measure of interest on Government debt.[4] It is calculated on an accruals basis, includes interest relating to the whole general government sector and also includes a number of adjustments as required under the ESA2010 framework. The proportion of GGRevenue required to pay GGInterest peaked at 12.6% in 2013, falling to 8.5% in 2016 (see Figure 2.3). In 2016, just one EU member state (Portugal) had a higher GGInterest to GGRevenue ratio (9.8%) than Ireland (see Annex 2B).

Figure 2.3 GGDebt as a proportion of GGRevenue and GGInterest as a proportion of GGRevenue ratio, Ireland 2011 to 2016



Source: Analysis by the Office of the Comptroller and Auditor General. For further details see Annex 2D, Figure 2D.5 and 2D.6.

1 GGRevenue is defined in ESA 2010 as the sum of taxes, net social contributions, sales (defined as market output, output for own final use and payments for non-market production), other current revenues and capital transfer revenues.

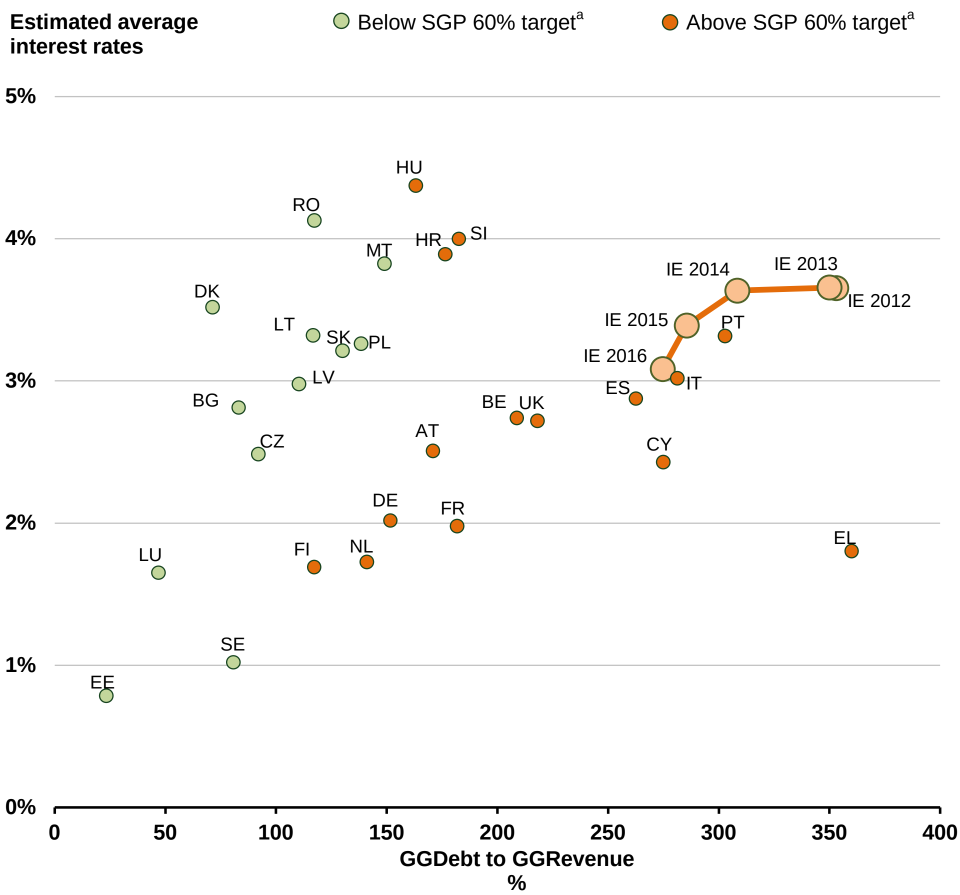
2 *Government Finance Statistics*, July 2017, CSO.

3 Cyprus had the same rate as Ireland.

4 GGInterest differs from the interest paid on the national debt by the NTMA.

2.12 The estimated average interest rates on GGDebt incurred by EU member states for 2016 were in the range 0.8% (Estonia) to 4.4% (Hungary).[1] Ireland's estimated interest rate was 3.1%, having fallen from 3.7% in 2013. Figure 2.4 shows the estimated interest rates for each country, set against their ratios of GGDebt to GGRevenue, as well as the five-year trend for Ireland.

Figure 2.4 Estimated average interest rates on GGDebt, and GGDebt:GGRevenue. EU member states 2016, and Ireland 2012 to 2016



AT	Austria	**EE**	Estonia	**IE**	Ireland	**PL**	Poland
BE	Belgium	**EL**	Greece	**IT**	Italy	**PT**	Portugal
BG	Bulgaria	**ES**	Spain	**LV**	Latvia	**RO**	Romania
CY	Cyprus	**FI**	Finland	**LT**	Lithuania	**SI**	Slovenia
CZ	Czech Republic	**FR**	France	**LU**	Luxembourg	**SK**	Slovakia
DE	Germany	**HR**	Croatia	**MT**	Malta	**SE**	Sweden
DK	Denmark	**HU**	Hungary	**NL**	Netherlands	**UK**	United Kingdom

Source: Analysis by Office of the Comptroller and Auditor General. For further details see Annex 2B.

Note: a The Stability and Growth Pact target is GGDebt:GDP ratio of not more than 60%.

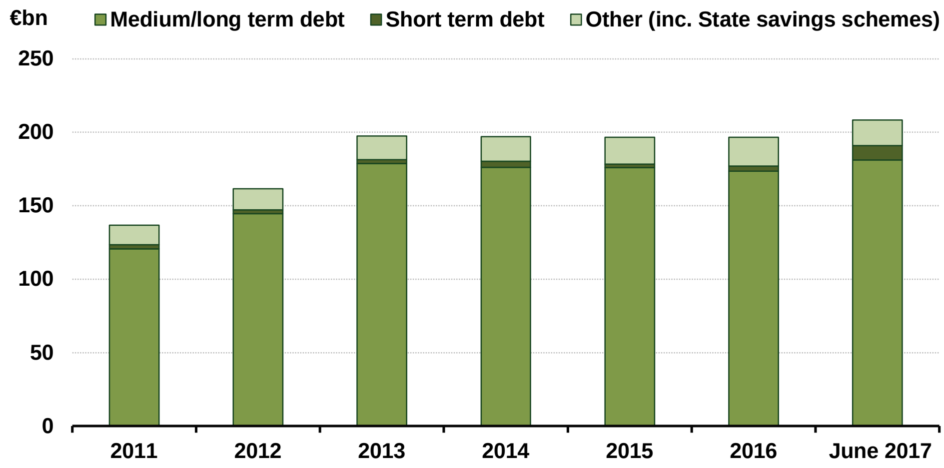
1 GGInterest for 2016, divided by the average of the opening and closing GGDebt for each country. Eurostat does not publish estimated interest rates for each country.

Composition of Gross National Debt

2.13 The largest component of Ireland's GGDebt is the gross national debt. This is debt arising from Exchequer borrowings undertaken by the National Treasury Management Agency (NTMA).

2.14 Gross national debt stood at €196.7 billion at the end of 2016, reflecting a marginal increase from 2015 (Figure 2.5). By end-June 2017, gross national debt had risen by €11.5 billion to €208.2 billion.[1] The NTMA has stated that this was mainly due to approximately €9.5 billion of new bond issuance — including the first ever inflation-linked bond — and an increase of just under €4 billion in short-term debt. This was partially offset by a reduction of €2 billion in the value of floating rate bonds outstanding.

Figure 2.5 Gross national debt at redeemable par values, 2011 to 2016 (year-end) and at end-June 2017



Source: Annex 2D, Figure 2D.1.

Short-term debt

2.15 Debt with an original maturity of less than one year is referred to as short-term debt. It accounted for €3.4 billion of gross national debt at end-2016 compared with €2.3 billion at end-2015 (Annex 2D, Figure 2D.4).[2] Short-term instruments are used to provide liquidity and flexibility in the timing of long-term funding operations.

2.16 The main forms of short-term borrowings are exchequer notes, treasury bills, the euro commercial paper programme and central treasury notes. Four treasury bill auctions took place during 2016 each raising €0.5 billion. There was €1 billion outstanding in treasury bills at end-2016. Exchequer notes and euro commercial paper are sold through reverse enquiry.

Medium and long term debt

2.17 Medium and long-term debt at end-2016 accounted for 88% (€174 billion) 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. At end-June 2017, around 94% of gross national debt was at fixed interest rates, taking account of derivatives hedging interest rate risk.[3] The balance of the debt was at floating interest rates.

1 End-June 2017 figures are not audited.

2 This excludes borrowing by the NTMA from other State funds e.g. overnight balances.

3 Fixed rate debt also includes European Financial Stability Facility (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.

Fixed-rate treasury bonds

2.18 Of the €121.6 billion in government bonds outstanding at end-2016, fixed-rate treasury bonds accounted for €101.4 billion or 83%. Included in the €8.25 billion (nominal) of new bond market funding raised by the NTMA during 2016 were the following significant transactions[1]

- €3 billion raised in January from the syndicated sale of a new ten-year benchmark bond, at a yield of 1.16%
- tranches of the 2022, 2026 and 2030 treasury bonds raised a total of €5.25 billion in scheduled bond auctions – yields ranged from 1% in the February auction of the 2026 bond to 0.16% in the May auction of the 2022 bond.

2.19 In April 2016, the NTMA issued Ireland's first ever 100-year note, selling €100 million at a yield of 2.35%. In April 2017, it issued Ireland's first ever inflation–linked bond, raising €609.5 million.[2]

EU-IMF programme of financial support

2.20 Ireland's EU-IMF programme provided for loan funding from EU lending facilities and the IMF, and for bilateral loans from the UK, Sweden and Denmark. The outstanding EU-IMF programme loan balance totalled €50.3 billion at end-2016.[3]

Floating rate government bonds

2.21 During 2016, the NTMA bought back from the Central Bank of Ireland and cancelled a total of €3 billion of 2041 and 2043 floating rate bonds, reducing the total balance outstanding to €19.5 billion. The NTMA paid €4.4 billion for the bonds, due to the increase in their market value since issuance. Between January and June 2017, the NTMA bought and cancelled a further €2 billion of the 2043 and 2045 floating rate notes at a cost of €2.9 billion. The Central Bank distributes the bulk of the surpluses it earns from the disposal of these bonds back to the Exchequer and holds the remainder as reserves.[4]

Maturity profile of debt

2.22 Figure 2.6 shows the maturity profile of government bonds and EU-IMF programme debt (totalling €179 billion) at end-June 2017. €48 billion of government bonds is due to mature and requires refinancing between 2017 and 2020.[5]

1 This figure excludes funding raised in non-competitive auctions.

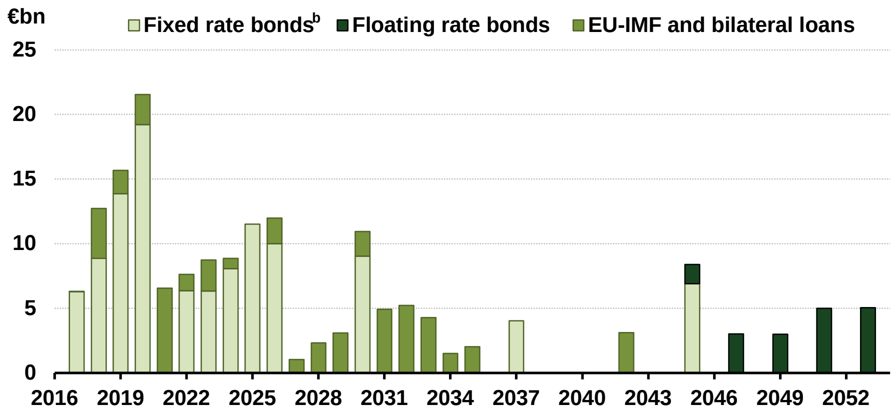
2 Both the 100-year note and the inflation-linked bond were issued through Ireland's euro medium term note programme.

3 This figure includes the impact of hedging instruments.

4 This is also discussed in Chapter 3, *Cost of Banking Stabilisation Measures as at end-2016*.

5 European Financial Stabilisation Mechanism (ESFM) loans of €3.9 billion mature in the same period. However, it is not expected that Ireland will have to refinance any of these loans before 2027.

Figure 2.6 Maturity profile of government bonds and EU-IMF programme funding held at end-June 2017[a]



Source: Annex 2D, Figure 2D.2 and Figure 2D.3.

Notes: a EU-IMF programme balances reflect the impact of currency hedging transactions where relevant. Maturity extensions to EFSM loans agreed in 2013 are reflected in the graph, and further revised maturity dates will be determined as other EFSM loans approach their original maturity dates. It is not expected Ireland will have to refinance any of these loans before 2027.

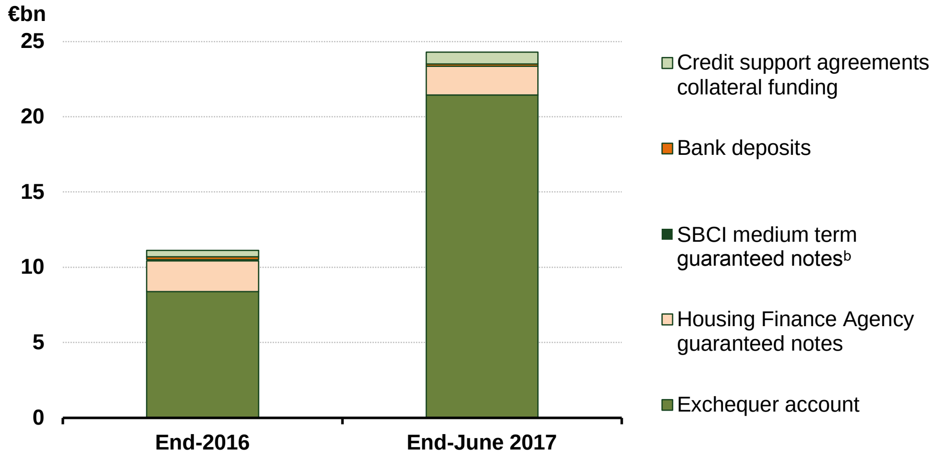
b Includes amortising bonds and inflation-linked bonds (maturing in 2040).

Exchequer cash balances

2.23 At end-2016, a total of €8.4 billion cash was held in the Exchequer account. By end-June 2017, the balances had increased by €13.1 billion (to €21.5 billion), as a result of the front-loading of planned bond issuance and an Exchequer surplus for the first six months of 2017 (see Figure 2.7).

2.24 Since 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.[1] The deposit rate progressively reduced from zero in June 2014 to minus 0.4% by March 2016. The NTMA paid €32.4 million in negative interest to the Central Bank in 2016 (2015: €11.9 million).

Figure 2.7 Composition of cash and other financial instruments, end-2016 and end-June 2017[a]



Source: National Treasury Management Agency

Note: a End-June 2017 figures have not been audited.

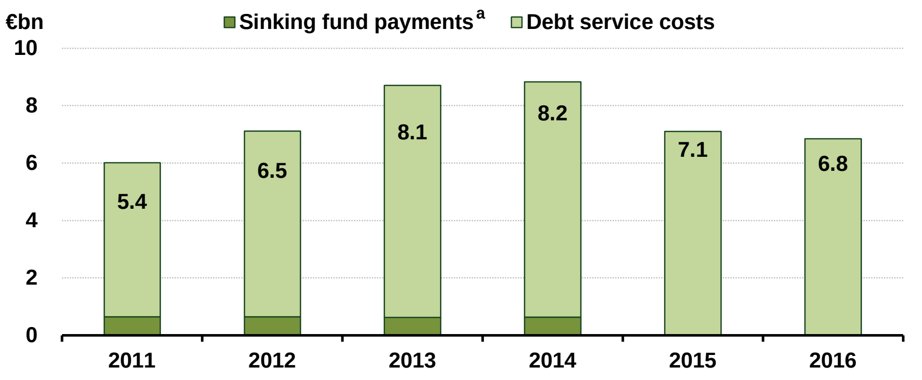
b Strategic Banking Corporation of Ireland.

1 This applies to government deposits exceeding the higher of either €200 million or 0.04% of GDP.

Debt service costs of Gross National Debt

2.25 The debt service cost disclosed in the NTMA's accounts for 2016 was just over €6.8 billion when measured on a cash basis, down 4% year-on-year (see Figure 2.8). This is net of €57 million interest received and other income and includes fees and expenses of €104 million.

Figure 2.8 Debt service costs and sinking fund payments, 2011 to 2016 (cash basis)



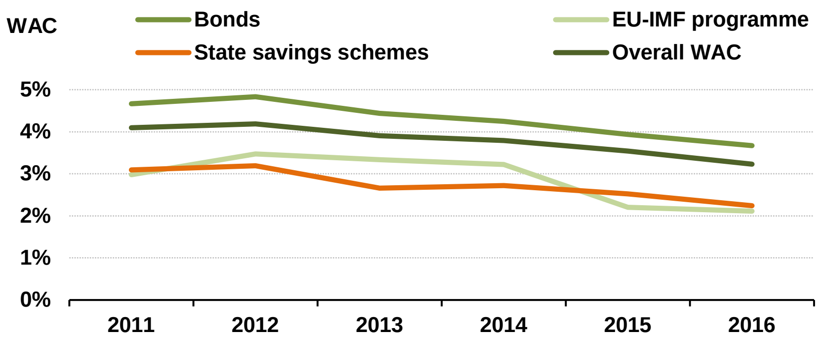
Source: National Treasury Management Agency

Note: a The sinking fund payment ceased from 2015 in accordance with section 99 of the Finance Act 2014. This was previously used to repay debt.

Average cost of borrowing 2011 to 2016

2.26 At end-2016, the overall weighted average cost of servicing the gross national debt was estimated at 3.2% (end-2015: 3.5%), as shown in Figure 2.9. The NTMA estimates the overall weighted average cost of servicing the gross national debt had fallen to 3% at end-June 2017.

Figure 2.9 Weighted average cost (WAC) of borrowing, 2011 to 2016



Source: National Treasury Management Agency

Government bond maturing between 2017 and 2020

2.27 Government bonds with a nominal value of €48 billion are scheduled to mature in the period 2017 to 2020. The annual coupon on these bonds ranges from 4.4% to 5.9%, with a weighted average cost of 4.9%. Each one percentage point change in the weighted average cost when the bonds are refinanced would have an impact of around €0.5 billion per annum on the cost of servicing debt, and an impact of around 0.25% on the aggregate weighted average cost of servicing the total gross national debt.

Conclusions

Debt burden indicators

2.28 The GGDebt to GDP ratio is used when measuring EU member states' debt burden. Between 2012 and 2016, Ireland's GGDebt to GDP ratio fell from 120% to 73%. The Stability and Growth Pact benchmark is 60% or lower. At end-2016, 12 EU member states had GGDebt to GDP ratios that were higher than Ireland's.

2.29 GNI* is a measure of output developed by the CSO to address some of the complexities of Ireland's situation as a globalised economy as captured in the standard GDP definition. Using this indicator, which is unique to Ireland, the GGDebt to GNI* ratio was estimated as having been 158% in 2012, falling to 106% at end-2016. No target has been set for this ratio.

2.30 Other indicators of the debt burden are also available. For two key indicators – GGDebt:GGRevenue and GGInterest:GGRevenue – Ireland was among the EU member states with the highest ratios, indicating a relatively high debt burden.

Cost of debt by 2020

2.31 The largest component of Ireland's GGDebt, the gross national debt stood at almost €197 billion at end-2016. The interest cost in 2016 was €6.8 billion. The estimated weighted average cost of servicing the debt, at end-2016, was 3.2%. This had fallen to 3% by end-June 2017, continuing a downward trend.

2.32 The weighted average annual coupon of €48 billion of government bonds maturing between 2017 and 2020 (around a quarter of the gross national debt at end-2016) is just under 5%. The average interest rate incurred when these bonds are refinanced will have a significant impact on the overall weighted average cost of servicing the debt. Each 1% change in this weighted average is projected to have an impact of around €0.5 billion on the annual cost of servicing the debt and an impact of around 0.25% on the aggregate weighted average cost of servicing the total gross national debt.

Level of cash

2.33 The Exchequer cash balances increased significantly in the first half of 2017, to €21.5 billion. This was the outcome of the NTMA's 'front-loading' of planned bond issuance in 2017, and an Exchequer surplus for the first six months of the year.

Annex 2A

Figure 2A.1 Composition of General Government Debt at year-end, 2011 to 2016

	2011	2012	2013	2014	2015	2016
	€m	€m	€m	€m	€m	€m
Central Government – Exchequer						
Gross national debt	136,774	161,482	197,547	197,069	196,620	196,723
Less liabilities to other central government bodies, local authorities and Education and Training Boards (ETBs)	(2,634)	(2,331)	(2,345)	(2,551)	(3,372)	(3,987)
Adjustment for nominal value of debt[a]	4	6	4	2	8	(2)
European Financial Stability Fund prepaid margin	530	530	530	530	530	–
Liability for coinage in circulation	694	670	675	693	701	707
Accrual adjustment[b]	464	548	604	599	504	451
Other adjustments[c]	153	1440	996	1,042	809	542
National loans advance interest	12	12	5	49	24	29
Promissory notes	28,333	25,261	215	201	–	–
Exchequer contribution	**164,329**	**187,619**	**198,230**	**197,634**	**195,824**	**194,463**
Other Central Government						
IBRC consolidated debt	20,927	17,797	12,660	1,237	735	698
Post Office Savings Bank Fund deposits	2,506	2,774	2,646	2,672	2,765	2,919
Other State bodies[d]	535	456	379	514	1,212	1,409
Westlink buy-out	410	360	310	260	221	171
Other central government contribution	**24,378**	**21,387**	**15,995**	**4,684**	**4,933**	**5,198**
Housing Finance Agency						
Gross debt	4,414	4,501	4,423	4,209	3,615	3,612
Less liabilities to central government bodies and local authorities	(4,030)	(4,106)	(3,997)	(3,796)	(3,392)	(3,351)
Housing Finance Agency contribution	**384**	**394**	**427**	**413**	**224**	**261**
Local Government						
Gross debt	5,054	5,106	4,920	5,020	4,258	4,169
Less liabilities to Housing Finance Agency and other central government bodies	(4,420)	(4,492)	(4,276)	(4,424)	(3,647)	(3,495)
Local government contribution	**634**	**614**	**644**	**596**	**611**	**674**
Total[e]	**189,725**	**210,015**	**215,296**	**203,326**	**201,592**	**200,595**

Source: Central Statistics Office

Notes:
- a 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.
- b Savings bonds, savings certificates and instalment savings interest.
- c Repurchase agreements, collateral and OPW contracts.
- d Includes voluntary hospitals, HSE, National Oil Reserve Agency.
- e This excludes other exchequer liabilities including commitments in respect of public private partnership contracts in place at year-end and accrued pension entitlements.
- f Figures are subject to rounding.

Annex 2B

Figure 2B.1 State debt indicators for EU member states, 2016

Country	GGDebt : GDP	GGDebt: GGRevenue	GGInterest : GGRevenue	GGInterest : GGDebt
	%	%	%	%
Austria	85	171	4.2	2.5
Belgium	106	209	5.6	2.7
Bulgaria	30	83	2.2	2.8
Croatia	84	176	6.8	3.9
Cyprus	108	275	6.6	2.4
Czech Republic	37	92	2.3	2.5
Denmark	38	71	2.5	3.5
Estonia	9	23	0.2	0.8
Finland	64	117	2.0	1.7
France	96	182	3.6	2.0
Germany	68	152	3.1	2.0
Greece	**179**	**360**	6.5	1.8
Hungary	74	163	7.0	**4.4**
Ireland	73	275	8.5	3.1
Italy	133	281	8.4	3.0
Latvia	40	110	3.1	3.0
Lithuania	40	117	3.9	3.3
Luxembourg	20	47	0.8	1.7
Malta	58	149	5.6	3.8
Netherlands	62	141	2.5	1.7
Poland	54	138	4.4	3.3
Portugal	130	303	**9.8**	3.3
Romania	38	117	4.7	4.1
Slovakia	52	130	4.1	3.2
Slovenia	80	183	7.3	4.0
Spain	99	263	7.4	2.9
Sweden	42	81	0.8	1.0
UK	89	218	6.3	2.7

Source: Eurostat, CSO

Annex 2C Derivation of GNI*

The membership of the Economic Statistics Review Group (ESRG) was[1]

- Philip Lane (Chair) – Central Bank of Ireland
- Alan Barrett – Economic and Social Research Institute
- Seamus Coffey – University College Cork
- Thomas Conefrey – Irish Fiscal Advisory Council
- John Fitzgerald – Trinity College Dublin, Irish Times
- John McCarthy – Department of Finance
- Dan O'Brien – Institute of International and European Affairs in Dublin, Irish Independent
- Fergal O'Brien – Irish Business and Employers Confederation (IBEC)
- Frances Ruane – Trinity College Dublin, European Statistical Advisory Committee
- Marie Sherlock – SIPTU
- Rossa White – National Treasury Management Agency.

The ESRG completed its work in December 2016.

Gross Domestic Product (GDP) and Gross National Product (GNP) are closely related measures. GDP measures the total output of the economy in a period i.e. the value of work done by employees, companies and self-employed persons. Not all of the incomes earned in the economy remain the property of residents, and residents may earn some income abroad. The total income remaining with Irish residents is the GNP, and it differs from GDP by the net amount of incomes sent to or received from abroad. In Ireland's case, over many years, the amount produced in Ireland belonging to persons abroad has exceeded the amount received from abroad, due mainly to the profits of foreign-owned companies. Ireland's GNP is, therefore, less than its GDP.

Gross National Income (GNI) is equivalent to GNP plus EU subsidies minus EU taxes.

Gross National Income* (GNI*) is defined as GNI adjusted for a number of foreign-related elements which do not accrue to domestic residents.

Figure 2C.1 shows how GNP, GNI and GNI* were calculated by the CSO for the period 2011-2016.

Figure 2C.1 Measures of Ireland's output, 2011 to 2016[a]

	2011	2012	2013	2014	2015	2016
	€m	€m	€m	€m	€m	€m
GDP	**171,939**	**175,561**	**180,298**	**194,537**	**262,037**	**275,567**
Net factor outflow to the rest of the world	(33,788)	(33,549)	(28,309)	(29,715)	(56,048)	(48,818)
GNP	***138,151***	***142,012***	***151,990***	***164,822***	***205,990***	***226,749***
EU subsidies	1,698	1,632	1,450	1,318	1,571	1,479
EU taxes	(240)	(242)	(247)	(275)	(327)	(486)
GNI	***139,610***	***143,402***	***153,193***	***165,866***	***207,234***	***227,742***
Depreciation on R&D intellectual property imports	(379)	(586)	(705)	(771)	(25,047)	(27,793)
Factor income of re-domiciled companies	(5,548)	(7,102)	(6,477)	(6,855)	(4,666)	(5,786)
Depreciation on aircraft leasing	(2,366)	(2,653)	(3,006)	(3,782)	(4,642)	(5,001)
GNI*	***131,316***	***133,060***	***143,005***	***154,457***	***172,878***	***189,163***

Source: Central Statistics Office, *National Income and Expenditure Annual Results, July 2017*

Note: a Figures are subject to rounding.

1 Jennifer Banim and Michael Connolly of the CSO also attended the meetings. Michael Brennan of the CSO acted as Secretary to the ESRG.

Annex 2D

Figure 2D.1 Cumulative borrowing at redeemable par values, at year-end 2011 to 2016 and end-June 2017[a]

	2011 €m	2012 €m	2013 €m	2014 €m	2015 €m	2016 €m	End June 2017 €m
Medium/long-term debt[b]							
Government bonds	85,310	87,853	111,007	116,339	125,086	121,645	128,935
EU-IMF programme funding[c]	34,629	55,898	66,942	58,793	49,747	50,298	50,226
Other medium/long-term	673	772	772	927	1,168	1,698	1,898
Short-term debt[d]							
Short-term debt	2,920	2,690	2,645	4,102	2,347	3,375	7,241
Other debt							
Borrowings from other State funds[e]	1,696	786	676	523	1,579	2,519	2,624
Government savings schemes[f]	11,546	13,483	15,506	16,384	16,692	17,194	17,252
Gross national debt	**136,774**	**161,482**	**197,548**	**197,068**	**196,619**	**196,729**	**208,176**

Source: National Treasury Management Agency

Notes:
- a End-June 2017 figures have not been audited.
- b Original maturities of more than one year.
- c The balances reflect the impact of currency hedging transactions, where applicable.
- d Original maturities of one year or less.
- e The main element of this borrowing relates to the Post Office Savings Bank Fund.
- f Original maturities up to ten years.

Figure 2D.2 EU-IMF programme of financial support for Ireland, December 2016 and end-June 2017[a]

	December 2016		End-June 2017	
Lender	**€m**	**Residual maturity (years)[b]**	**€m**	**Residual maturity (years)[b]**
IMF	4,354	5.0	4,350	4.5
EFSF[c]	18,411	16.1	18,411	15.6
EFSM[d]	22,500	10.1	22,500	9.6
Bilateral loans[e]	5,033	3.3	4,965	2.8
Total	**50,298**		**50,226**	

Source: National Treasury Management Agency

Notes:
- a The balances reflect the impact of currency hedging transactions where applicable.
- b Weighted average term to maturity.
- c The EFSF figures reflects the payment of the €530 million pre-paid margin deducted from the initial drawdown in 2011. In July 2016, a total payment of €555 million was received from the EFSF representing the €530 million pre-paid margin, €70 million accumulated investment return less €45 million due to the Member State Guarantors.
- d Maturity extensions to EFSM loans agreed in 2013 are reflected in Figure 2D.2, and further revised maturity dates will be determined as other EFSM loans approach their original maturity dates. It is not expected that Ireland will have to refinance any of these loans before 2027.
- e The bilateral loans are with the United Kingdom, Denmark and Sweden.

Figure 2D.3 Maturity profile of government bonds, at year-end 2011 to 2016 and end-June 2017[a]

	Under 5 years	5 to 10 years	Over 10 years	Total
	€m	€m	€m	€m
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**
2015	58,314	30,450	36,322	**125,086**
2016	49,070	37,611	34,964	**121,645**
End-June 2017[b]	48,221	42,266	38,448	**128,935**

Source: National Treasury Management Agency

Notes: a End-June 2017 figures have not been audited.

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

Figure 2D.4 Maturity profile of short-term debt, at year-end 2011 to 2016 and end-June 2017[a]

	Less than one month	One to three months	Three to six months	Over six months	Total
	€m	€m	€m	€m	€m
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**
2015	1,300	429	134	484	**2,347**
2016	1,414	652	276	1,033	**3,375**
End-June 2017	3,420	1,558	710	1,553	**7,241**

Source: National Treasury Management Agency

Note: a End-June 2017 figures have not been audited.

Figure 2D.5 GGDebt to GGRevenue

	2011	2012	2013	2014	2015	2016
	€m	€m	€m	€m	€m	€m
GGDebt	189,725	210,015	215,296	203,326	201,592	200,595
GGRevenue	57,733	59,493	61,496	65,940	70,624	72,566
	329%	**353%**	**350%**	**308%**	**286%**	**276%**

Source: Central Statistics Office, *Government Finance Statistics Quarterly Returns,* 19 July 2017

Figure 2D.6 GGInterest to GGRevenue

	2011	2012	2013	2014	2015	2016
	€m	€m	€m	€m	€m	€m
GGInterest	5,768	7,298	7,774	7,608	6,863	6,201
GGRevenue	57,733	59,493	61,496	65,940	70,624	72,566
	9.99%	**12.3%**	**12.6%**	**11.5%**	**9.7%**	**8.5%**

Source: Central Statistics Office, *Government Finance Statistics Quarterly Returns*, 19 July 2017

3 Cost of Banking Stabilisation Measures as at end-2016

3.1 Following the onset of the financial crisis in 2008, the State undertook a number of measures to stabilise the banking system, including the provision by the Central Bank of Ireland (Central Bank) of significant 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.

3.2 The purpose of this report is to provide an estimate of the net outturn of the banking stabilisation measures taken by the State, as at end-2016.

Overview of net costs

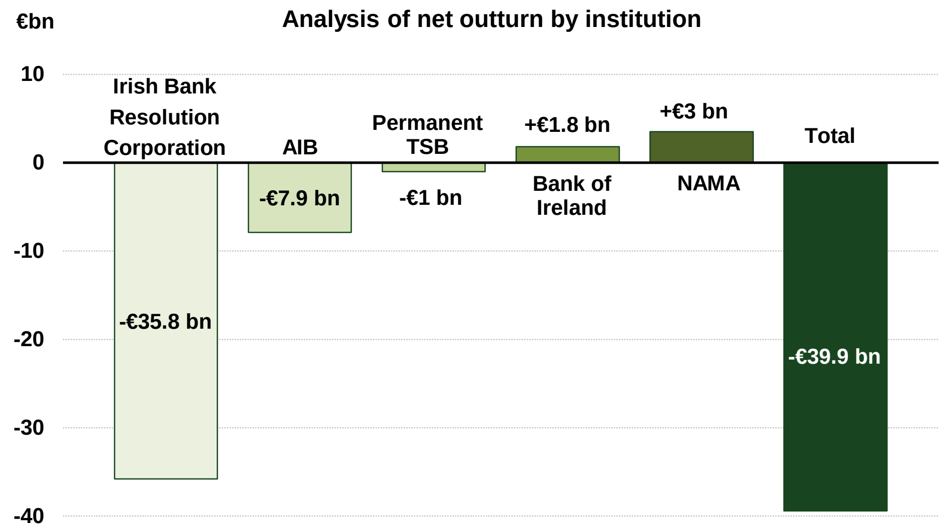
3.3 The sums involved in recapitalising banks, including covering their losses, are relatively straightforward to identify. Income accruing from the investments is also generally identifiable. However, estimation procedures are required to identify the costs incurred by the State in funding the investments and in arriving at a valuation of the State's remaining interest in banking assets.

3.4 The examination analysis has estimated that the net cost to the State from banking stabilisation measures up to end-2016 was around €56.5 billion. This net cost must be offset by the estimated value at 31 December 2016 of the State’s investments in banks (€13.6 billion), and NAMA’s projected terminal surplus when it winds up (around €3 billion). This results in a net outflow for the State of just under €40 billion (see Figure 3.1).[1]

1 At the end of 2016, NAMA’s financial statements reported accumulated retained earnings of just over €3 billion. NAMA also reported unrecognised surpluses of €469 million.

Figure 3.1 Estimated net outturn from banking stabilisation measures as at 31 December 2016

	€bn	€bn
Cost of capitalising banks (investments)		**66.8**
Estimated cost of funds invested [a]		**14.8**
Less income		
Disposals of investments	(9.1)	
Income from investments	(4.6)	
Net income from liability guarantee schemes	(3.7)	
Estimated related Central Bank surplus[b]	(7.7)	**(25.1)**
Estimated net cost to the State from banking stabilisation measures as at 31 December 2016		**56.5**
Estimated residual value of investments at 31 December 2016	(13.6)	
Estimated surplus from NAMA[c]	(3.0)	**(16.6)**
Estimated net outturn to the State from banking stabilisation measures as at 31 December 2016		**39.9**
Estimated recurring annual cost of servicing the debt	**€1.0 billion to €1.4 billion a year** [d]	



Source: Analysis by the Office of the Comptroller and Auditor General. See Annex 3A 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 ISIF, and premiums paid by the NTMA when it redeemed government bonds that had been issued to the Central Bank to replace promissory notes.

b Estimated portion of the Central Bank's surplus income that is attributable to banking stabilisation measures.

c The projected NAMA surplus cannot be reliably apportioned to individual institutions.

d Range assuming interest rates of 2.5% to 3.5% per year. The actual cost will be determined by the amount realised from remaining investments and by the State's cost of borrowing.

Capitalisation of banks

3.5 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 Irish Bank Resolution Corporation (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. Between 2014 and 2016, the NTMA redeemed €5.5 billion of these replacement bonds.

- The Ireland Strategic Investment Fund (ISIF) — €22.4 billion, including re-investment of €1.7 billion in ordinary shares received in lieu of dividends on preference shares.[1]

3.6 Further detail on the investments and the income from them is set out in Annex 3B.

Disposal of AIB shares in 2017

3.7 At the end of 2016, the value of the State's share in AIB was €11.6 billion. In May 2017, a dividend of €250 million was paid by AIB to the ISIF. Following this, the value per share was just under €4.19.

3.8 Subsequently, 29% of the State's shareholding was sold at a price of €4.40 per share — around 5% higher — in an initial public offering (IPO) of AIB to institutional and retail investors. The State realised €3.43 billion in total from the IPO. All fees and expenses incurred by the State in relation to the IPO were paid by AIB directly under the terms of the recapitalisation agreements in place with the bank.

3.9 Following the sale, the State held 71% of AIB with an estimated value of just under €8.5 billion, at €4.40 per share (the IPO price).

Banking stabilisation related Central Bank income

3.10 For the years 2009 to 2016, the examination has estimated that around €7.7 billion of the Central Bank's surplus income (total €12.5 billion) was attributable to financial instruments held as a result of banking stabilisation measures taken by the State (see Figure 3.2). The Central Bank retained 20% of surplus income relating to banking stabilisation measures (around €1.5 billion), thereby increasing its reserves and paid the balance to the Exchequer (€6.2 billion) in the form of annual dividends.[2]

1 The investments were originally made by the National Pensions Reserve Fund (NPRF). In 2014, the assets of the NPRF transferred to the ISIF.

2 The Minister for Finance is the sole shareholder of the Central Bank of Ireland.

Figure 3.2 Estimate of Central Bank surplus income attributable to transactions in respect of banking stabilisation measures, 2009 to 2016

	Net interest income	Gains on disposal of bonds	Total
	€bn	€bn	€bn
Exceptional liquidity assistance[a]	1.89	—	1.89
Government bonds, and government-guaranteed bonds, held by the Central Bank[b]	2.68	3.17	5.85
Total	**4.57**	**3.17**	**7.74**

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, bonds issued to replace promissory notes to the value of €25.034 billion when IBRC was liquidated, and debt issued by the NTMA to redeem some of these bonds.

3.11 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 were related to IBRC. In total, an estimated 97% of the €7.7 billion portion of the Central Bank's surplus income for the years 2009 to 2016 that arises from banking stabilisation measures is attributable to transactions between the Central Bank and IBRC (see Figure 3.3).

Figure 3.3 Central Bank surplus income for the years 2009 to 2016 arising from banking stabilisation measures, by supported bank

Bank supported by stabilisation measures	Central Bank surplus income attributable to bank support
	€m
AIB	66
Bank of Ireland	99
Permanent TSB	44
IBRC	7,535
Total	**7,744**

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

Government bonds held by the Central Bank

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

- floating rate Irish government bonds with a nominal value of €25.034 billion with maturities ranging from 25 to 40 years, to replace promissory notes
- a 5.4% yielding Irish 2025 government bond with a nominal value of €3.461 billion.

3.13 Between 2013 and 2016, the Central Bank earned net interest of €2.7 billion from the bonds and realised gains of €3.2 billion from the disposal of some of these bonds [1]

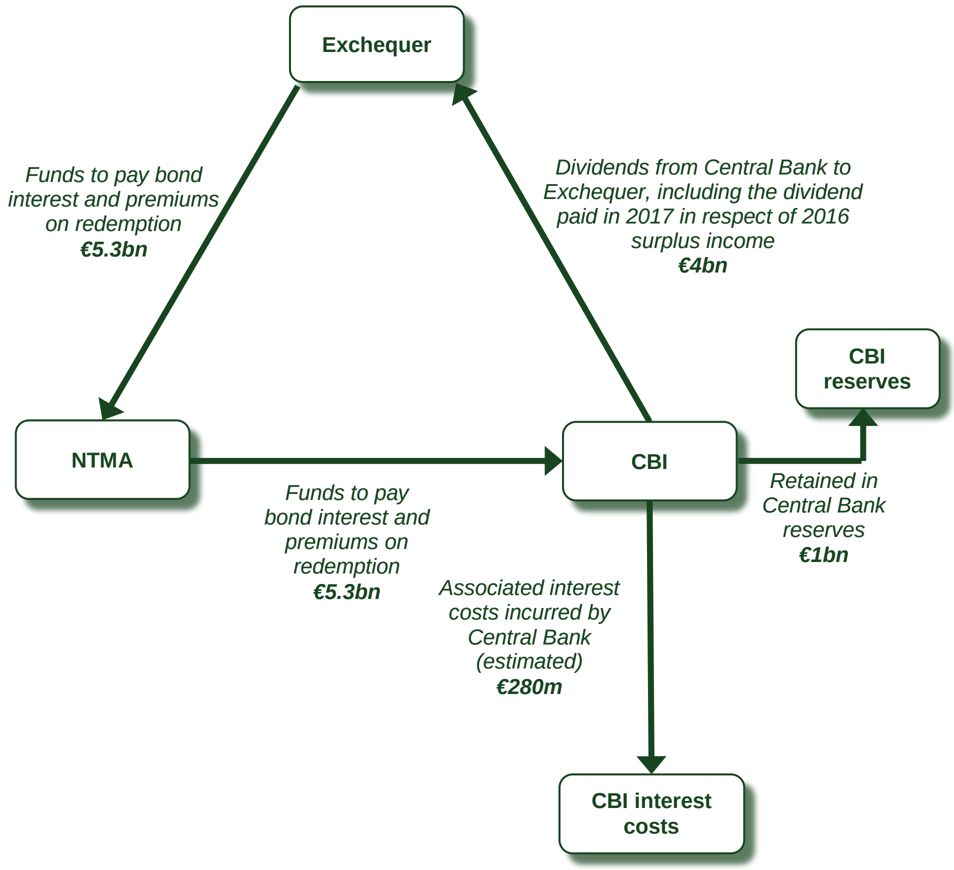
- €2.3 billion of the gains arose from a disposal back to the NTMA of floating rate bonds with a nominal value of €5.5 billion
- €0.9 billion of the gains arose from disposals to the open market of the 5.4% government bond.

NTMA payments to the Central Bank

3.14 The interest on the bonds and the premiums paid when the NTMA bought back some of the bonds, is paid by the NTMA to the Central Bank from Exchequer funds (including state borrowing).

3.15 About three quarters 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 3.4.

Figure 3.4 IBRC-related bonds held by Central Bank — flow of funds from/to Exchequer, 2013 to 2016[a]



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

Note: a In addition, the Central Bank realised a further €0.9 billion from the disposal of IBRC-related bonds on the open market. These funds did not come from the Exchequer.

1 The Central Bank also acquired other assets, including NAMA bonds, as a result of the liquidation of IBRC. It had sold all but €83 million of these bonds by the end of 2016, realising a gain of less than €1 million.

3.16 The Central Bank stated in its 2016 annual report that it intends to sell the remaining floating rate bonds 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: 2017-2018 €0.5 billion per annum, 2019-2023 €1 billion per annum and from 2024 €2 billon per annum, until all bonds are sold.

3.17 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 Bank sells the bonds on the open market. The consequent effective cost of servicing the debt that is related to the disposals is the same.

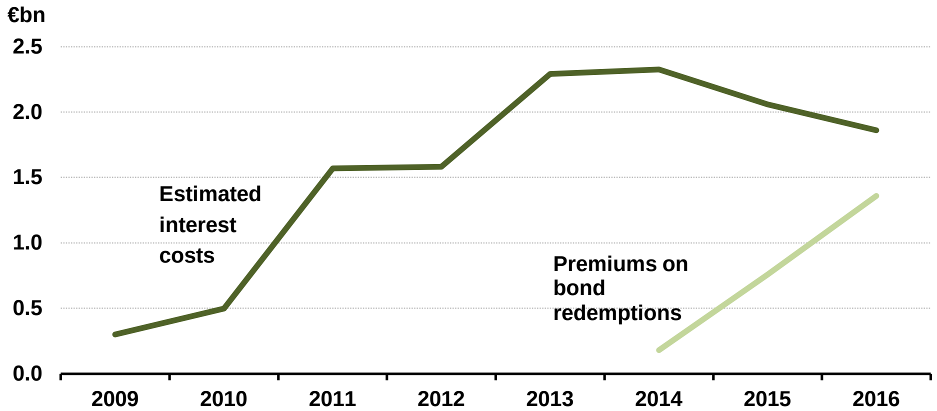
- If the bonds are redeemed by the NTMA using borrowed funds, any premium paid by the NTMA on redemption returns to the State, either as part of the Central Bank dividend or retained by the Bank in its reserves.[1] The NTMA will then pay interest to an external party on the funds it has used to redeem 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 prior to disposal. This higher rate of interest is offset for the State by the Central Bank's gain on disposal.

Debt-related costs

3.18 Because the investments in the banks were funded by increased borrowing, the State bears additional annual debt service and other related costs. In total, the debt-related cost to the State associated with the investments was around €14.8 billion over the period 2009 to 2016. The composition of the debt-related cost is indicated in Figure 3.5.

- Estimated interest costs were €12.5 billion, including the imputed interest costs of investments made by the ISIF.[2]
- Premiums totalling €2.3 billion paid by the NTMA when it redeemed government bonds that had been issued to the Central Bank to replace promissory notes. The premiums arose because the yield on government bonds was lower at the time of disposal than when the Central Bank acquired the bonds.[3]

Figure 3.5 Estimated debt related costs associated with the State's investments in banks, 2009 to 2016



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

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.

2 The ISIF funded its investments from its own resources so there was no direct interest charge to the State for these investments. However, 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 ISIF funds had been available to the State for purposes other than investing in banks.

3 The cost of premiums would normally be accounted for evenly over the remaining period of a debt. The Central Bank treats the premiums as income in the year it receives them. In order to have consistency of treatment, the premiums have been treated in this report as an expense in the year they were paid by the NTMA.

3.19 Further detail of the estimated debt service costs and the methodology used by the examination are set out in Annex 3C.

Ongoing debt servicing costs and income from 2017

3.20 At the end of 2016, the Exchequer continues to incur the cost of servicing the debt associated with the net €56.5 billion cost of the investments in the banks.[1] The examination estimated that this cost is likely to be around €1.7 billion for 2017.[2] The bulk of this is in respect of IBRC (just over €1 billion) and AIB (around €0.6 billion). The State has recouped its investment in Bank of Ireland (including associated debt servicing costs), and, therefore, incurs no ongoing debt servicing costs in relation to Bank of Ireland. The ongoing annual cost of servicing the debt associated with Permanent TSB is estimated at around €50 million per annum.

3.21 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 from its remaining investments i.e. the amount the State realises from disposal of bank shareholdings and any NAMA surplus.
- 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.

3.22 In the long-term, the cost of servicing the debt associated with the investments is projected to be around €400 million annually for each percentage point that the State pays on its debt. For example, at rates of 2.5% and 3.5%, the cost of servicing the debt would be between €1.0 billion and €1.4 billion annually.

Liability guarantee schemes income

3.23 The State guaranteed certain bank liabilities under three main schemes

- The Deposit Guarantee Scheme (DGS) under which deposits by individuals in covered credit institutions are guaranteed to a limit of €100,000 per eligible depositor per institution.[3] 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.[4] The credit institutions were required to make payments for the protection provided under the scheme.
- 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.[5]

Further detail on each scheme is set out in Annex 3D.

3.24 By the end of 2016, the State had received net income of around €3.7 billion under the schemes — €4.5 billion had been received in fees, almost €1.1 billion had been paid in claims, and €280 million had been received from the special liquidators of IBRC (see Figure 3.6). Fees paid in respect of liabilities that are covered under the ELG scheme have fallen significantly since 2012, and in 2016 amounted to just €47 million.

1 The balance funded, and thereby incurring interest costs, will reduce as disposals of residual shareholdings take place.

2 This represents interest costs only. Any premiums paid in respect of bond redemptions will be an additional cost.

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

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

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

Figure 3.6 Net income from liability guarantee schemes, 2010 to 2016

	DGS	CIFS	ELG	Total
	€bn	€bn	€bn	€bn
Fees paid to the Exchequer[a]	—	0.8	3.7	4.5
Claims paid by the Exchequer	—	—	(1.1)	(1.1)
Dividend from special liquidators of IBRC[b]	—	—	0.3	0.3
Net income	**—**	**0.8**	**2.9**	**3.7**

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 This represents 25% of the €1.1 billion claims paid by the Exchequer. The Department of Finance pointed out that the special liquidators have stated that they expect to ultimately pay 75% to 100% of valid claims when the liquidation of IBRC is completed.

National Asset Management Agency

3.25 NAMA's purpose is 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.[1,2]

3.26 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.

3.27 At the end of 2016, NAMA's financial statements reported accumulated retained earnings of just over €3 billion. It also reported an unrecognised surplus of €469 million which, if maintained, will be recognised as further surplus over NAMA's remaining life. NAMA's surplus will, when realised and paid to the Exchequer, reduce the overall cost of banking stabilisation measures.

3.28 NAMA has stated that the Board has approved a projected terminal surplus of up to €3 billion, and that this is subject to favourable market conditions being maintained to realise the remaining assets.

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

2 In addition, in 2013, following a direction from the Minister for Finance, NAMA acquired from the Central Bank a loan facility deed and floating charge over certain IBRC assets for €12.9 billion in Government guaranteed bonds. The special liquidators repaid the loan facility deed in full and the bonds were redeemed, in full, in October 2014.

Conclusions

3.29 By the end of 2016, the estimated net cost to the State of measures taken to stabilise the banking system was €56.5 billion. When the estimated value at that date of the State's remaining shareholdings in AIB, Bank of Ireland and Permanent TSB (a combined €13.6 billion), and NAMA's projected surplus (€3 billion) are taken into account, the estimated net outturn as at end-2016 is a cost of around €39.9 billion.

3.30 After taking account of the estimated residual value of the State's investments, the estimated net outturn, as at 31 December 2016, in respect of the State's level of support for each institution was

- IBRC — estimated net cost of €35.8 billion
- AIB — estimated net cost of €7.9 billion
- Permanent TSB — estimated net cost of €1 billion
- Bank of Ireland — estimated net surplus of €1.8 billion.

The projected NAMA surplus cannot be reliably apportioned to individual institutions.

3.31 The price achieved in the 2017 sale of 29% of the State's shareholding in AIB was 5% higher than the estimated end-2016 value, indicating an increase in the value of the total shareholding at the time of the sale of almost €600 million.

3.32 Many significant interventions to stabilise the banks are still playing out, and their outcomes will affect the eventual net outturn.

3.33 The Central Bank holdings of banking-related government bonds (including government-guaranteed bonds) has resulted in a circular movement of funds between State bodies. 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 effectively increase because the interest on the bonds will then be paid to external parties, and none of this will be paid to the Central Bank.

3.34 In the long term, when all of the State's remaining shareholdings are sold, NAMA has realised its estimated surplus 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 €400 million for each percentage point incurred. For borrowing rates between 2.5% and 3.5%, it is estimated the interest cost will be between €1 billion and €1.4 billion a year for the foreseeable future. Servicing costs associated with the interventions will continue at some level until Ireland's debt level falls by around €40 billion.

Annex 3A Outturn as at end-2016

Figure 3A.1 shows the components of the net outturn from banking stabilisation measures as at 31 December 2016 for each bank.

Figure 3A.1 Estimated net outturn, by bank, from banking stabilisation measures as at 31 December 2016

	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	(5.2)	(0.7)	(0.6)	(6.5)	(8.3)	(14.8)
Disposals of investments	3.3	4.0	1.8	9.1	—	9.1
Income from investments	2.7	1.7	0.2	4.6	—	4.6
Estimated net cost of capitalisation measures	***(21.4)***	***(0.9)***	***(2.6)***	***(24.9)***	***(43.0)***	***(67.9)***
Fees received under liability guarantee schemes	1.8	1.5	0.7	4.0	0.5	4.5
Claims made under liability guarantee scheme	—	—	—	—	(1.1)	(1.1)
Dividend from special liquidators of IBRC					0.3	0.3
Related income from the Central Bank[b]	0.1	0.1	—	0.2	7.5	7.7
Estimated net cost as at 31 December 2016	***(19.5)***	***0.7***	***(1.9)***	***(20.7)***	***(35.8)***	***(56.5)***
Estimated residual value as at 31 December 2016[c]	11.6	1.1	0.9	13.6	—	13.6
Estimated net outturn as at 31 December 2016	**(7.9)**	**1.8**	**(1.0)**	**(7.1)**	**(35.8)**	**(42.9)**

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

Notes:

a Investments in AIB include those in 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 stabilisation-related income from the Central Bank is attributable to Permanent TSB. Due to rounding, it does not appear in Figure 3A.1.

c See Annex 3B for further details.

Annex 3B 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 2016, it had made disposals to the value of €9.1 billion (see Figure 3B.1).

Figure 3B.1 Capitalisation of banks — investments and disposals, up to end-December 2016

	AIB	Bank of Ireland	Permanent TSB	*Trading banks — total*	IBRC	*Total- all Banks*
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	0.1	1.2	—	***1.2***
Preference shares	1.7	1.9	—	3.6	—	***3.6***
Contingent capital notes	1.6	1.0	0.4	3.0	—	***3.0***
Irish Life	—	—	1.3	1.3	—	***1.3***
Disposals of investments	***3.3***	***4.0***	***1.8***	***9.1***	***—***	***9.1***
Net investment	**(18.9)**	**(1.9)**	**(2.2)**	**(23.0)**	**(34.7)**	**(57.7)**

Sources: Ireland Strategic Investment Fund 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 One 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 the State's investments in banks

Total income received in respect of the investments to the end of 2016 amounted to €4.6 billion and the estimated residual value of the State's investments in banks as at 31 December 2016 was €13.6 billion (see Figure 3B.2).

Figure 3B.2 Income from and estimated residual value of State's investments in banks, December 2016

Income from investments	AIB	Bank of Ireland	Permanent TSB	Total
	€bn	€bn	€bn	€bn
ISIF				
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	0.45	0.74	—	1.19
Cancellation of preference share warrants	0.05	0.49	—	0.54
Exchequer				
Coupon interest on contingent capital notes	0.80	0.15	0.15	1.10
Accrued dividend on sale of Irish Life	—	—	0.04	0.04
Total	**2.74**	**1.66**	**0.19**	**4.59**
Estimated residual value of investments	**11.6**[a]	**1.1**[b]	**0.9**[b]	**13.6**

Sources: ISIF and Department of Finance

Notes: a The shareholding was valued, by Ernst and Young, on behalf of the ISIF.

b Valued at market prices.

Annex 3C 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-2016 at around €14.8 billion (see Figure 3C.1).

The methodology used to calculate the estimated cost of servicing the debt associated with each source of funding is set out in Figure 3C.2.

Figure 3C.1 Estimated cost of servicing debt associated with the investments, 2009 to 2016 (including the imputed debt service costs of NPRF investments)

Classified by Year

	2009 to 2014	2015	2016	Total
	€bn	€bn	€bn	€bn
Source of funding				
Exchequer[a]	5.0	2.1	2.7	9.8
NPRF/ISIF	3.7	0.7	0.6	5.0
Total	**8.7**	**2.8**	**3.3**	**14.8**

Classified by Bank

	AIB	Bank of Ireland	Permanent TSB	*Trading banks — total*	IBRC	Total
Source of funding	€bn	€bn	€bn	*€bn*	€bn	€bn
Exchequer[a]	0.9	0.0[b]	0.6	*1.5*	8.3	9.8
NPRF/ISIF	4.3	0.7	—	*5.0*	—	5.0
Total	**5.2**	**0.7**	**0.6**	***6.5***	**8.3**	**14.8**

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

Notes:
a Exchequer source of funding includes interest paid on promissory notes issued in 2010, interest paid on floating rate government bonds that were issued to replace the promissory notes, and premiums paid by the NTMA to repurchase floating rate notes from the Central Bank.

b Around €40 million was incurred in respect of Exchequer funding for Bank of Ireland. Due to rounding, this appears as zero in this table.

Figure 3C.2 Methodologies used to estimate cost of funding investments in banks as at end-2016

Source of funding	Method
Exchequer funding	▪ For the years 2009 to 2014, 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 2015 and 2016, the rate used was the weighted average cost of borrowing by the NTMA at the end of each year. ▪ 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. ▪ The cost of funding government bonds (including floating rate notes) was calculated using the rates applying to the bonds. ▪ Premiums paid by the NTMA to redeem government bonds held by the Central Bank are treated as an expense in the year in which they are paid, and the associated income from the Central Bank is treated as income.
NPRF/ISIF	The ISIF 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 ISIF would have earned if it had retained the funds to invest at its discretion. The ISIF 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 ISIF 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 (when the assets were held by the NPRF). In 2015 and 2016, the ISIF earned an average return of just under 3% 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 has been available to the State for purposes other than investing in banks. The second approach (which gave a significantly lower cost of funding than the first approach) was used by the examination.

Annex 3D 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 were 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 2015, regulations introduced new funding requirements for the Deposit Guarantee Scheme resulting in the establishment of the Deposit Guarantee Scheme Contributory Fund (DGS Contributory Fund), to replace the Deposit Protection Account.[2] The DGS Contributory Fund must reach a target level of 0.8% of covered deposits by 2024. The first annual contributions by credit institutions to the DGS Contributory Fund were collected at the end of 2016 totalling €93 million.

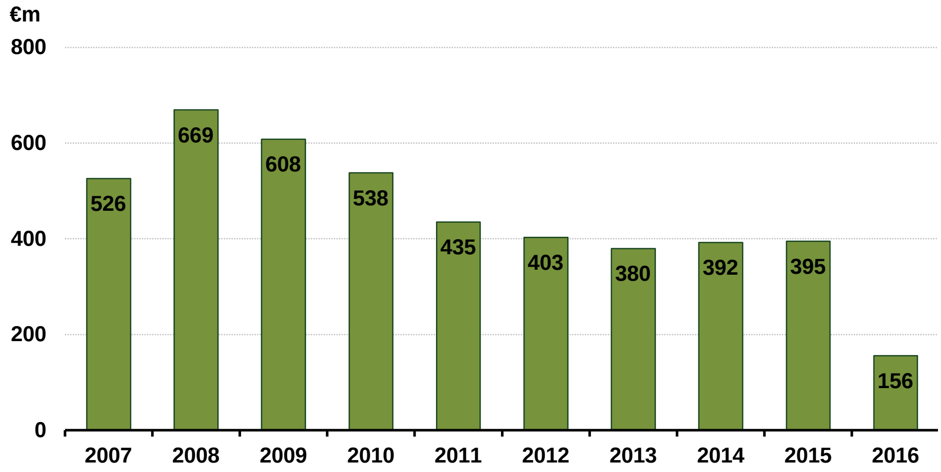
In order to assist in the smooth transition from the Deposit Protection Account to the DGS Contributory Fund and to ensure sufficient funding is available for Deposit Guarantee Scheme purposes during this time, legislation provided for the transfer of 0.2% of covered deposits (€179 million) from the Deposit Protection Account to the Deposit Guarantee Scheme Legacy Fund in early 2016. Residual balances in the Deposit Protection Account of €217 million were returned to credit institutions at this time.

At the end of 2016, 25 banks and building societies and 313 credit unions were subject to the provisions of the scheme. The balance in the Deposit Guarantee Accounts at that date was €156 million (see Figure 3D.1).

1 Financial Services (deposit guarantee scheme) Act 2009.

2 Directive 2014/49/EU on deposit guarantee schemes was transposed into Irish Law by the European Union (deposit guarantee schemes) Regulations.

Figure 3D.1 Deposit Guarantee Scheme account balances at year-end 2007 to 2016[a]



Source: Central Bank Statement of Accounts 2007 to 2016.

Note: a From 2007 to 2015 inclusive, the funds were held in the Deposit Protection Account. At end-2016, the funds were held in the Deposit Guarantee Scheme Contribution Fund (€93 million) and the Deposit Guarantee Scheme Legacy Fund (€63 million).

Payments, totalling €71 million, were made under the schemes to eligible depositors subsequent to the liquidations of IBRC (€37.3 million)[1], Berehaven Credit Union (€11 million)[2] and Rush Credit Union (€22.7 million)[3]. The payments were met from the Deposit Protection Account and Deposit Guarantee Scheme Funds, 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]

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.

1 €25 million paid in 2013, €11 million paid in 2014, €1.2 million paid in 2015 and €0.1 million paid in 2016.

2 Berehaven Credit Union was liquidated in July 2014.

3 Rush Credit Union was liquidated in November 2016.

4 The legal basis for the scheme was provided through the Banks (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 banks').

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.

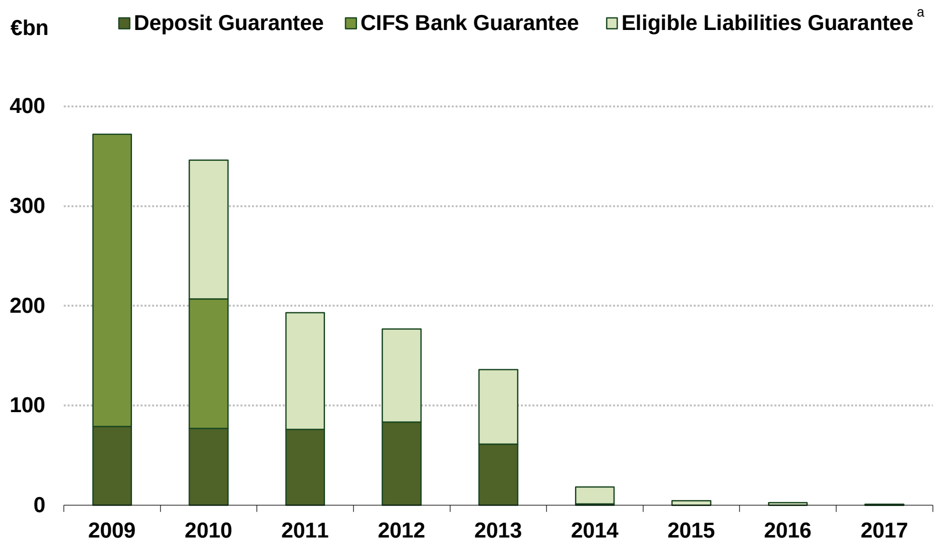
The four institutions participating in the ELG scheme pay a fee for the cover they receive.[1] Fee payments are made into a designated account at the Central Bank and are paid quarterly to the Exchequer in arrears. Fees collected from the institutions to the end of December 2016 amounted to just over €3.7 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 have reduced to €1.1 billion by March 2017 (see Figure 3D.2).

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 2016 were €1,081 million — €934 million in respect of bonds and €147 million for deposits.

Figure 3D.2 Guaranteed liabilities of four covered institutions[1], March 2009 to March 2017



Source: Department of Finance

Note: a From October 2016, no Bank of Ireland liabilities are covered by the Eligible Liabilities Guarantee.

1 The four institutions participating in the ELG scheme were AIB, IBRC, Bank of Ireland and Irish Life and Permanent.

4 Overview of Public Private Partnerships

4.1 A public private partnership (PPP) is a contractual agreement between public and private sector partners for the delivery of infrastructure and/or services. In most cases, the public sector partner remunerates the private sector partner, subject to satisfactory performance, in the form of regular unitary payments over the term of the contract.[1] This differs from the more traditional method of upfront Exchequer funded delivery with operation and maintenance arrangements for the asset provided or procured separately by the public sector. Commitments under PPPs typically give rise to financing obligations on public sector partners extending over 25, or 30 years or longer.

4.2 This report has been compiled to provide information on the developments in relation to PPPs since 2012.[2] Information was provided by the relevant departments/agencies, including details of PPP contracts entered into since 2012, a summary of projects currently in development, and details of periodic evaluations and post project reviews undertaken. The Department of Public Expenditure and Reform (DPER) and the National Development Finance Agency (NDFA) were also consulted.

Aggregate expenditure and commitments

4.3 DPER maintains a website that provides information and guidance on the PPP process, updates on developments and information on projects.[3] The website also includes a schedule of major PPP projects showing key details including expenditure to date and the current projected total expenditure to project end. Major projects are those where the capital cost of asset creation was €20 million or more.

4.4 DPER obtains the information for the schedule of projects from the relevant department/agency and compares it to other available information. Where differences arise, DPER seeks clarification from the relevant department/agency.

4.5 The total expenditure to the end of 2016 reported on the website was just over €3 billion and estimated total outstanding commitments at that stage were €6.6 billion. The latest schedule of projects from the website is reproduced in Annex 4A. The projected future payments represent estimates as at the end of 2016 which may change depending on future circumstances. The commitments include those arising from projects which are under construction where service has not yet commenced. The projected total expenditure on PPPs over the life of the contracts has increased from €6.1 billion at the end of 2012 to €9.6 billion at the end of 2016. The increase reflects new contracts signed in that period.

4.6 The *Infrastructure and Capital Investment Plan 2016 to 2021* noted that the annual cost of PPPs will be limited to 10% of total annual Exchequer capital spending. DPER estimates that the total annual cost of unitary payments on all existing and planned PPP projects will increase from €225 million in 2016 to €345 million in 2021.

1 Payments by service users (e.g. road tolls) may also be a feature of some projects.

2 Chapter 3 of the *Report on the Accounts of the Public Services 2012*, provided information on the financial commitments arising from PPPs at the end of 2012 and of other developments at that time.

3 www.ppp.gov.ie

4.7 DPER has stated that the 10% limit takes into account the aggregate cost of all unitary payments as well as any other costs (such as land acquisition or enabling works). DPER coordinates this control mechanism by monitoring the costs associated with any newly approved PPPs. As part of its ongoing review of PPPs, being undertaken in parallel with the mid-term review of the *Infrastructure and Capital Investment Plan*, DPER is reviewing the policy approach to controlling future PPP liabilities.

Progression of projects since 2012

4.8 The status at July 2017 of projects that were included in the Infrastructure Stimulus Package announced in July 2012, or that were in development at that stage, is summarised in Figure 4.1. Most of the projects have been progressed, including two where the required facilities were operational by July 2017. Three projects proposed in 2012 for development as PPPs have not been progressed by that means.

4.9 Two further PPP projects that were developed since 2012 have now reached market stage

- Social Housing Bundle 1 comprises six sites in four counties — Dublin (3), Kildare, Wicklow and Louth. The total expected number of social housing units is approximately 530. The contract notice was published in May 2017.
- Motorway Service Areas Tranche 2 comprises service areas on the M6, M9 and M11. Following the withdrawal in April 2017 of a legal challenge by an underbidder, contract discussions with the preferred bidder have resumed.

4.10 There are a number of other projects at various stages of development but which at July 2017 had not yet reached market stage

- Education — the Department of Education and Skills and the Higher Education Authority are assessing proposals from higher education institutions in relation to projects that might be procured through PPP. Suitability assessments are to be conducted on potential projects by the Department of Education and Skills, and the Higher Education Authority in conjunction with the NDFA. Projects considered suitable will be subject to a full appraisal in accordance with the *Public Spending Code*. Pre-procurement work is ongoing for a student accommodation project located on the Grangegorman Campus.
- Health — in April 2017, the HSE obtained approval from the Department of Health to proceed with the development of a bundle of community nursing homes to be delivered by way of PPP.
- Courts — the development of a courtroom complex in Hammond Lane, Dublin, primarily for family law and children's courts, is at pre-procurement stage. The capital appraisal and the PPP procurement assessment have been completed and submitted to the Department of Justice and Equality.
- Housing — eight sites have been selected for Social Housing Bundle 2 — Cork (3), Galway, Waterford, Clare, Kildare and Roscommon. The total expected number of social housing units is between 456 and 476. It is expected that the PPP procurement process will commence before the end of 2017. The selection of sites for a third social housing bundle is expected to be finalised in 2017.

Figure 4.1 PPP projects in development at July 2012, status at July 2017

Project status at July 2012	Status at July 2017
Schools Bundle 4 **At market stage**. Six schools on five sites in Clare, Cork, Kildare, Louth and Tipperary.	**Operational**. Scope reduced from six to four schools. Four post-primary schools in operation in Clare, Cork, Louth and Tipperary. Service had commenced in all four schools by May 2016.
Schools Bundle 5 **At market stage**. Five schools and one further education college on four sites in Wexford, Wicklow, Meath and Carlow.	**In construction**. Contract agreed in July 2016. Service commencement expected in three schools by the end of 2017 and the remaining three schools in early 2018.
Grangegorman DIT campus **Pre-market stage**. Construction of central and east quads.	**Preferred bidder stage**. Following an unsuccessful challenge by an underbidder, the project is now proceeding to contract stage.
Galway City Bypass **Pre-market stage**.	**Not progressed as PPP**. Legal proceedings mainly related to planning approval delayed the project. A new Galway City Ring Road is at design and environmental evaluation stage. If the new project proceeds, it is intended that it would be directly funded by the Exchequer.
N11 Arklow-Rathnew and Newlands Cross **Preferred tenderer stage**. Award of contract due by end-2012.	**Operational**. Upgrades to the N11 and Newlands Cross were procured under a single contract and were operational in July 2015 and November 2014, respectively.
N17/N18 Gort to Tuam **Preferred bidder.**	**In construction**. Contract awarded in April 2014. Expected to be operational by the end of 2017.
M11 Gorey to Enniscorthy **Market stage.**	**In construction**. Contract awarded in October 2015. Expected to be operational in 2019.
N25 New Ross Bypass **Market stage.**	**In construction**. Contract awarded in January 2016. Expected to be operational in 2019.
Primary Care Centres **Pre-market stage**. 20 primary care centres, in two bundles of 10.	**In construction** (one bundle of 14 centres). Contract agreed May 2016. All centres expected to be operational by 2018.
Garda divisional headquarters **Pre-market stage**.	**Not procured as PPP**. Buildings in Dublin (Kevin Street), Galway and Wexford were since procured through traditional Exchequer funding model. They are currently under construction and expected to be completed between the end of 2017 and early 2018.
State Pathology Building	**Not procured as PPP.** As it was considered that the complex nature of the building may not have attracted suitable interest in the market. The project became operational in 2016. The cost is being shared between the Department of Justice and Equality and Dublin City Council.
Courts Bundle **Pre market stage**. Refurbishment and extension of courthouses in Cork, Mullingar and Waterford, and new courthouses in Drogheda, Letterkenny, Limerick and Wexford.	**In construction**. Contract awarded in December 2015. Service commenced in Drogheda Courthouse in June 2017. Construction is expected to be completed in 2018.

Source: Department of Education and Skills, Transport Infrastructure Ireland, Health Service Executive, Courts Service, the Department of Justice and Equality and the National Development Finance Agency

European Commission and European Investment Bank financing

4.11 Private partners in three PPP projects were able to avail of European funding initiatives.

- The N25 New Ross Bypass project availed of the Europe 2020 Project Bond Initiative. The initiative's objective is to stimulate capital market financing for large scale infrastructure projects in the transport, energy, and information and communication technology sectors. It is designed to enable eligible project promoters to attract private finance from institutional investors by providing credit enhancement to those promoters.
- The Primary Care Centres project availed of finance from the European Fund for Strategic Investments. The fund is designed to help overcome the investment gap and strengthen global competitiveness in the European Union by mobilising at least €500 billion of private financing for strategic investments between 2015 and 2020.
- The N17/N18 Gort to Tuam contract was awarded to a consortium which included the 2020 European Fund for Energy, Climate Change and Infrastructure (known as the 'Marguerite' Fund). The fund has six core sponsors including the European Investment Bank. The European Commission has also committed to investing in the fund.
- In June 2017, the European Investment Bank agreed a framework loan arrangement of €160 million to provide financing for the three Social Housing PPP Bundles.

Legal challenges

4.12 PPP projects are vulnerable to legal challenge which can cause significant delays. This has been evident recently in some projects where legal challenges have been taken by underbidders.

- A legal challenge was brought by one of the underbidders for the Grangegorman DIT PPP project in March 2015. This has delayed the project by two years. In October 2016, the High Court dismissed the challenge. Legal costs were awarded against the underbidder.
- In 2015, a challenge to the tender evaluation process for the Motorway Service Areas Tranche 2 was brought by one of the underbidders. A judicial review was heard in the High Court in June 2016 and the challenge was subsequently withdrawn by the underbidder in April 2017. Transport Infrastructure Ireland (TII) had incurred legal costs of €575,000 (excluding VAT) in relation to the case by July 2017. TII has now resumed contract discussions with the preferred bidder.
- The underbidder for the N17/N18 Gort to Tuam Project brought a legal challenge in January 2015. The legal proceedings concluded in July 2017 when the underbidder withdrew the appeal from the Court of Appeal. Legal costs of €120,000 (excluding VAT) were incurred by TII in defending the challenge.

Management of operational PPP projects

4.13 Twenty major PPP projects were operational at July 2017 (see Figure 4.2).

Figure 4.2 Operational PPP projects

Sponsoring or contracting authority/project name	Service commencement
Department of Education and Skills	
Pilot Schools Bundle	2002
National Maritime College of Ireland [a]	2004
Cork School of Music [a]	2007
Schools Bundle 1	2010
Schools Bundle 2	2011
Schools Bundle 3	2014
Schools Bundle 4	2016
Courts Service [b]	
Criminal Courts of Justice	2009
Department of Transport, Tourism and Sport/Office of Public Works[c]	
National Conference Centre	2010
Transport Infrastructure Ireland	
M4 Kilcock/Kinnegad	2005
M1 Dundalk Western Bypass	2005
M8 Rathcormac/Fermoy	2006
N25 Waterford City Bypass	2009
N18 Limerick Tunnel	2010
M3 Clonee/Kells	2010
M6 Galway/Ballinasloe	2009
M7/M8 Portlaoise/Cullahill	2010
M50 Upgrade	2010
Motorway Service Areas Tranche 1	2010
Newlands Cross and N11 Arklow-Rathnew	2014/2015

Source: Department of Education and Skills, Transport Infrastructure Ireland, Office of Public Works, Courts Service and the National Development Finance Agency

Notes:
a The National Maritime College of Ireland and the Cork School of Music are part of the Cork Institute of Technology.

b Drogheda Courthouse, one of seven courthouses in the Courts Bundle PPP Project, reached service commencement in June 2017.

c The Department of Transport, Tourism and Sport is the sponsoring authority and the Office of Public Works is the contracting authority.

Variation in costs

4.14 Requested variations to a project after the contract has been agreed — during construction or operation — can lead to additional costs to the public sector partner. The significant variations in recent years were

- Variations since 2013 for four of the Schools Bundles resulted in an additional cost to the Department of Education and Skills of €3.7 million. Of this, €2.5 million related to the construction and fit-out works for special needs units in Schools Bundles 2 and 3. The Department of Education and Skills has stated that this was because a new policy on the provision of special needs units was being developed.[1] The Department also stated that some variations implemented had no cost implications.
- The cost of variations requested by the Courts Service in respect of the Criminal Courts of Justice since 2013 was €510,000. Of this, €448,000 relates to works required in relation to providing judges' chambers to facilitate an additional Special Criminal Court.
- The cost of variations incurred by TII over the period 2013 to 2016 amounted to €13.3 million. Of this, €5.3 million related to construction stage variations on two schemes — N11 Arklow-Rathnew and Newlands Cross Scheme (€4.2 million), and N17/N18 Gort to Tuam Scheme (€1.1 million). Operation stage variation costs on the M50 PPP scheme were €4.7 million. The remaining variations relate to the installation of additional marker plates, additional signage, landscaping and safety barriers that give rise to recurring annual operating and maintenance costs.

Benchmarking and market testing

4.15 Benchmarking and market testing are used in PPP contracts to ensure that the State continues to receive value for money in respect of contract services provided over the life of the contract. Generally, the services to be tested ('testable services') are set out in the contract and either the public or private partner can enforce the testing processes.

4.16 Benchmarking involves the PPP company comparing its own (or its subcontractors') charges for providing services to the current market price of equivalent services. Benchmarking can result in an increase or decrease in the unitary charge depending on the outcome of the comparison.

4.17 Where public and private partners do not agree on the outcome of a benchmarking process, the PPP contracts generally allow for the parties to carry out a market testing exercise. This involves the retendering by the PPP company of the relevant services in order to test the value for money of current services against competing market suppliers. Any increase or decrease in the cost of such services following market testing should be reflected by an adjustment in the unitary charge.

4.18 Individual departments/agencies indicated that a number of benchmarking reviews had been conducted in recent years.

Education projects

4.19 Since 2013, benchmarking exercises were completed for Schools Bundles 1 and 2. These resulted in no change to the unitary charge. The Department of Education and Skills decided not to invoke benchmarking where the opportunity arose to do so for any of its other projects.

1 *School Design Guide TGD – 026, Planning and Design Guide, Primary and Post Primary School Specialist Accommodation for Pupils with Special Educational Needs*, Department of Education and Skills, 2012.

Criminal Courts of Justice

4.20 A 2016 benchmarking of a number of testable services identified an increase in the cost for testable services of just over 2%, but because this is below the percentage threshold provided in the contract, no increase was applied.[1]

National Conference Centre

4.21 Catering services were benchmarked in 2016 with the report issued in January 2017. The report concluded that the benchmarking exercise "demonstrated that the quality, cost effectiveness and competitiveness of the current provider are in line with the market and in key areas it exceeds its competitors". Catering services are not a cost to the project (or paid for in the unitary charge) as a commission is paid by the catering service provider to the PPP company.

4.22 As the private partner was due to tender for cleaning services, waste management services, maintenance services and utilities management services, OPW agreed that benchmarking of these services was not required and that the result of the tender could be considered as market testing. Tenders have been completed and OPW indicated that while the process is ongoing, there may be an increase in the cost of the maintenance services and utilities services, while a reduction in the cost of cleaning services and waste management services is likely. The PPP company is only required to undertake benchmarking and market testing exercises in respect of those testable services which a party other than the operator is performing. Apart from those services mentioned above, there are currently no other services subject to benchmarking and market testing.

Performance and availability deductions

4.23 Generally, PPP contracts include clauses that link the payment to performance and the availability of the facilities and services contracted for. Between 2013 and 2016, total deductions of just over €1 million have been applied to unitary charges (Figure 4.3).

Figure 4.3 Deductions to unitary charges 2013 to 2016[a]

Project	2013	2014	2015	2016	Total
	€000	€000	€000	€000	€000
Pilot School Bundle	3	1	—	2	**6**
National Maritime College	—	—	2	1	**3**
Cork School of Music	—	—	—	—	**—**
Schools Bundle 1	3	1	1	25	**30**
Schools Bundle 2	179	39	54	208	**480**
Schools Bundle 3	—	7	26	66	**99**
Criminal Courts of Justice	5	4	—	162	**171**
National Conference Centre	—	4	76	96	**176**
TII projects	—	—	10	43	**53**
Total	**190**	**56**	**169**	**603**	**1,018**

Source: Department of Education and Skills, Courts Service, Office of Public Works and Transport Infrastructure Ireland

Note: a Schools Bundle 4 not included as it only became operational during 2016.

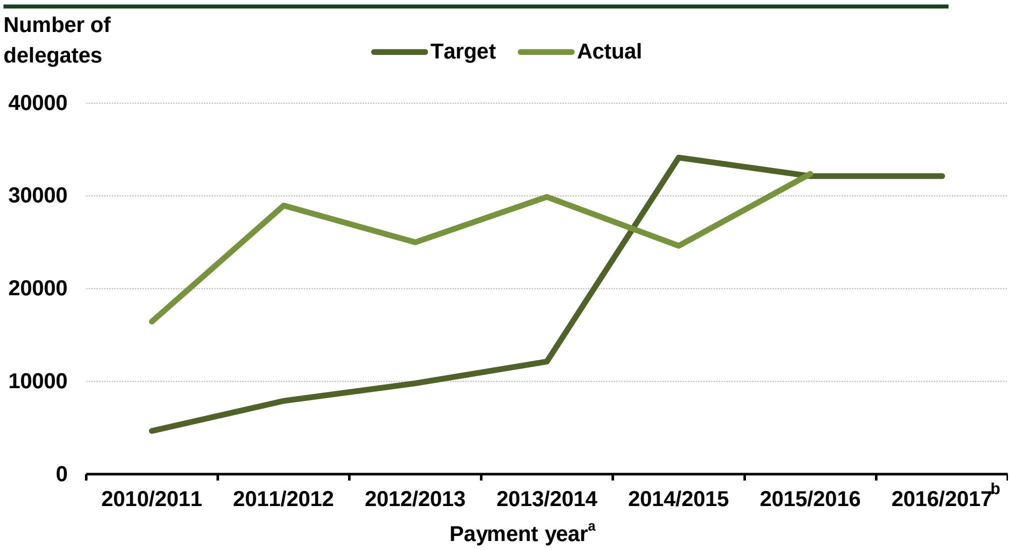
1 The contract provides that where market costs are found to be between 95% and 105% of the financial model, no change will be made to the unitary charge.

4.24 Deductions in relation to Schools Bundle 2 totalled €480,000 over the four years to 2016. The main issues that gave rise to these were primarily related to equipment failure, unavailability of rooms and some service performance issues. Deductions for Schools Bundle 3 related mainly to availability.

4.25 The deductions for the Criminal Courts project arose due to the unavailability of rooms on a number of occasions. The most significant deduction amounting to €140,000 was in relation to the unavailability of uninterrupted power supply in all rooms containing network devices and digital communication equipment.

4.26 The failure to meet the number of international delegates for 2014/2015 set out in the National Conference Centre contract, gave rise to a deduction of €164,000 in 2015/2016 (Figure 4.4). At the time of reporting, numbers for 2016/2017 were being examined by OPW and the NDFA. OPW stated that the target number of 32,140 international delegates is likely to be met.

Figure 4.4 International conference delegates, August 2010 to July 2017



Source: Office of Public Works

Notes: a The payment year in the contract is August to July.

b Actual numbers for 2016/2017 were not available at the time of reporting.

4.27 Deductions applied by TII are due to works resulting in lane non-availability on the N11 Arklow/Rathnew PPP project. In relation to the M50 Upgrade Scheme, TII has stated that it amended the terms of the contract at the start of the operational period which had the effect of eliminating exposure to non-availability deductions. In return, TII secured the continuous provision of five recovery vehicles at a cost of €37,000 per month. TII has also stated that the enhanced vehicle recovery service has resulted in significant benefits through more efficient incident clearance and reductions in incident related delays.

Revenue and risk sharing arrangements

4.28 There are a number of projects where the contract contains provisions for the sharing of revenue and/or the sharing of risk in relation to volumes or costs.

Education projects

4.29 School bundle contracts provide for sharing of income arising from use of facilities by third parties when schools are not being otherwise used. The Department of Education and Skills has stated that there has been limited third party use of schools and, therefore, there has been no material profit sharing.

4.30 The contracts for the National Maritime College of Ireland and the Cork School of Music also provide for sharing of revenue arising from third party use and/or catering income. Since September 2013, this has given rise to revenue to the State of approximately €135,000 in the case of the Cork School of Music and €28,000 for the National Maritime College of Ireland.

National Conference Centre

4.31 There is a revenue sharing arrangement in place in the event that the National Conference Centre exceeds thresholds specified in the contract. However, any revenue above the specified threshold is used in the first instance to pay the commercial rates before any amount becomes payable to OPW.[1] In 2012, the revenue available amounted to €34,000 and was used to pay part of the rates bill for the Centre. In 2013, the revenue available was €2.4 million, of which €1.1 million was used to pay rates. The balance was shared, with OPW receiving €600,000 (45%). A successful appeal of the rateable valuation on the Centre resulted in a reduction in the rates payable from 2011. In 2015, a rates refund of €1.7 million due to OPW was agreed with Dublin City Council. This was used to pay rates for 2015 and 2016 (€704,000 for each year) with the balance (€325,000) used to pay part of the rates for 2017. No revenue share was payable to OPW in 2014, 2015 or 2016 as the PPP company revenue did not exceed the threshold set out in the contract in those years.

4.32 In 2015, savings of €35,000 arising from an insurance risk share review for the three year period August 2011 to August 2014 accrued to the OPW. A further review is due to be carried out in 2017.

Criminal Courts of Justice

4.33 Savings of €617,000 accrued to the Courts Service arising from an insurance risk share review.

1 Rates are payable to Dublin City Council.

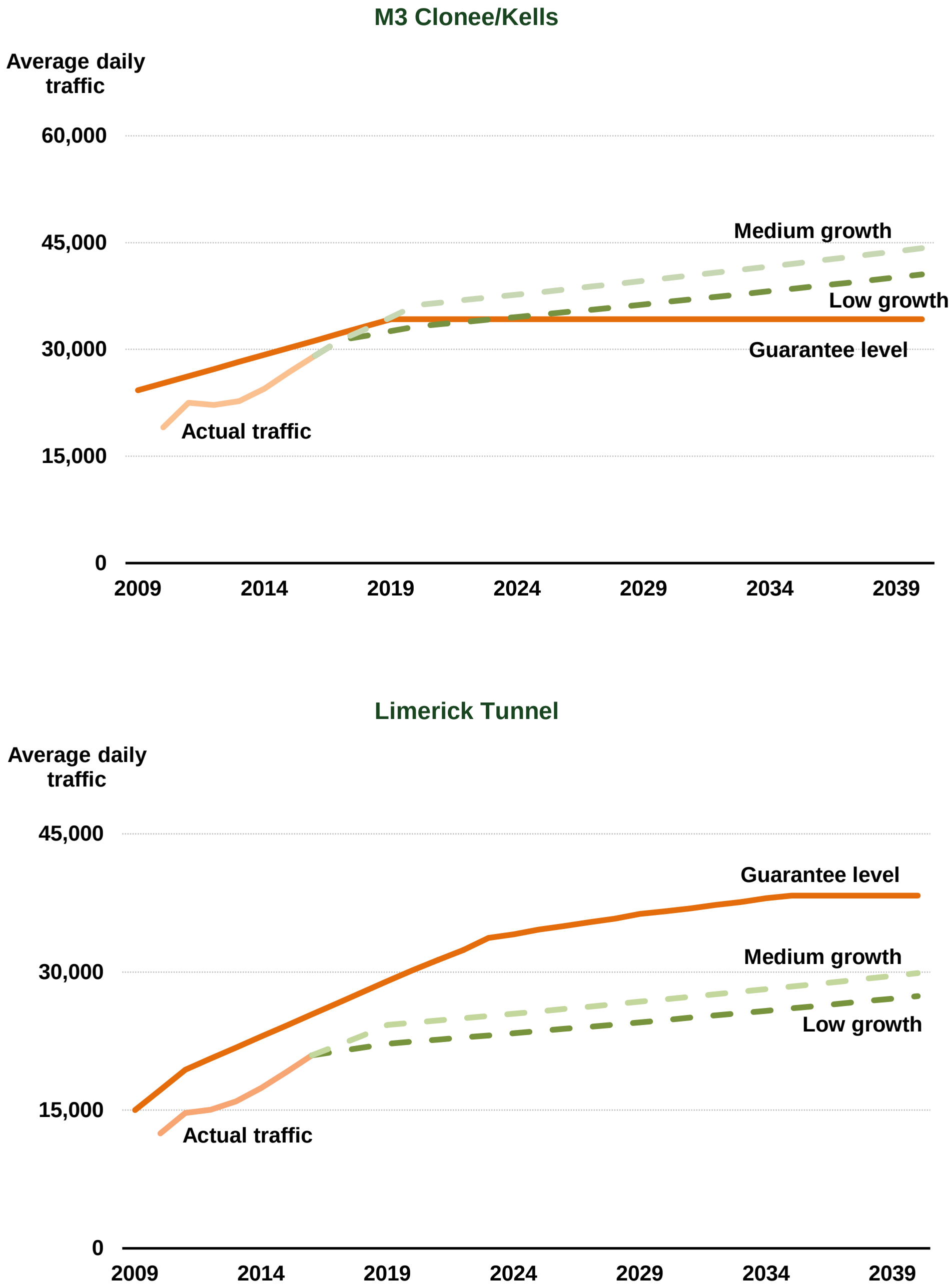
Transport projects

4.34 There are a number of risk sharing arrangements in place for road schemes that have given rise to payments by or to the private partner

- Toll revenue sharing — PPP contracts for tolled roads provide that revenue arising from tolls above threshold traffic levels specified in the contract is shared.[1] In 2016, this arose in the case of the M1 Dundalk Western Bypass (€1 million paid to TII) and the M4/M6 Kilcock-Kinnegad (€2.5 million paid to TII).
- Traffic risk sharing — the contracts for the M3 Clonee/Kells and the Limerick Tunnel projects provide for TII making traffic related guarantee payments to the private partner if actual traffic levels do not meet levels set out in the contract. In 2016, €1.2 million was paid to the private partner under the M3 Clonee/Kells contract and €4.6 million in the case of the Limerick Tunnel contract. Figure 4.5 shows the traffic guarantee threshold, the actual traffic volumes to 2016, and the projected volumes — at low and medium traffic growth scenarios. Based on low traffic growth scenario, the State will continue to make traffic guarantee payments to 2025 in the case of M3 Clonee/Kells while on a medium traffic growth scenario those payments may cease as early as 2019. In the case of the Limerick Tunnel, the State will continue to make traffic guarantee payments for the duration of the contract under both scenarios.
- Insurance risk sharing — seven contracts provide for insurance risk sharing. Insurance risk share reviews are carried out every three years. A total of €1.2 million was paid to TII by private partners in 2016 arising from these reviews.
- In May 2016, TII achieved savings of €23 million (€10.27 million in net present value terms) following the refinancing of the N17/18 Gort to Tuam PPP road project. The NDFA provided financial advice to TII throughout the negotiations with the private partners.

1 This applies to all tolled PPP contracts except for the M50 upgrade where the private partner does not collect the tolls.

Figure 4.5 M3 Clonee/Kells and Limerick Tunnel, actual and projected traffic 2009 to 2039 (low[a] and medium[b] growth scenario)



Source: Transport Infrastructure Ireland

Notes: a Low growth: 7.5% between July and December 2017, 2% in 2018, 2019, 2020 and 1% thereafter.

b Medium growth: 7.5% between July and December 2017, 5% in 2018, 2019, 2020 and 1% thereafter.

Post project reviews

4.35 The *Public Spending Code* requires project sponsors to ensure post project reviews are carried out for all capital projects valued in excess of €20 million.[1] This applies whether the project was procured through PPP or by traditional procurement.

4.36 The aim of post project reviews is to identify any lessons for future projects. Post project reviews should be undertaken once sufficient time has elapsed and should consider both the appraisal and management procedures employed, and the project outturn. Post project reviews have been carried out for 10 of the 17 projects that have been operational for five years or more — nine transport projects and the Criminal Courts project.

4.37 TII has conducted post project reviews on average six years after the completion of the project.

4.38 Following the October 2012 post project review of the Criminal Courts PPP project, the Courts Service Internal Audit Unit conducted a management review of the PPP contract in 2016.[2]

4.39 No post project reviews have been published to date. During this examination, the Courts Service has indicated that it will arrange for the publication on its website of the 2012 post project review of the Criminal Courts project.

4.40 Post project reviews have not been carried out on any of the education projects. The Department of Education and Skills has stated that a planned review of the Pilot Schools Bundle — which commenced operation in 2002 — has not been carried out due to resource constraints. It has indicated that it expects a review of the project to be completed in 2018.[3]

Conclusions

4.41 Ireland's programme of PPPs continues to expand, with a number of projects currently in construction and others being developed. A limit of 10% has now been set on the annual cost to the Exchequer of PPPs as a proportion of all capital spending. For this limit to operate effectively, it is important that there is clear definition of the parameters and effective control and monitoring.

4.42 The Department of Public Expenditure and Reform reports cumulative expenditure of over €3 billion to the end of 2016 on major PPP projects and estimated total outstanding commitments of €6.6 billion. This represents an increase of €3.5 billion (58%) since 2012 in the total projected costs of PPP projects, most of which relates to new contracts agreed since then.

4.43 As a result of a number of projects currently being procured as PPPs and further projects expected, it is now estimated that the annual cost of PPP unitary payments will increase from €225 million in 2016 to €345 million by 2021.

1 The *Public Spending Code* is the set of rules and procedures that apply to ensure that expenditure appraisal and value for money standards are upheld across the Irish public service.

2 Details of the October 2012 post project review are summarised in Chapter 3 of the Report of the Accounts of the Public Services, 2012.

3 The Department indicated in 2012 that it expected a review of the Pilot Schools Bundle to be completed by the end of 2013.

4.44 Managing performance of PPP contracts, enforcing benchmarking and market testing provisions, and managing ongoing risk sharing arrangements are important factors in ensuring that the State receives value for money over the life of the contract and validating the cost of services. Benchmarking exercises have identified savings in a number of projects. Enforcement of performance and availability provisions of contracts have also led to deductions to unitary charges and more importantly, provide an incentive to ensure that the facilities and services contracted for are delivered.

4.45 Post implementation evaluation of PPP projects and of projects that are procured using traditional methods is important in identifying lessons that can be learned for future projects. Such post project reviews should be carried out when sufficient time has elapsed to allow the project to become fully operational, but the extent to which reviews have been carried out is variable. Of the 17 projects that have been operational for more than five years, ten have been reviewed. Nine transport projects have been reviewed with the reviews being conducted on average six years after project completion. In addition, the criminal courts project, which became operational in 2009, was reviewed in 2012. Other than these, no other evaluation has been completed of operational PPP projects.

4.46 To date, no post project reviews have been published. Publication would assist in improving accountability for and public understanding of whether PPPs achieve value for money.

Recommendation 4.1

DPER should ensure that post project reviews of PPP projects are carried out after sufficient time has elapsed to allow the project to become fully operational and should ensure that the reviews are published.

Response of Accounting Officer of Department of Public Expenditure and Reform

Part agreed. While DPER is responsible for the guidance that requires post project reviews of major capital projects to be carried out, ensuring that such reviews are completed is the responsibility of the relevant department. DPER will continue to stress the importance of compliance with the requirement to conduct post project reviews. A requirement to publish post project reviews (subject to redaction of any commercially sensitive information) will be included in a revision of the *Public Spending Code* currently underway and in revised PPP guidance to be issued in the near future.

Annex 4A Department of Public Expenditure and Reform schedule of contracts, at end-2016

The following table lists the individual projects reported by the respective departments and agencies. Only projects with an estimated capital development value of €20 million or more are included. All amounts include VAT (unless otherwise stated).

Financial nature of PPP arrangements

The structure put in place to compensate the private sector partner for delivering the assets and/or services can vary between projects. In many cases, the public sponsors of the project take on contractual commitments to make regular payments to the private sector partner over the life of the project. In other cases, projects are designed on a concession basis, whereby the private sector partner receives some or all of the compensation in the form of charges imposed on the users of the service.

Scope of PPP projects

The private sector elements contributed to each project are indicated as follows

D Design of service/infrastructure

B Build/construct/extend/renovate capital assets

F Provide finance (e.g. provide/secure private equity and borrowing; collect user charges)

O Operate assets (e.g. facilities management; employment of services staff)

M Maintain assets over contract life.

Figure 4A.1 Department of Public Expenditure and Reform schedule of contracts, at end-2016

Department/ Agency	Project classification	Operational from/to	Contract value[a]	PPP unitary payments to end-2016[b]	Projected future PPP unitary payments in nominal terms[c]	Other PPP payments where available[d]	Projected total cost of all PPP payments	PPP Company
			€m	€m	€m	€m	€m	
Health								
Primary Care Bundle	DBFM	2017/2042	**140.0**	—	**422.3**	**35.5**	**457.8**	Healthcare Centres PPP Ltd
OPW								
National Conference Centre	DBFOM	2010/2035	**189.8**	**269.2**	**477.3**	**32.9**	**779.4**	Spencer Dock Convention Centre Dublin Ltd
Justice								
Criminal Courts Complex	DBFOM	2009/2035	**132.4**	149.7	455.9	17.9	623.5	IPP CCC Partnership Ltd managed by Amber Infrastructure Ireland
Courts Bundle	DBFOM	2017/2042	**149.9**	—	362.8	20.9	383.7	BAM PPP PGGM Consortium
Total Justice			**282.3**	**149.7**	**818.7**	**38.8**	**1,007.2**	
Education								
5 Pilot Schools	DBFM	2002/2027	**63.7**	161.3	129.1	TBC[e]	290.4	Schools Public/Private Partnership (Ireland) Ltd
National Maritime College	DBFM	2004/2029	**51.4**	112.3	75.5	TBC[e]	187.8	Focus Education (NMC) Ltd
Cork School of Music	DBFM	2007/2032	**49.3**	85.4	144.8	TBC[e]	230.2	CSM PPP Services Ltd
Schools Bundle 1	DBFM	2010/2035	**59.9**	63.7	181.9	TBC[e]	245.6	MPFI Schools 1 Ltd
Schools Bundle 2	DBFM	2011/2036	**81.7**	75.7	266.7	TBC[e]	342.4	Pymble Schools Ltd
Schools Bundle 3	DBFM	2013/2039	**100.0**	55.4	355.0	TBC[e]	410.4	BAM PPP Ltd
Schools Bundle 4	DBFM	2016/2042	**61.3**	14.0	201.6	TBC[e]	215.6	BAM PPP Ltd
Schools Bundle 5	DBFM	2017/2042	**90.9**	—	255.7	TBC[e]	255.7	Inspired Spaces Consortium
Total Education			**558.2**	**567.8**	**1,610.3**	**0.0**	**2,178.1**	

Figure 4A.1 Department of Public Expenditure and Reform Schedule of contracts, at end-2016 (continued)

Department/ Agency	Project classification	Operational from/to	Contract value [a]	PPP unitary payments to end-2016[b]	Projected future PPP unitary payments in nominal terms[c]	Other PPP payments where available[d]	Projected total cost of all PPP payments	PPP Company
			€m	€m	€m	€m	€m	
Transport Infrastructure Ireland								
M3 Clonee Kells[f]	DBFOM	2010/2052	**521.2**	395.8	266.7	43.9	706.4	Eurolink Motorway Operations (M3) Ltd
Limerick Tunnel[f]	DBFOM	2010/2041	**382.5**	220.6	32.8	28.2	281.6	DirectRoute (Limerick) Ltd
M50 Upgrade	DBFOM	2010/2042	**219.1**	148.7	718.1	77.8	944.6	M50 (Concession) Ltd
Newlands Cross and N11 Arklow/ Rathnew	DBFOM	2014-2015/2040	**131.2**	20.7	421.0	23.6	465.3	N11 Arklow Rathnew PPP Limited
M17/18 Gort/Tuam	DBFOM	2017/2042	**271.4**	—	894.3	37.9	932.2	DirectRoute (Tuam) Ltd
M11 Gorey/ Enniscorthy	DBFOM	2019/2044	**234.5**	—	476.0	31.7	507.7	Gorey to Enniscorthy M11 PPP Limited
N25 New Ross	DBFOM	2019/2044	**150.6**	—	304.2	32.1	336.3	New Ross N25 Bypass Designated Activity Company
M4 Kilcock/ Kinnegad	Concession	2005/2033	**301.8**	168.2	5.4	5.7	179.3	Eurolink Motorway Operations (M4) Ltd
M1 Dundalk	Concession	2005/2034	**112.6**	—	3.1	3.8	6.9	Celtic Roads Group (Dundalk) Ltd
M8 Fermoy	Concession	2006/2024	**182.7**	134.2	15.7	1.8	151.7	DirectRoute (Fermoy) Ltd
N25 Waterford	Concession	2009/2027	**262.3**	155.1	39.3	2.4	196.8	Celtic Roads Group (Waterford) Ltd
N6 Galway/ Ballinasloe	Concession	2009/2035	**297.8**	300.3	51.6	19.6	371.5	N6 (Concession) Ltd
M7/8 Portlaoise	Concession	2010/2023	**300.1**	72.4	7.7	5.6	85.7	Celtic Roads Group (Portlaoise) Ltd
MSA	Concession	2010/2010	**62.7**	47.1	—	—	47.1	Superstop Ltd
Total TII			**3,430.3**	**1,663.1**	**3,235.9**	**314.1**	**5,213.1**	
Total[g]			**4,600.6**	**2,649.8**	**6,564.5**	**421.3**	**9,635.6**	

Source: Department of Public Expenditure and Reform

Notes:
- a The cost of investment referred to in the project contract (excluding VAT). It represents the nominal design and construction cost of the project.
- b Represents the cumulative unitary payment amounts made by the Departments to the PPP companies.
- c Represents the Departments' future nominal liabilities in respect of the projects. Projected future nominal committed payments are calculated on an assumed future annual inflation of 2% per annum.
- d Other PPP payments captures capital expenditure payments related to a PPP project but do not come under the unitary payments heading, i.e. land acquisition, enabling works, VAT bullet payments and authority variations.
- e A review of other PPP payments is currently being undertaken by the Department of Education and Skills. Total PPP cost figures are also subject to change in that context.
- f Includes payments required under the traffic guarantee contract mechanism. The nominal value of remaining payments does not include any amounts for future payments under this mechanism.
- g Total PPP cost figures and future commitments are subject to change.

5 Fiscal Transparency

5.1 A team from the International Monetary Fund (IMF) visited Ireland in March 2013, at the request of the Secretaries General of the Departments of Finance and Public Expenditure and Reform, to evaluate Ireland's fiscal management and reporting against the standards in the IMF's newly revised Fiscal Transparency Code. The report of the Review Team was published on 16 July 2013.[1]

5.2 The Review Team set out standards for State fiscal reporting. The expectation was that fiscal reports should provide a comprehensive, timely, reliable, comparable, and accessible summary of the government's financial performance and position. The Review Team's assessment noted, inter alia, that at the time it was reporting (2013)

- fiscal reporting in Ireland was relatively comprehensive, frequent and reliable but also quite fragmented
- while Irish fiscal forecasts provided a credible, detailed and policy-oriented overview of fiscal prospects, they could provide a more comprehensive account of extra-budgetary activity, changes between forecasts and longer-term trends
- fiscal risks in Ireland were relatively large and their disclosure and management diffuse.

The IMF also noted that consolidating the information available into a set of summary fiscal documents would put Ireland in line with international accounting standards, at the forefront of fiscal transparency practice, and ahead of EU reporting requirements.

5.3 The report noted that, given the already high degree of fiscal disclosure in Ireland, there was considerable scope to enhance fiscal transparency just by bringing existing fiscal information together, and that reforms in ten areas could bring Ireland's fiscal reporting practices into line with international standards and best practices at relatively low cost. The report included a plan for implementing 35 recommended actions across these areas over the period 2013 to 2017.

5.4 The Government referred the report and action plan to a Fiscal Transparency Assessment Steering Group chaired by the Department of Finance "for implementation as appropriate". The last meeting of the group was in late 2015.

5.5 The Accounting Officers of the Departments of Finance, and Public Expenditure and Reform have provided an update on progress in implementing the report's recommendations. Responses to each of the recommendations are set out in the annex.

5.6 The IMF's recommendations can be grouped together under three broad headings (see Figure 5.1). These are

- financial reporting
- budget process
- recognition of a wider range of assets and liabilities.

1 *Fiscal Transparency Assessment - Ireland*, International Monetary Fund, July 2013.

Figure 5.1 Progress in implementing IMF fiscal transparency assessment recommendations — status at July 2017

Classification of recommendations	Progress in implementing actions[a]
Budget process	●●●●●●●●●● ●●●
Recognition of a wider range of assets and liabilities	● ●●●●● ●●●
Financial reporting	●●●● ●● ●●●●●●●

Source: Fiscal Transparency Assessment – Ireland, International Monetary Fund, July 2013; progress updates provided by the Accounting Officers in the Departments of Finance, and Public Expenditure and Reform.

Note: a ● Implemented ● Partially implemented ● Not implemented

5.7 By mid-2017, 25 (71%) of the recommendations have been either implemented (43%) or partially implemented (28%). The Accounting Officers stated that significant progress has been made in implementing recommendations relating to the budget process and in relation to statistical reporting standards under the EU System of Accounts (ESA) 2010.

5.8 The Accounting Officers noted that the findings, recommendations, and action plan set out in the IMF Report represented the views and non-binding advice of the IMF mission team and do not necessarily reflect the views of, or a commitment by, the Government. The aim of the report was to highlight best practice and to identify areas of improvement in the coverage, quality and consistency of fiscal reporting practices in Ireland.

5.9 The Accounting Officers pointed out that in July 2017, officials from the Fiscal Affairs Department of the IMF met officials in Dublin to review the progress achieved in improving standards of fiscal transparency in Ireland. They stated that the IMF officials confirmed that the recommendations contained in the evaluation were intended as guidance to the Irish authorities in strengthening fiscal transparency and consequently were not intended to be prescriptive, and also advised that Ireland stands as one of the stronger performers internationally in the area of fiscal transparency.

Budget process

5.10 The Accounting Officers reported significant progress in implementing recommendations relating to the budget process.

- The budget is now presented to the Dáil in October each year.
- In regard to publishing long-term fiscal projections as part of the budget documentation, they noted that the Department of Finance has commenced publishing an annual debt report in 2017.[1] In addition, the stability programme update (SPU), published annually by the Department of Finance since 1997, includes data on the long-term sustainability of the public finances in accordance with EU requirements.[2]
- In regard to publishing documentation about fiscal risks, the SPU includes a macro-economic risk assessment matrix, and a risk and sensitivity analysis which includes a section on contingent liabilities; the first debt report (2017) contained a debt sustainability analysis.
- a separate document incorporating the outcome of tax expenditure reviews is published along with the budget documentation.

1 *Annual Report on Public Debt in Ireland,* Department of Finance, June 2017.

2 Published in accordance with Council Regulation (EC) No. 1055/2005 amending regulation 1466-97, which sets out the rules covering the content of the stability programmes.

5.11 The Accounting Officers stated that it is not possible to fully implement the recommendation to expand the annual budget documentation to present the gross revenues and expenditure of the consolidated government sector. They noted that the added value of setting out local government revenues and expenditures does not justify changing local authority budget procedures to require adoption before the budget in October.

Recognition of a wider range of assets and liabilities

5.12 The IMF report recommended that a wider range of assets and liabilities should be recognised in the balance sheets of public bodies, and the corresponding economic flows included in fiscal documentation. The Accounting Officers have stated that progress in relation to these recommendations was mixed.

- In regard to recognising accrued pension liabilities, they pointed out that this does not form part of the European System of Accounts of central government but that it is shown as a memorandum item in the Finance Accounts. They also noted that the CSO is required to report annually to the EU on the gross accrued pension liability of Irish public servants, commencing with the end-2015 position. This figure is required to be reported during 2017.
- The IMF recommended that assets and liabilities associated with public private partnerships (PPPs) should also be recognised in balance sheets. The Accounting Officers pointed out that Ireland complies with Eurostat rules in this area and the PPPs are classified as assets of the private partner. They noted that the annual flow of government investments under PPPs is included in fiscal projections, budgets and accounts.
- A number of recommendations about the recognition and valuation of non-financial assets of central government departments have not been implemented. This will be examined in the light of a possible move to accrual accounting.
- A recommendation to recognise changes in the value of public sector assets, liabilities and contingent liabilities has not been implemented.
- A recommendation that the Department of Finance or the National Treasury Management Agency (NTMA) should publish an annual report on the Government's strategy for the management of its portfolio of assets and liabilities has been partially implemented through the publication by the New Economy and Recovery Authority (NewEra) of information about the State's shareholdings in some corporations.

Financial reporting

5.13 The area where the least progress in implementing the IMF recommendations was reported was in relation to financial reporting. Out of 13 recommendations, the Accounting Officers stated that four have been implemented in full and two partially implemented. They stated that there are a number of external and legislative factors why this is the case.

5.14 The Government Accounting Unit in the Department of Public Expenditure and Reform (DPER) advises on policy relating to financial reporting and sets the accounting rules and procedures for Vote-holding Government departments and offices. However, the IMF report noted that there was no permanent unit or official in the Irish administration responsible for setting and enforcing financial reporting standards across the public sector.

5.15 The report also noted that there was no uniform set of accounting rules and procedures applying to government departments, extra-budgetary funds, semi-state bodies, local governments and public corporations. The report made four recommendations in this area, none of which have been implemented to date.

5.16 The IMF recommended the establishment of a permanent government financial reporting unit headed by a professional chief financial officer. The Accounting Officers have stated that this recommendation, and a recommendation to establish and maintain professional standards for the government accounting profession, will be considered as part of the Civil Service Renewal Plan.

Financial reporting standards

5.17 Objective financial reporting standards are crucial to the accountability of public sector entities as they set the requirements for preparing their financial statements. A robust, objective and transparent standard-setting process, preferably by an independent standard setter, provides users of financial information with the assurance that the financial statements that they rely on to make important economic decisions, or to hold public entities to account, are credible.

5.18 In regard to recommendations to set financial reporting standards based on international standards for all public sector entities, and to enforce their use in the preparation of financial reports, the Accounting Officers noted that neither recommendation has been advanced as yet, and that policy and legislative changes will be required for their implementation.

5.19 The Finance Accounts are prepared on a cash basis. Most other public bodies prepare financial statements on an accruals basis. Central government departments, and the Education and Training Boards, prepare their annual accounts on a modified cash basis. The IMF recommended that all public sector bodies should prepare their financial statements on an accruals basis. This has not been implemented.

5.20 The Accounting Officers pointed out that ongoing consultation takes place with members of a joint Department of Finance and Department of Public Expenditure and Reform steering group in the context of Ireland's attendance at Eurostat meetings on the potential development of European Public Sector Accounting Standards. In June 2016, the steering group met with officials from the UK Treasury to learn from their experiences when changing from cash to accrual accounting. A move to accrual accounting for financial reporting by central government departments and offices will be considered in the context of developments in the Financial Management Shared Services (FMSS) project and developments at EU level concerning future implementation of harmonised accounting standards.[1]

Consolidation of the Finance and the Appropriation Accounts

5.21 A recommendation to consolidate the Finance and Appropriation Accounts has not been implemented. The Accounting Officers pointed out that legislation will be required to give a statutory basis to a consolidated central government financial statement. Pending completion of the FMSS project, and consideration of the requirement for legislation, the scope to produce a consolidated central government financial statement will be assessed.

1 The Financial Management Shared Services (FMSS) project aims to replace 31 existing government financial management and reporting systems with a single financial management system.

Accelerating account production and presentation

5.22 The IMF report recommended that the production and presentation of accounts should be accelerated.

5.23 The Accounting Officers noted that the compilation of the Finance Accounts has been brought forward and the accounts are now submitted to the Comptroller and Auditor General for audit before the end of March. The audit of the account for 2016 was competed in June 2017 and the account was presented to Dáil Éireann on 26 July 2017.

5.24 The statutory requirement is that the audited appropriation accounts should be presented to Dáil Éireann no later than 30 September in the year following the year of account.[1] All of the accounts must be presented together, with the report of the Comptroller and Auditor General on any matters arising from audit. The IMF recommended that publication of the accounts be brought forward to June. The Accounting Officers noted that implementation of this recommendation would require amending legislation.

Classification of fiscal documentation

5.25 The IMF noted that the charts of accounts in use were not able to generate summary fiscal data in line with international reporting standards and that this posed an obstacle to the preparation of more comprehensive fiscal reports and inhibited real-time monitoring of Ireland's fiscal performance against fiscal rules. The report made three main recommendations in this area.

5.26 When the IMF undertook its report (2013), the Department of Finance was publishing a monthly Exchequer statement, showing flows into and out of the Central Fund. The IMF recommended that the Department of Finance reorganise the monthly Exchequer statement to bring its classification closer to the European System of Accounts and the government finance statistics manual.

5.27 In January 2017, the Department of Finance commenced publishing a monthly fiscal monitor, which incorporates the Exchequer statement, and provides additional information. The information is not presented using the classifications recommended by the IMF. The Accounting Officer for the Department of Finance stated that the IMF recommendation on the Exchequer Statement has been implemented as appropriate. The Department does not consider that it was the intention — nor is it feasible — to replace the existing Exchequer Statement.

5.28 In regard to recommendations to develop a program classification which could be mapped to individual sectors, and to develop a harmonised chart of accounts to facilitate the automated collection and consolidation of detailed fiscal data for central government, general government and the public sector, the Accounting Officers noted that both are being addressed by the FMSS project team.

Fiscal statistics

5.29 Two recommendations relating to the publication of fiscal statistics for the consolidated public sector and its subsectors have been implemented.

1 Comptroller and Auditor General (Amendment) Act 1993.

Annex 5A IMF Fiscal Transparency Assessment — status update

Issue: *126 central government entities whose net expenditure accounts for €6.8 billion (4.3 percent of GDP) are currently excluded from the central government budget and accounts. A further 297 entities whose net expenditures accounted for at least €16.8 billion (11.7 percent of GDP) are outside the scope of the general government fiscal statistics.*

Recommendation 1: *The government should expand the institutional coverage of budgets, fiscal statistics, and financial statements.*

Actions	Status	Comments by Accounting Officers, Departments of Finance, and Public Expenditure and Reform
1a Expand the coverage of the annual budget documentation to present the gross revenues and expenditures of the consolidated central government.	Orange	Central government, which is largely concentrated as there are no state or social security sectors, makes up the vast majority of gross revenue and expenditure (over 90%) in the general government. Local authorities are obliged, by law, to adopt budgets which are sufficient to meet expenditure arising in a year. The impact of the local authority budgets on the national General Government balance are fully taken into account in the budget documents. All local authorities must ensure a balanced budget in order to obtain approval from the relevant Minister. There is a timing issue in that the budgets of local government are adopted later than that of central government which is required to be presented to the Oireachtas by 15 October each year. It is not possible to fully implement this recommendation. The SPU and Budget documentation have been expanded to include tables showing the balance by central and local government.
1b Combine the Finance and Appropriation Accounts into a consolidated central government financial statement.	Red	In responding to the recommendation, a manual exercise was conducted by the Department of Finance to generate a draft consolidated central government financial statement. The outcome of this exercise was communicated to the Financial Management Shared Service (FMSS) project team to incorporate a consolidated model into the financial management system. This would facilitate the full implementation of the recommendation in the context of the FMSS project. Legislation will be required to give a statutory basis to a consolidated central government financial statement. In the interim period, in advance of the completion of the FMSS project and consideration of the requirement for legislation, the scope to produce a consolidated central government financial statement on an annual basis will be assessed on the basis of the work carried out by the Department of Finance.
1c Provide an overview of the gross revenues and expenditures of central, local and general government in budget documentation and in-year fiscal statistics.	Orange	Currently in-year financial statistics are provided for central government, local and general government. Given the concentration of central government, the added value of setting out local government revenues and expenditures does not justify changing local authority budget procedures to require adoption before the budget in October. The effect of the local authority sector balance is fully reflected in the headline balance. Annual government financial statistics are published in April and September of each year, looking back on the previous year, which contain information on the revenues and expenditures of general government.
1d Prepare fiscal statistics for the consolidated public sector and its subsectors.	Green	The consolidated public sector and subsectors are published by the Department of Finance one month after each month end on a cumulative basis (monthly revenues and expenditure for all subsectors of general government).

Issue: *Ireland's consolidated government balance sheet data currently excludes the €116.8 billion (73.5 percent of GDP) in fixed assets of central and local governments, the €116 billion (73.0 percent of GDP) in liabilities associated with public service pensions, €4.0 billion (2.5 percent of GDP) in liabilities under Public Private Partnerships (PPPs), and the €324.7 billion (204.3 percent of GDP) in assets and liabilities held by public corporations.*

Recommendation 2: *Recognise a wider range of assets and liabilities in balance sheets.*

Actions	Status	Comments by Accounting Officers, Departments of Finance, and Public Expenditure and Reform
2a Revalue and recognise accrued pension liabilities of public servants.		Under EU Regulation (EU) 549/2013, the Central Statistics Office (CSO) is required to report on the gross accrued public service pension liabilities of Irish public servants as part of the National Accounts. Reporting is mandatory, commencing with an end 2015 position. This exercise is currently being undertaken by DPER on behalf of the CSO following on from a previous exercise to determine an accrued liability figure in respect of the National Accounts for 2012. This figure is required to be reported in 2017.
2b Recognise government assets and liabilities associated with PPPs.		Ireland is in compliance with Eurostat rules in relation to General Government classification of PPPs, under which PPPs are not recorded on the balance sheet of Government, but rather are classified as assets of the private partner. However, since 2013, there has been enhanced financial reporting about PPPs on DPER's PPP website. Details are now publically available for all central government PPP projects currently in operation or which have reached financial close, and include information on the capital value of PPPs; the value of unitary payments paid thus far and the year the final unitary payment will be made; an estimate of future liabilities; and project classification and the date the project became operational. The CSO also publishes details of PPPs on a bi-annual basis as part of the government finance statistics.
2c Revalue and recognise non-financial assets of central government departments.		The balance sheet of the appropriation accounts of central government departments and offices displays the department's/office's assets and liabilities at year end. Explanatory notes to the appropriation accounts provide details regarding capital assets and capital assets under development. Heritage assets that can be valued are included in the statement of capital assets of appropriation accounts. State-owned lands and buildings controlled or managed by the department/office which do not have valuations are listed in an appendix to the appropriation accounts. DPER, in consultation with the Department of Finance is currently examining the feasibility of a move to accrual accounting for central government departments and offices. A move to accrual accounting for central government departments and offices will be progressed in the context of developments on the FMSS project and in line with developments at EU level concerning future implementation of harmonised accounting standards.
2d Prepare a financial and full balance sheet for the public sector and its subsectors.		A consolidated balance sheet for the public sector and its subsectors is not prepared. The CSO, both nationally and as part of the Excessive Deficit Procedure (EDP) tables, produce statistical tables covering revenue, expenditure, financial and balance sheet transactions for the public sector and its subsectors.

***Issue:** Recognition of assets and liabilities in balance sheets allows for the incorporation of the related, fiscally significant, flows in summary fiscal reports. At present these unrecognized expenses could amount to 1 percent of GDP per year*

***Recommendation 3:** Incorporate the corresponding economic flows in fiscal documentation.*

Actions	Status	Comments by Accounting Officers, Departments of Finance, and Public Expenditure and Reform
3a Reflect changes in accrued public sector pension liabilities in budget documentation, statistics, and accounts.		The estimated pension liability of government (the accrued liability in respect of public service occupational pensions) does not form part of the ESA accounts of general government. It is shown in the government finance statistics release as a memorandum item. During 2017, the CSO will report the liability as at end-2015.
3b Incorporate information on the annual flow of government investments and payments under PPPs into fiscal projections, budgets and accounts.		All PPP unitary payments have been classified as capital expenditure for budget management purposes and commitments for future years are provided for in the capital envelopes of departments and in the Capital Plan. Total PPP commitments are published on the DPER website. PPP payments are managed and accounted for by departments in their voted allocations and are audited as part of the annual appropriation accounts process.
3c Utilise department- specific depreciation figures in summary statistics and accounts.		As part of the European System of Accounts (ESA) 2010 and the EDP tables, the CSO transmits data to Eurostat meeting all the statistical legislative requirements.
3d Recognise valuation changes in public sector assets, liabilities, and contingent liabilities in fiscal documentation.		Central government departments and offices include information on their fixed assets holdings and contingent liabilities in the notes to their annual appropriation accounts. The estimated pension liability of government is shown in the government finance statistics release as a memorandum item. As notes in response to recommendation 2a, the CSO will report, in 2017, an estimate of the public service pension liability as at end-2015.
3e Provide a more comprehensive estimate of revenue foregone from all tax expenditure.		A separate report on tax expenditures is published along with the Budget documents, since October 2015 which incorporates the outcomes of tax expenditure reviews.

Issue: *The charts of accounts for central government departments, extrabudgetary funds and other non-market agencies, local governments, and public corporations are not able to automatically generate summary fiscal data in line with international reporting standards. This poses a significant obstacle to the preparation of more comprehensive, detailed, and comparable fiscal reports. It also inhibits real-time monitoring of Ireland's fiscal performance against its national and EU-wide fiscal rules which are defined in general government terms.*

Recommendation 4: *Bring the classification of fiscal documentation into line with international standards.*

Actions	Status	Comments by Accounting Officers, Departments of Finance, and Public Expenditure and Reform
4a Reorganise the monthly Exchequer statement to present gross revenues and expenditures and distinguish non-financial and financial transactions.		The Accounting Officer for the Department of Finance stated that the IMF recommendation on the Exchequer Statement has been implemented in line with the Government decision on the implementation of recommendations i.e. as appropriate. The Department does not consider that it was the intention — nor is it feasible — to replace the existing Exchequer Statement. The Department of Finance publishes a monthly fiscal monitor at the end of every month and presents this information in tabular format (see Appendix II of the Department's 'Fiscal Monitor' publication). The Fiscal Monitor includes extra-Exchequer (Central Fund) flows, notably the Social Insurance Fund and Appropriations in Aid of the Votes. It splits the transactions affecting general government from those with no impact on general government. Furthermore, the Department produces and publishes cash based fiscal data for general government in accordance with the Budgetary Frameworks Directive – monthly for central government and quarterly for the local government subsector, before the end of the following quarter. The Department considers that the information it produces is appropriate having regard to the domestic and EU legal context.
4b Develop an exhaustive program classification which can be mapped to both individual output/impact indicators and Classification of Functions of Government (United Nations) (COFOG) sectors.		The FMSS project team will address this recommendation using its business intelligence tool with the new financial management system.
4c Develop a harmonized chart of accounts for all general government and, eventually, public sector entities.		The FMSS project team is currently developing a common chart of accounts for central government departments and offices as part of the transition of government departments and certain public sector bodies to the new FMSS.

Issue: *The government's audited accounts are currently published too late to inform the preparation of the annual budget. The annual budget estimates are submitted too late for parliament to debate and approve them before the start of the year to which they refer.*

Recommendation 5: *Accelerate the production, presentation and approval of the annual budget and accounts in line with current plans.*

Actions	Status	Comments by Accounting Officers, Departments of Finance, and Public Expenditure and Reform
5a Require the government to submit the annual budget to parliament in October.		The Budget is currently presented to the Dáil in October of each year.
5b Require parliament to approve the annual budget in December.		The Finance Bill gives legal effect to the tax changes announced in the Budget. If there are any changes to social welfare and pensions, a Social Welfare and Pensions Bill is also introduced. Both these Bills are enacted in December of each year in accordance with obligations under the European Semester.
5c Require the government to submit its annual accounts to the C&AG by March or an agreed earlier date.		The compilation of the Finance Accounts has been brought forward. The Finance Accounts are submitted to the C&AG for audit before the end of March each year. Accounting Officers must have the appropriation account for each Vote under their control prepared and they must sign and present the account to the C&AG before 1st April of the year following that to which it relates.
5d Require the C&AG to submit the audited accounts to parliament by June.		The current legislative provision under the Comptroller and Auditor General (Amendment) Act 1993 requires the Comptroller and Auditor General to present audited appropriation accounts together with his report on any matters arising from audit to Dáil Éireann no later than 30 September each year. To implement this recommendation on a statutory basis would require amending legislation.

Issue: *Reducing Ireland's general government gross debt from 121 percent of GDP to the targeted 60 percent of GDP will require a long period of tight fiscal policy. In addition, Ireland faces growing demographic pressures, with the harmonized European estimate suggesting that age-related expenditure will increase by 7.4 percent of GDP by 2050. However, Ireland's fiscal projections only extend to 2015 - not far enough to demonstrate either (i) how and when Ireland expects to meet its debt target or (ii) the impact of demographic and other long-term trends.*

Recommendation 6*:* *Regularly publish long term fiscal projections as part of the annual budget documentation.*

Actions	Status	Comments by Accounting Officers, Departments of Finance, and Public Expenditure and Reform
6a Publish the government's own version of a debt-sustainability analysis, demonstrating the interaction of the new fiscal rules, extending out 10-20 years.	●	The Department of Finance has published an annual debt report showing compliance with the EU debt rule out to 2025 and containing a debt sustainability analysis under a range of macro-fiscal scenarios to 2025. A range of additional variables monitored by the Department from a debt sustainability perspective are also outlined.
6b Augment the internal long-term fiscal projection model and publish its projections at least every 2-3 years.	●	Chapter 6 of the SPU publishes data on the 'Long-term sustainability of the Public Finances', as per EU requirements.

Issue: *Ireland's medium-term fiscal forecasts contain large revisions from one budget to the next. On a no-policy-change basis, between the SPU and 2013 Budget, tax revenues were revised down €800m, and net expenditures were revised up by €2.2 billion. This required significant policy changes to remain within the program targets. While the 2013 Expenditure Report provides a detailed breakdown of changes to departmental expenditure ceilings since the last budget, it is difficult to understand the net impact of (i) changes in macroeconomic environment, (ii) changes to revenue and expenditure policies, and (iii) other technical or accounting changes on the fiscal forecast.*

Recommendation 7: *Provide a more comprehensive reconciliation of changes to key fiscal aggregates between successive fiscal forecasts.*

Actions	Status	Comments by Accounting Officers, Departments of Finance, and Public Expenditure and Reform
7 Provide a more comprehensive reconciliation of changes to key fiscal aggregates between successive fiscal forecasts.	●	A comparison table has been introduced. For example, in SPU 2017 Table A2.3 compares the SPU data against that at the time of the Budget. This table includes categorisations of the changes and explanatory notes.

Issue: *The government publishes information on a wide range of fiscal risks, but the value of the information is diminished by being scattered among many documents published by many agencies. Moreover, much of the information is reported not by the ministries responsible for fiscal management — the Department of Finance and the Department of Public Expenditure and Reform — but by "outsiders" such as the Comptroller and Auditor General, the Irish Fiscal Advisory Council, and the Central Bank.*

The improvements in fiscal reporting discussed above would bring together much information relevant to an assessment of risk in two reports. Fiscal statistics for the public sector would allow a bird's-eye view of risks related to public corporations. Publication of financial statements and notes for consolidated central government would, among other things, generate integrated information on the government's assets and liabilities and notes on the risks around them.

However, those improvements will take time and will not be enough to bring together all the relevant information on fiscal risks into one place.

Recommendation 8 and 9: *Two new reports could help fill the gap: a comprehensive statement of fiscal risks and a report on the management of the government's portfolio of assets and liabilities.*

Actions	Status	Comments by Accounting Officers, Departments of Finance, and Public Expenditure and Reform
The Department of Finance should publish as part of the budget documentation a comprehensive annual statement of fiscal risks that includes sections on:		
8a Macroeconomic analysis of risk.	●	See the Macro-Economic Risk Assessment Matrix in SPU/Budget.
8b Specific revenue risks not reflected in macroeconomic analysis (Medium-Term Fiscal Statement).	●	See the Fiscal Risk Assessment Matrix in SPU ad Budget documents.
8c Contingent liabilities, including guarantees, insurance, callable capital, indemnities, litigation, etc.	●	Chapter 4 of the SPU publishes a Risk and Sensitivity Analysis which includes a section on contingent liabilities. Links are provided to the Finance Accounts and to separate publications which include further details on callable capital.
8d Risks related to the financial sector in addition to those related to explicit guarantees.	●	See 'financial sector developments' in the Fiscal Risk Assessment Matrix of the SPU and Budget documents.

Actions	Status	Comments by Accounting Officers, Departments of Finance, and Public Expenditure and Reform
8e Risks related to values of assets and liabilities and associated cash flows, including debt, derivatives, financial assets, pensions, provisions and PPPs.	●	Information on potential risks is included in the Risk Section of the SPU where relevant.
9 The Department of Finance or NTMA should publish an annual report on the government's strategy for the management of its portfolio of assets and liabilities, including debt, the NPRF fund, and shares in financial and non-financial corporations.	●	New ERA was established to manage shares in financial and non-financial corporations. It regularly produces reports and statistics on the assets and liabilities in these corporations.

***Issue:** There is no permanent official or unit in the Irish administration responsible for setting and enforcing financial reporting standards across the public sector. As a result, there is no uniform set of accounting rule and procedures applying to government departments, extrabudgetary funds, semi-state bodies, local governments, and public corporations. This makes consolidating government-wide financial information and promoting system-wide improvements in financial reporting practices very costly and time-consuming.*

***Recommendation 10:** Establish a permanent government financial reporting unit in the DoF or DPER.*

Actions	Status	Comments by Accounting Officers, Departments of Finance, and Public Expenditure and Reform
10 Establish a permanent government financial reporting unit in the DoF or DPER headed by a Chief Financial Officer (CFO) or Director of Government Accounting (DGA) — The CEO/DGA should be appropriately qualified with considerable accounting, financial reporting and other relevant experience. S/he should be supported by a small group of finance professions and be responsible for:	●	The Government Accounting Unit in DPER is a permanent government financial reporting unit and it has among its staff a professional accountant. The unit advises on policy in relation to accounting and financial reporting and has responsibility for setting the accounting rules and procedures laid down by the Minister for Public Expenditure and Reform. These accounting rules and procedures are required to be applied consistently across all Government Departments and Vote-Holding Offices. The establishment of a separate government financial reporting unit in the DoF or DPER headed by a Chief Financial Officer (CFO) or Director of Government Accounting (DGA) will be examined as part of Action 14 of the Civil Service Renewal Plan which commits to strengthening professional expertise in key functions including Financial Management.
10a Setting financial reporting standards for all public sector entities, based on international and European accounting and statistical standards.	●	*Statistical Standards* As part of the European System of Accounts (ESA) 2010 and the EDP tables the CSO transmit data to Eurostat meeting all the statistical legislative requirements. These data sets are assessed by Eurostat as part of the EDP verification process and the Gross National Income Inventories for plausibility, methodological soundness and accuracy. The CSO engages, on an ongoing basis, with public sector, Government Departments and State agencies to ensure that the data needed to complete these statistical returns is made available in both a timely and accurate manner. *International Accounting Standards* Accrual accounting is already the norm for most of the public sector with the exception of central government, and the Education and Training Boards. Most public sector bodies prepare their financial statements in accordance with FRS 102, the financial reporting standard applicable in Ireland and the UK. Financial reporting for central government departments and offices is on a cash basis with some additional information on an accruals basis provided as notes to the appropriations accounts, including a balance sheet and an operating cost statement. In relation to European accounting standards a move to accrual accounting for financial reporting by central government departments and offices will be progressed in the context of developments on FMSS project and in line with developments at EU level concerning future implementation of harmonised accounting standards. Policy and legislative changes will be required for implementation of this recommendation.

Actions	Status	Comments by Accounting Officers, Departments of Finance, and Public Expenditure and Reform
10b Enforcement of those standards in the preparation of in-year and year-end financial reports by public sector bodies.		This recommendation has not been advanced as yet. Policy and legislative changes will be required for its implementation.
10c Preparation and transmission of the proposed consolidated Central Government Financial Statements to the C&AG for audit.		This recommendation has not been advanced as yet. Policy and legislative changes will be required for its implementation.
10d Cooperation with the CSO, DECLG, Central Bank of Ireland and other public entities on the preparation of fiscal statistics for the general government and public sector.		The Government Accounting Unit in DPER is a permanent government financial reporting unit and it has among its staff a professional accountant. The unit advises on policy in relation to accounting and financial reporting and has responsibility for setting the accounting rules and procedures laid down by the Minister for Public Expenditure and Reform. These accounting rules and procedures are required to be applied consistently across all Government Departments and Vote-Holding Offices. Ongoing co-operation takes place between the various bodies in the preparation of fiscal statistics for general government and the public sector. The Irish statistical authorities cooperate formally through the Government Finance Statistics Liaison Committee (GFSLC), which comprises representatives of the CSO, the Central Bank of Ireland and the Department of Finance.
10e Establishing and maintaining professional standards for the government accounting profession.		This recommendation will be reviewed as part of the consideration and examination of a transition from cash to accrual accounting and as part of Action 14 of the Civil Service Renewal Plan which commits to strengthening professional expertise within corporate functions in the civil service, including financial management.

Voted Expenditure

6 Vote Accounting and Budget Management

6.1 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.

6.2 Expenditure is provided for under ‘votes’, with one or more 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.

6.3 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.

6.4 In addition to voted services, some government departments administer statutory funds. Generally, these are funded from sources other than the Central Fund and therefore, that funding is not ‘voted’ by Dáil Éireann. Examples of such funds and their main income sources are

- Social Insurance Fund (PRSI contributions)
- Local Government Fund (motor tax and local property tax receipts)
- National Training Fund (training fund levy receipts and EU grants)
- Environment Fund (plastic bag and landfill levies).

6.5 In presenting estimates and expenditure reports, the Department of Public Expenditure and Reform includes the Social Insurance Fund (€8.5 billion in 2016 estimates) and the National Training Fund (€362 million in 2016 estimates) in total gross expenditure. The Department advises that this is in recognition of the significant expenditure funded by PRSI contributions, the role of the relevant departments in relation to the expenditure incurred by those funds and that, where there is a shortfall in these funds in any financial year, the amount involved may be paid into the funds from moneys provided by Dáil Éireann.

Results of 2016 audits of appropriation accounts

6.6 Audits of the 2016 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.

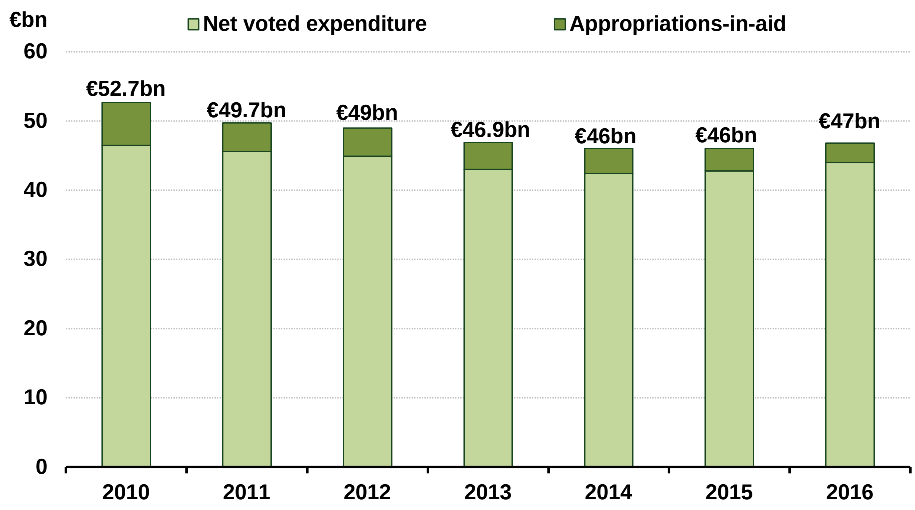
6.7 A summary of the amounts appropriated in 2016 for voted public services is included in Annex 6A (Figure 6A.1). The outturn for the year is also shown, together with the surplus of appropriations over expenditure.

6.8 The final amount appropriated for public services in 2016 was €47.5 billion. This comprised supply grants totalling €44.6 billion, capital funding carried over from 2015 totalling €112 million and appropriations-in-aid of €2.8 billion.

Vote outturn

6.9 Aggregate expenditure and appropriations-in-aid of all votes for the years 2010 to 2016 are summarised in Figure 6.1. The total amount spent by departments and offices in 2016 was €47 billion. After deduction of realised appropriations-in-aid totalling €3 billion, the net expenditure in the year was €44 billion.

Figure 6.1 Voted expenditure outturn, 2010 to 2016



Source: Reports on the Accounts of the Public Services, 2010 to 2016. Annex 6A

Excess vote — Vote 35 Army Pensions

6.10 The Appropriation Act sets a limit on the expenditure of each vote and on the amount of appropriations-in-aid that can be used by the vote. Any receipts in excess of the appropriations-in-aid limit specified cannot be used to fund expenditure and are required to be surrendered to the Exchequer. Expenditure greater than the limit specified in the Appropriation Act requires the approval of Dáil Éireann — this is known as an excess vote. An excess vote can also arise where any shortfall in appropriations-in-aid is not matched by savings in expenditure.

6.11 The amount appropriated by the Oireachtas for Vote 35 Army Pensions was €234,690,000. Expenditure incurred was €234,713,299 which was €23,299 in excess of the amount appropriated.

6.12 During the audit of the appropriation account for Vote 35, it was noted that €26,464 relating to pension payments made in 2016 on foot of separation or divorce court orders had been charged to a suspense account, and due to an oversight related to work pressure at the year end, were not charged to the Vote until early in 2017. The effect of this was that total expenditure in 2016 was understated by €26,464, and overstated by this amount for 2017. When this transaction was corrected and the amount charged to the 2016 accounts, the total gross expenditure on the Vote exceeds the amount appropriated by the Oireachtas by €23,299. There are surplus appropriations-in-aid of €237,466 which can be applied to meet the excess but this is subject to the specific approval of Dáil Éireann.

6.13 The process in place to deal with pension adjustment orders made by the courts in separation and divorce cases was unnecessarily complex. The Accounting Officer has advised that simpler procedures have been implemented from 1 January 2017. In addition a new system of monthly checks and reconciliations to be conducted during the final quarter of the year has been introduced, to help bolster existing internal controls around the operation of suspense accounts. He states that these checks should help highlight potential issues, if any, in a timely manner and allow for any necessary action to be taken.

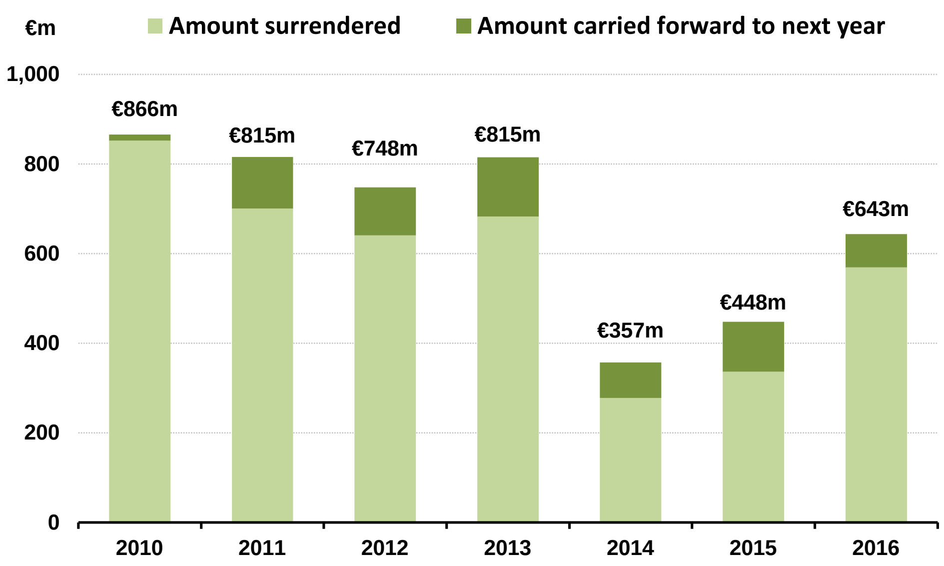
6.14 *Public Financial Procedures* set out the process to be followed where an excess vote arises

- The Comptroller and Auditor General reports the excess to the Dáil through the Committee of Public Accounts (PAC).
- If satisfied, the PAC issues a report to the effect that it sees no objection to the excess sum being sanctioned by the Dáil by means of an excess vote.
- The Minister for Public Expenditure and Reform decides whether an excess vote should be put to the Dáil. Where this course is acceptable to the Minister, he presents a statement of excess to Dáil Éireann for approval.

Surpluses

6.15 The 2016 surpluses amounted to €643 million (see Figure 6.2). Of that amount, a total of €74 million was approved for carry over to 2017. The balance of €569 million was due for surrender. The sums liable for surrender or carried over to 2017 for each vote are shown in Annex 6A (Figure 6A.2).

Figure 6.2 Surplus appropriations, 2010 to 2016



Source: Reports on the Accounts of the Public Service, 2010 to 2016, Annex 6A

Exchequer extra receipts

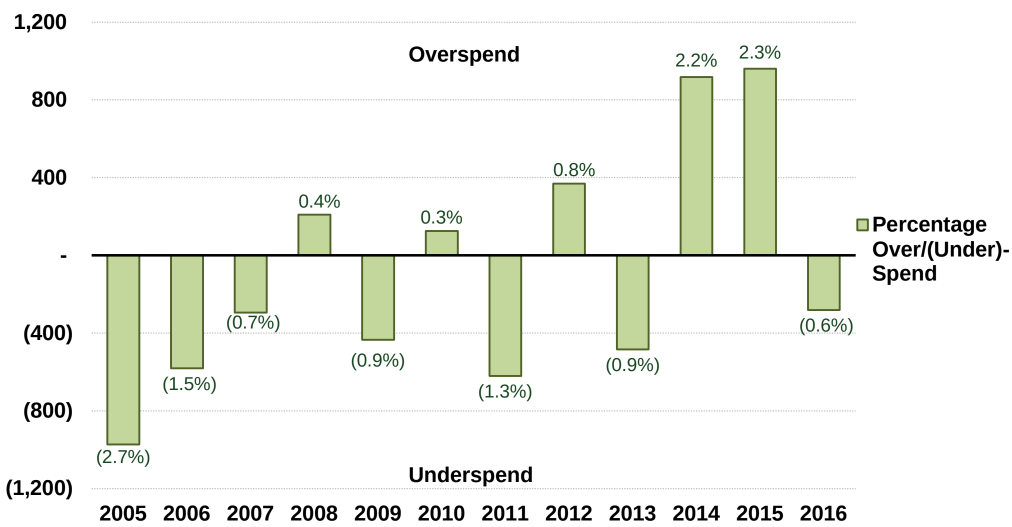
6.16 Certain sums collected by departments and offices are directed by the Department of Public Expenditure and Reform to be credited to the Exchequer, and not treated as appropriations-in-aid. This includes court fine receipts and Property Registration Authority fee receipts. Windfall receipts are also 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.

6.17 Where Exchequer extra receipts arose in 2016, the amounts are shown in notes to the relevant appropriation accounts. The total Exchequer extra receipts recorded by departments and offices in 2016 was €133 million (2015: €157m). The aggregate amount of those receipts reported in each account is set out in Annex 6A (Figure 6A.3).

Budget variance

6.18 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 6.3 sets out the budget variance for all votes combined, for the years 2005 to 2016.

Figure 6.3 Net expenditure variance from original budget, all votes, 2005 to 2016



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

6.19 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 2016, net expenditure was €244 million less than the original forecast.

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

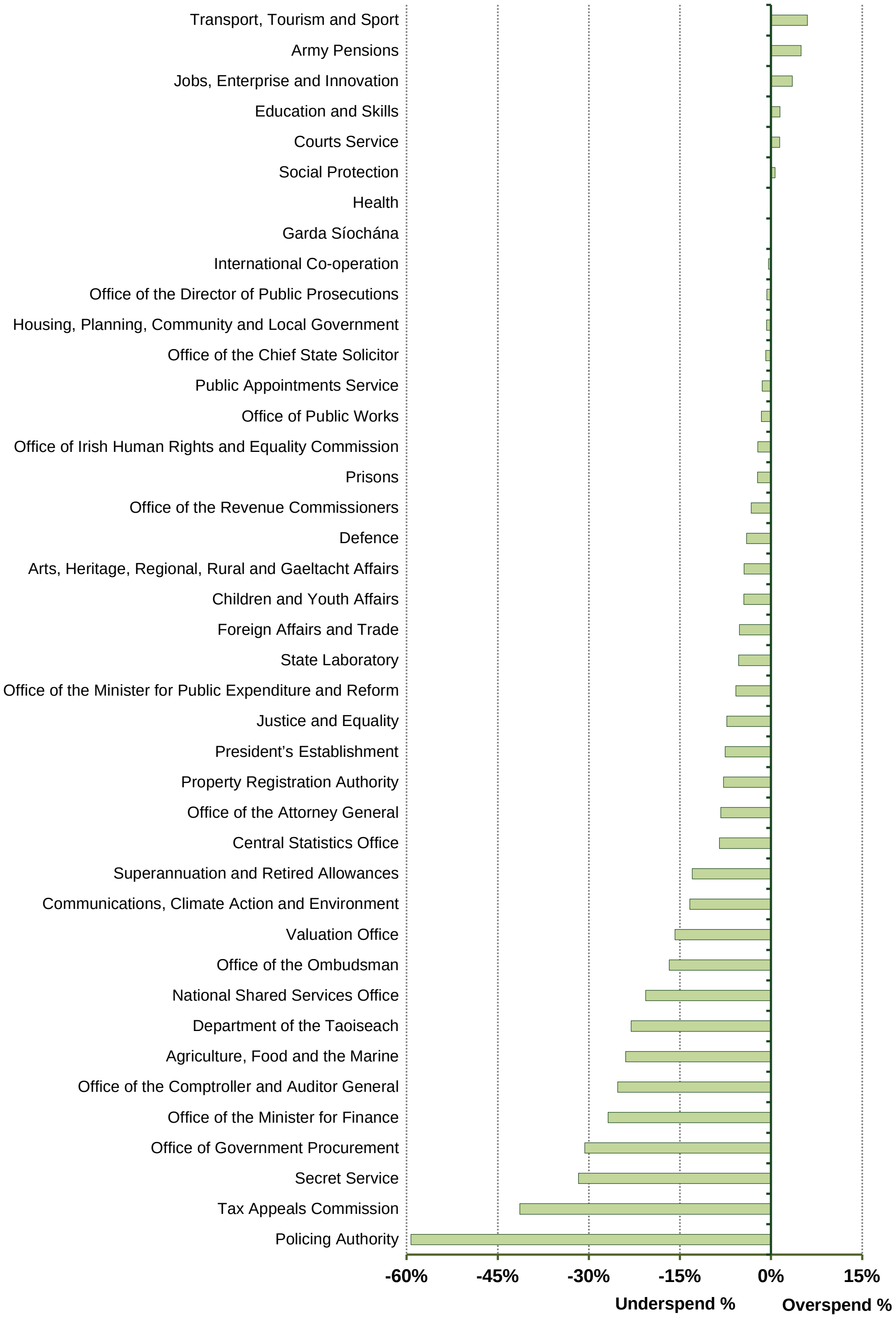
Budget variance by Vote

6.20 The three votes with the largest monetary net variance in 2016 were Agriculture, Food and the Marine (€253 million less than the original estimate), Education and Skills (€121 million more than the original estimate) and Transport, Tourism and Sport (€82 million more than the original estimate).

6.21 Figure 6.4 sets out, for each vote, the proportionate variance between actual net expenditure and the original estimate in 2016.

- There were six votes where the net expenditure outturn was greater than the original estimate. Transport, Tourism and Sport, at 6%, had the largest percentage overspend compared with its original estimate.
- The remaining 35 votes incurred net expenditure less than originally anticipated in the revised estimates.

Figure 6.4 Net expenditure variance by vote, as a proportion of the original budget, 2016



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

Supplementary estimates

6.22 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.

6.23 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.

6.24 In 2016, seven votes required substantive supplementary estimates to increase the overall amount available (see Figure 6.5). These included two votes — Garda Síochána and Army Pensions — which have required substantive supplementary estimates each year since 2010.

Figure 6.5 Votes with supplementary estimates, 2010 to 2016[a]

	2010	2011	2012	2013	2014	2015	2016
Health[b]	●	●	●	●	●	●	
Garda Síochána	●	●	●	●	●	●	●
Army Pensions	●	●	●	●	●	●	●
Transport, Tourism and Sport	○		●	●	●	●	●
Social Protection	●		●			●	●
Jobs, Enterprise and Innovation	○	○	○		○	●	●
Superannuation and Retired Allowances			●		●	●	
Education and Skills	○				●	●	●
Agriculture, Food and the Marine					●	●	○
Public Appointments Service					●	●	
Prisons					●	●	
Children and Youth Affairs					○	●	
Office of the Chief State Solicitor						●	
Environment, Community and Local Government	○	○	○		●		
Courts Service	○	●	●		○		●
Arts, Heritage and the Gaeltacht	●				○		
Department of the Taoiseach					●		
Foreign Affairs and Trade	●						○
Justice and Equality	○	○		○			
Shared Services				○		○	
Communications, Climate Action and the Environment						○	
Office of the Minister for Finance						○	
Defence					○		○
Public Expenditure and Reform		○					

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 2016 Revised Estimates for Public Services. For some votes, different titles may have applied in earlier years in which a supplementary estimate was approved.

b From 2015, the HSE was no longer a separate vote. Since then, Exchequer funding is provided to it through grants from the Health Vote. Between 2010 and 2014, the HSE Vote required substantive supplementary estimates, and in 2015 the Health Vote required a substantive supplementary estimate.

Annex 6A 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 6A.1 provides a summary of the outturn on expenditure and receipts relative to the amounts appropriated for public services in 2016.

Figure 6A.2 shows how surplus appropriations in 2016 were applied — either through deferral of expenditure to 2017, or by surrender to the Exchequer.

Figure 6A.3 shows exchequer extra receipts realised.

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 2015	Amount of capital funding not spent in 2015 and carried over for expenditure on capital services in 2016. The carry over of these sums was approved by Dáil Éireann in the Appropriation Act 2015.
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 2015 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 2016 which was carried over for expenditure in 2017. These carry overs were approved by Dáil Éireann in the Appropriation Act 2016.
Surplus to be surrendered	Amount of money appropriated in 2016 but not spent in the year or deferred to 2017, 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 6A.1 Summary of appropriations for public services in 2016, by vote

Vote	Service	Amount appropriated				Outturn			Surplus/deficit		
		Supply grants	Deferred from 2015	Appropriations -in-aid	Total	Gross expenditure	Appropriations -in-aid	Net expenditure	Gross surplus (deficit)	Excess/ (deficit) in receipts	Net surplus for the year[a]
		€000	€000	€000	€000	€000	€000	€000	€000	€000	€000
1	President's Establishment	3,811	—	106	3,917	3,608	84	3,524	309	(22)	287
2	Department of the Taoiseach	29,350	—	870	30,220	23,348	763	22,585	6,872	(107)	6,765
3	Office of the Attorney General	14,695	—	788	15,483	14,221	743	13,478	1,262	(45)	1,217
4	Central Statistics Office	82,081	—	1,435	83,516	76,557	1,442	75,115	6,959	7	6,966
5	Office of the Director of Public Prosecutions	38,886	—	975	39,861	39,417	791	38,626	444	(184)	260
6	Office of the Chief State Solicitor	29,148	—	1,860	31,008	30,004	1,114	28,890	1,004	(746)	258
7	Office of the Minister for Finance	39,479	115	1,400	40,994	31,238	2,271	28,967	9,756	871	10,627
8	Office of the Comptroller and Auditor General	6,761	—	5,759	12,520	11,567	6,514	5,053	953	755	1,708
9	Office of the Revenue Commissioners	331,113	2,000	69,487	402,600	397,003	74,696	322,307	5,597	5,209	10,806
10	Tax Appeals Commission	1,440	—	60	1,500	890	46	844	610	(14)	596
11	Office of the Minister for Public Expenditure and Reform	43,748	—	2,165	45,913	43,188	1,965	41,223	2,725	(200)	2,525
12	Superannuation and Retired Allowances	391,880	—	135,000	526,880	499,500	158,403	341,097	27,380	23,403	50,783
13	Office of Public Works	357,548	7,000	26,978	391,526	391,487	32,685	358,802	39	5,707	5,746
14	State Laboratory	8,450	—	790	9,240	8,882	883	7,999	358	93	451
15	Secret Service	1,000	—	—	1,000	683	—	683	317	—	317
16	Valuation Office	9,491	—	1,150	10,641	9,129	1,139	7,990	1,512	(11)	1,501
17	Public Appointments Service	9,398	—	252	9,650	9,537	275	9,262	113	23	136
18	National Shared Services Office	37,910	1,248	4,780	43,938	36,405	5,338	31,067	7,533	558	8,091
19	Office of the Ombudsman	9,738	—	402	10,140	8,408	302	8,106	1,732	(100)	1,632
20	Garda Síochána	1,451,548	6,644	123,476	1,581,668	1,570,562	123,894	1,446,668	11,106	418	11,524

Vote	Service	Amount appropriated				Outturn			Surplus/deficit		
		Supply grants	Deferred from 2015	Appropriations -in-aid	Total	Gross expenditure	Appropriations -in-aid	Net expenditure	Gross surplus (deficit)	Excess/ (deficit) in receipts	Net surplus for the year[a]
		€000	€000	€000	€000	€000	€000	€000	€000	€000	€000
21	Prisons	318,651	—	13,407	332,058	325,041	13,440	311,601	7,017	33	7,050
22	Courts Service	65,669	—	47,503	113,172	112,365	47,780	64,585	807	277	1,084
23	Property Registration Authority	30,434	—	610	31,044	28,799	750	28,049	2,245	140	2,385
24	Justice and Equality	350,416	—	60,879	411,295	389,842	64,949	324,893	21,453	4,070	25,523
25	Irish Human Rights and Equality Commission	6,190	—	116	6,306	6,208	153	6,055	98	37	135
26	Education and Skills	8,340,653	—	487,309	8,827,962	8,813,454	487,448	8,326,006	14,508	139	14,647
27	International Co-operation	485,281	—	1,150	486,431	484,822	1,518	483,304	1,609	368	1,977
28	Foreign Affairs and Trade	166,759	475	50,253	217,487	215,424	56,903	158,521	2,063	6,650	8,714
29	Communications, Climate Action and Environment	228,486	14,328	237,998	480,812	438,895	228,535	210,360	41,917	(9,463)	32,454
30	Agriculture, Food and the Marine	1,044,661	12,000	306,441	1,363,102	1,257,012	453,147	803,865	106,090	146,706	252,796
31	Transport, Tourism and Sport	1,450,259	16,100	383,326	1,849,685	1,836,107	383,627	1,452,480	13,578	301	13,879
32	Jobs, Enterprise and Innovation	788,325	10,000	47,148	845,473	842,959	52,680	790,279	2,514	5,532	8,046
33	Arts, Heritage, Regional, Rural and Gaeltacht Affairs	370,040	6,158	12,609	388,807	368,150	8,620	359,530	20,657	(3,989)	16,668
34	Housing, Planning, Community and Local Government	1,357,441	32,000	26,464	1,415,905	1,399,026	19,863	1,379,163	16,879	(6,601)	10,277
35	Army Pensions	229,490	—	5,200	234,690	234,713	5,437	229,276	(23)	237	214[b]
36	Defence	656,616	—	25,155	681,771	670,725	40,667	630,058	11,046	15,512	26,558
37	Social Protection	10,981,429	—	263,960	11,245,389	11,215,323	272,843	10,942,480	30,066	8,883	38,949
38	Health	13,649,033	—	460,221	14,109,254	14,107,220	460,408	13,646,812	2,034	187	2,221
39	Office of Government Procurement	19,982	200	500	20,682	14,424	429	13,995	6,258	(71)	6,187
40	Children and Youth Affairs	1,113,026	3,500	25,450	1,141,976	1,088,428	22,007	1,066,421	53,548	(3,443)	50,105
41	Policing Authority	2,640	—	60	2,700	1,106	31	1,075	1,594	(29)	1,565
	Total	**44,552,956**	**111,768**	**2,833,492**	**47,498,216**	**47,055,677**	**3,034,583**	**44,021,094**	**442,539**	**201,091**	**643,630**

Source: 2016 Appropriation Accounts. Any apparent differences in totals are due to rounding.

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

b The net surplus shown for Vote 35 Army Pensions is subject to Dáil Éireann approving the application of surplus appropriations-in-aid to meet the excess expenditure.

Figure 6A.2 Application of surplus 2016 appropriations, by vote

Vote	Service	Surplus for the year	Deferred surrender (for 2016)	Surplus for surrender
		€000	€000	€000
1	President's Establishment	287	—	287
2	Department of the Taoiseach	6,765	—	6,765
3	Office of the Attorney General	1,217	—	1,217
4	Central Statistics Office	6,966	—	6,966
5	Office of the Director of Public Prosecutions	260	—	260
6	Office of the Chief State Solicitor	258	—	258
7	Office of the Minister for Finance	10,627	227	10,400
8	Office of the Comptroller and Auditor General	1,708	—	1,708
9	Office of the Revenue Commissioners	10,806	2,000	8,806
10	Tax Appeals Commission	596	—	596
11	Office of the Minister for Public Expenditure and Reform	2,525	—	2,525
12	Superannuation and Retired Allowances	50,783	—	50,783
13	Office of Public Works	5,746	—	5,746
14	State Laboratory	451	—	451
15	Secret Service	317	—	317
16	Valuation Office	1,501	—	1,501
17	Public Appointments Service	136	—	136
18	National Shared Services Office	8,091	—	8,091
19	Office of the Ombudsman	1,632	—	1,632
20	Garda Síochána	11,524	9,344	2,180

Figure 6A.3 Exchequer extra receipts 2016, 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	23
6	Office of the Chief State Solicitor	10
7	Office of the Minister for Finance	3
8	Office of the Comptroller and Auditor General	—
9	Office of the Revenue Commissioners	1,207
10	Tax Appeals Commission	—
11	Office of the Minister for Public Expenditure and Reform	1
12	Superannuation and Retired Allowances	—
13	Office of Public Works	—
14	State Laboratory	—
15	Secret Service	—
16	Valuation Office	—
17	Public Appointments Service	—
18	National Shared Services Office	—
19	Office of the Ombudsman	—
20	Garda Síochána	3,650

Vote	Service	Surplus for the year	Deferred surrender (for 2015)	Surplus for surrender
		€000	€000	€000
21	Prisons	7,050	2,833	4,217
22	Courts Service	1,084	—	1,084
23	Property Registration Authority	2,385	—	2,385
24	Justice and Equality	25,523	—	25,523
25	Irish Human Rights and Equality Commission	135	—	135
26	Education and Skills	14,647	—	14,647
27	International Co-operation	1,977	—	1,977
28	Foreign Affairs and Trade	8,714	—	8,714
29	Communications, Climate Action and the Environment	32,454	12,128	20,326
30	Agriculture, Food and the Marine	252,796	21,700	231,096
31	Transport, Tourism and Sport	13,879	10,969	2,910
32	Jobs, Enterprise and Innovation	8,046	—	8,046
33	Arts, Heritage, Regional, Rural and Gaeltacht Affairs	16,668	13,548	3,120
34	Housing, Planning, Community and Local Government	10,277	—	10,277
35	Army Pensions	214	—	214[a]
36	Defence	26,558	—	26,558
37	Social Protection	38,949	—	38,949
38	Health	2,221	—	2,221
39	Office of Government Procurement	6,187	110	6,077
40	Children and Youth Affairs	50,105	1,640	48,465
41	Policing Authority	1,565	—	1,565
	Total	**643,630**	**74,499**	**569,131**

Source: 2016 Appropriation Accounts
Note: a The surplus for surrender shown for Vote 35 Army Pensions is subject to Dáil Éireann approving the application of surplus appropriations-in-aid to meet the excess expenditure.

Vote	Service	Extra receipts realised
		€000
21	Prisons	—
22	Courts Service	9,339
23	Property Registration Authority	58,428
24	Justice and Equality	1
25	Irish Human Rights and Equality Commission	—
26	Education and Skills	1,401
27	International Co-operation	—
28	Foreign Affairs and Trade	—
29	Communications, Climate Action and the Environment	39,066
30	Agriculture, Food and the Marine	11,786
31	Transport, Tourism and Sport	1,112
32	Jobs, Enterprise and Innovation	522
33	Arts, Heritage, Regional, Rural and Gaeltacht Affairs	4
34	Housing, Planning, Community and Local Government	2,193
35	Army Pensions	—
36	Defence	1,894
37	Social Protection	38
38	Health	—
39	Office of Government Procurement	37
40	Children and Youth Affairs	2,419
41	Policing Authority	—
	Total	**133,134**

Source: 2016 Appropriation Accounts

7 Dormant Accounts Fund

7.1 The Dormant Accounts Act 2001 (the 2001 Act) and Unclaimed Life Assurance Policies Act 2003 provided for a scheme to transfer dormant funds in banks, building societies, life assurance companies and State savings schemes to a State–controlled Dormant Accounts Fund (the Fund).[1] Notwithstanding that accounts may be declared dormant and the balances transferred to State control, holders of an account, or the beneficiaries of their estates have the right to reclaim their money at any time.[2]

7.2 The 2001 Act also provided for disbursement of dormant accounts funds. Moneys may be disbursed for the purposes of programmes or projects to assist

- the personal and social development of persons who are economically or socially disadvantaged
- the educational development of persons who are educationally disadvantaged, or
- persons with a disability (within the meaning of the Equal Status Act 2000).

7.3 Balances on dormant accounts are remitted to the Fund, which is managed by the National Treasury Management Agency (NTMA). The Agency invests the funds pending release to departments for disbursement[3], and repays any dormant funds reclaimed by financial institutions on behalf of their clients.

7.4 The purpose of this report is to

- provide a summary of the Fund from inception to 2016
- outline the arrangements for disbursing moneys from the Fund and
- review the level of disbursements over the last five years (2012 to 2016).

Dormant Accounts Fund 2003 to 2016

7.5 Total transactions of the Fund to the end of 2016 are summarised in Figure 7.1.

Figure 7.1 Dormant Accounts Fund summary, 2003 to 2016[a]

	€m
Amounts transferred into the Fund	842
Interest earned	44
	886
Less repayments to account holders[b]	(337)
Net transfers[c]	**549**
Disbursements to implementing departments	(275)
Operating expenses[d]	(15)
Net assets 31 December 2016	**259**

Source: National Treasury Management Agency, Dormant Accounts Fund 2003 to 2016

Notes:
a Figures are rounded.
b Includes €4m in accrued interest.
c Net transfers excluding interest earned and paid amounted to €509 million.
d Operating expenses include €12.7 million paid to Pobal (2005-2016), and €0.9 million paid to Area Development Management Ltd in 2004 (Pobal's predecessor). Other expenses include Dormant Account Disbursement Board expenses.

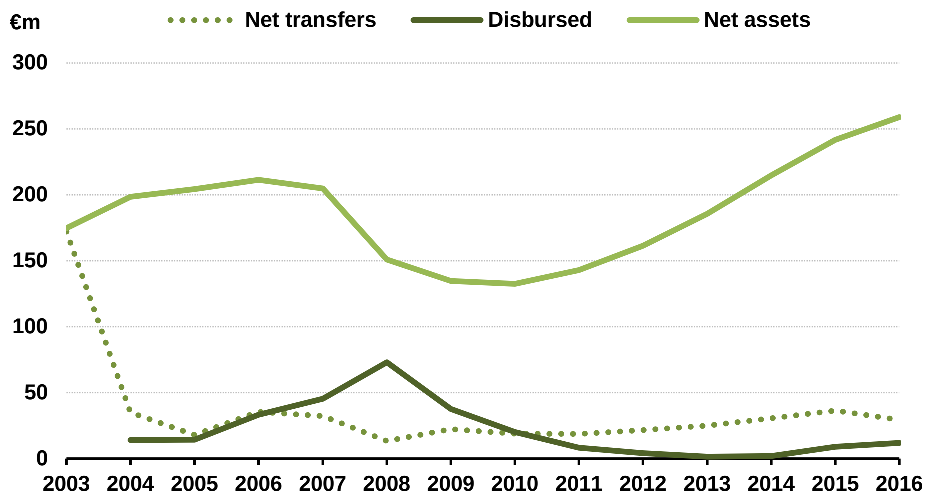
1 An account is dormant when 15 years have elapsed since the last customer-initiated transaction, or five years for a life assurance policy.

2 The 2001 and 2003 Acts together with Dormant Accounts (Amendment) Acts 2005 and 2012 provide the framework for administering dormant funds.

3 The NTMA invests the funds in accordance with annual investment plans presented to the Minister for Finance and having regard to disbursement estimates and any directions of the Minister.

7.6 The first transfer of moneys to the Fund was in 2003, and the first disbursements were made in 2004. Figure 7.2 shows net transfers into the Fund and amounts disbursed for each year, and the net assets of the Fund at the end of each year.

Figure 7.2 Dormant Accounts Fund, net transfers, disbursements and net assets, 2003 to 2016



Source: National Treasury Management Agency, Dormant Accounts Fund 2003 to 2016. Analysis by the Office of the Comptroller and Auditor General..

Note: a Net transfers represent the amounts transferred into the Fund each year less amounts reclaimed in the same year.

7.7 Apart from 2003, when the net transfer was €172 million, net transfers to the Fund averaged almost €26 million annually. For the most recent five years (2012 to 2016), net transfers averaged €28.6 million annually.

7.8 The amount disbursed annually has varied considerably, with a consequent impact on the net assets held by the Fund

- for the first two years of disbursements (2004 and 2005), the total disbursed was €28 million and at the end of 2005 the net assets of the Fund stood at €204 million
- between 2006 and 2011 inclusive, total disbursements amounted to €218 million, €77 million more than the net transfers to the Fund over that period
- from 2012 to 2016, the level of disbursements fell significantly – disbursements totalled €29 million, €114 million less than net transfers of €143 million.

7.9 The NTMA has no role in determining disbursements. The NTMA receives annual disbursement estimates,[1] when preparing the annual investment plans for the Fund. These are taken into account by the NTMA when it makes investment decisions, and decides on the liquidity held by the Fund. The NTMA has noted that disbursements have been lower than the estimates provided which impacts the overall investment returns.

1 Estimates are provided to the NTMA by the department responsible for the statutory functions of the Dormant Accounts Fund. The statutory functions have transferred between departments over the life of the Fund.

Disbursement of funds

7.10 Responsibility for disbursements has varied over the life of the Fund

- From inception of the Fund until September 2005, the Dormant Accounts Disbursement Board was responsible for overseeing disbursements.
- From September 2005, decisions on disbursements became the responsibility of the Government. The role of the Dormant Accounts Board, established in 2006, was to advise on priority areas for funding and to monitor the impact of the funding.
- In 2012, the Dormant Accounts Board was dissolved and its statutory functions transferred to the Minister for the Environment, Community and Local Government.
- In 2016, the statutory functions transferred to the Minister for Arts, Heritage, Regional, Rural and Gaeltacht Affairs.[1]
- Statutory responsibility for the Fund transferred to the Minister for Rural and Community Development in July 2017.

Making a disbursement scheme

7.11 Under the Dormant Accounts (Amendment) Act 2012 (the 2012 Act), the Minister is responsible for the administration of the process by which the Government approves projects and programmes to which moneys from the Fund may be disbursed.

7.12 Under the 2012 Act, the Minister is required to make a disbursement scheme, for a period not exceeding three years. When making a disbursement scheme, the Minister is required to consult with the Ministers for Education and Skills, Health, Employment Affairs and Social Protection, and any other persons the Minister deems appropriate. Schemes must be laid before each House of the Oireachtas.

7.13 A Disbursement Scheme (the 2013 Scheme), covering the period December 2013 to November 2016, was approved by Government in December 2013.[2] The scheme set out guiding principles for disbursements and priority areas under the headings economic and social disadvantage, educational disadvantage, and persons with a disability. The scheme also set out implementation principles including for funding applications and criteria for assessing the applications.

7.14 The 2012 Act provides that the Minister shall conduct a review within three years after the first scheme takes effect and at least once in every three years thereafter. Although the 2013-2016 Scheme expired at end-November 2016, a review of the Scheme has not yet been conducted.

Action plans

7.15 The 2012 Act also provides that the Minister shall prepare an action plan, at least once a year, to give effect to a disbursement scheme. Actions plans contain details of programmes and projects to be funded under the disbursement scheme and set out the maximum amount that may be proposed for disbursement in relation to each programme or project during the period to which the action plan relates.

1 In this report, the term 'the Minister' refers to the Minister for the Environment, Community and Local Government except for periods after June 2016, when it refers to the Minister for Arts, Heritage, Regional, Rural and Gaeltacht Affairs.

2 On 26 April 2017, a Disbursement Scheme, covering the period 2017 to 2019, was approved by the Government.

7.16 Two action plans were adopted by the Government in respect of the 2013 Scheme[1]

- An action plan, adopted on 1 July 2014, outlined proposals to spend €26 million (the 2014 action plan)[2]
- An action plan, adopted on 12 April 2016, outlined proposals to spend €28.5 million (the 2016 action plan).[2]

7.17 The two action plans included programmes and projects from nine Government Departments and the Irish Prison Service (referred to as implementing departments). No action plan was prepared for 2015. See Annex 7A for details of the two action plans.

7.18 On 30 June 2015, the Minister published a document entitled '*Disbursement of moneys from the Investment and Disbursements Accounts Annual Report 2014'*. The report provides a summary of the measures and expenditure proposals under the 2014 action plan, as well as details of €2 million expenditure on Dormant Accounts measures during 2014. No further report has been published to date.

Applications for disbursement

7.19 Implementing departments invite applications for funding. The 2012 Act stipulates that notices inviting applications, which set out the assessment criteria, should be published.

7.20 Following consideration of the applications, the implementing departments concerned submit a list of approved applicants, and the sums proposed for disbursement for approval of the Minister, and of the Minister for Public Expenditure and Reform.

7.21 The Minister is required, as soon as practicable after approval has been given, to lay a statement before both Houses of the Oireachtas containing a list of approved applicants, the programme or project to which each application relates and specifying the amounts to be disbursed to each applicant.

7.22 A number of lists have been presented on the proposed expenditure. For the 2014 action plan, €12.7 million in approved applications were presented out of a total €26.3 million allocated under the action plan, a notification rate of 48%. For the 2016 action plan, €8.1 million in approved applications were presented out of a total €28.5 million allocated under the action plan, a notification rate of 28%. See Annex 7A for further detail.

Administration costs

7.23 Pobal manages certain Dormant Accounts Fund measures on behalf of a number of Government departments. Pobal has stated that it administered 29 Dormant Accounts Fund measures over the period 2012-2016, disbursing a total of €10.2 million. Some measures are managed directly by individual Government departments.

7.24 The 2012 Act provides that the cost of engaging service providers (such as Pobal) to administer the application process is met from the Fund, while normal administration costs incurred by implementing departments are met from within their existing budgets. The NTMA does not charge administration fees for the operation of the Dormant Accounts Fund.

1 The 2012 Act requires action plans to be laid before each House of the Oireachtas.

2 Neither the 2014 nor the 2016 action plans stipulated the period covered by the plan.

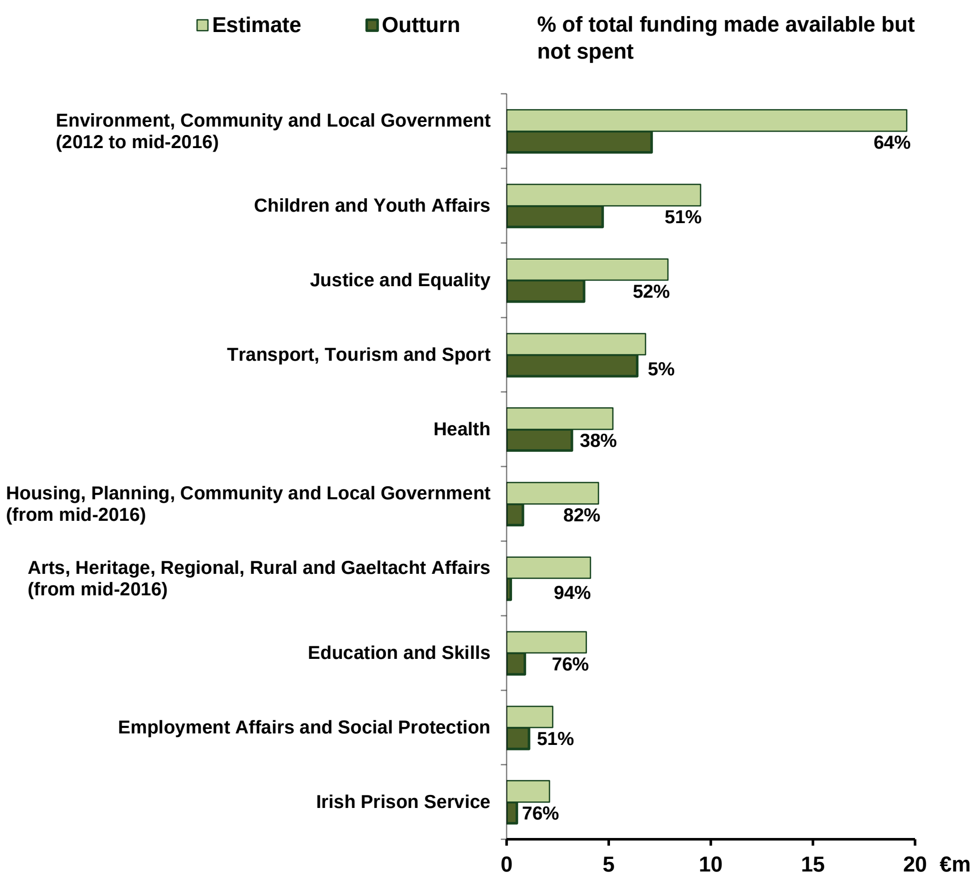
7.25 Total fees paid to Pobal, from the Fund, between 2005 and 2016 amounted to €12.7 million.[1] Between 2012 and 2015, Pobal received fees totalling €2.55 million from the Fund (an average of €635,000 each year). In 2016, the fee fell to €200,000.

Fund disbursements 2012 to 2016

7.26 Expenditure of funding allocated to Dormant Accounts Fund measures may be made over one or more years. Planned expenditure for a given year, and matching receipts from the Fund which are recorded as appropriations-in-aid, are provided for in the relevant Department's annual estimates. The examination found that for the period 2012 to 2016, implementing departments incurred dormant accounts programme expenditure of €28.7 million. Overall, this represented an underspend of 56% of the amount provided in the relevant estimates (€65.8 million).[2]

7.27 Five implementing departments accounted for 88% of the expenditure over the period 2012 to 2016. Four other departments and the Irish Prison Service accounted for the balance of the expenditure. The level of underspend for all implementing departments ranged from 5% to 94% (see Figure 7.3).

Figure 7.3 Implementing Departments' cumulative estimates and outturn, 2012 to 2016



Source: Analysis by the Office of the Comptroller and Auditor General. Further details provided in Annex 7B.

1 Departments pay fees to Pobal and are refunded from the Fund.

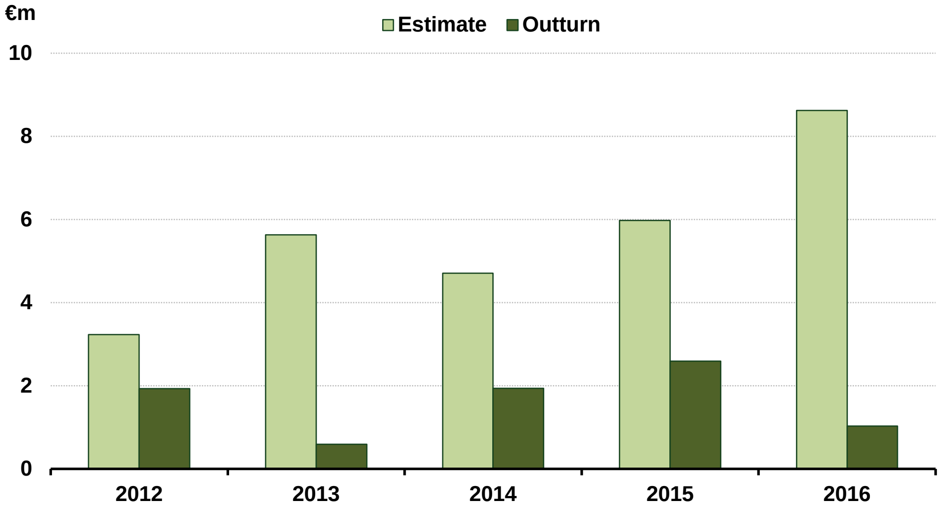
2 Excluding fees paid to Pobal.

Community programmes

7.28 In 2016, following reallocation of departmental responsibilities, statutory functions relating to the Dormant Accounts Fund transferred from the Minister for the Environment, Community and Local Government to the Minister for Arts, Heritage, Regional, Rural and Gaeltacht Affairs. At the same time, responsibility for certain community projects moved from the former Department of Environment, Community and Local Government to two other departments.[1]

7.29 Between 2012 and 2016, the departments spent 29% (€8.1 million) of the total estimated expenditure from dormant accounts funds of €28.2 million. In 2016, just over €1 million was spent from estimated expenditure of €8.6 million (see Figure 7.4).

Figure 7.4 Dormant Accounts Community Programmes[a]



Source: Analysis by the Office of the Comptroller and Auditor General. Further details provided in Annex 7B.

Note: a Following the realignment of responsibilities, part of the original 2016 estimate for the Department of the Environment, Community and Local Government transferred to the Department of Housing, Planning, Community and Local Government (€4.5 million). The balance (€4.1 million) transferred to the Department of Arts, Heritage, Regional, Rural and Gaeltacht Affairs.

7.30 The most significant programmes where planned expenditure did not take place over the 2014 to 2016 period were

- the Social Innovation Fund Ireland — €800,000 spent from allocated funds of €5 million[2]
- the Social Enterprise Development Initiative — around €1 million spent from an allocation of €2.75 million (all of the underspend related to 2016)
- the Disadvantaged Youth Employment Initiative — almost €450,000 spent from an allocation of €1.75 million (almost all of the underspend related to 2016).

1 Responsibility for the Social Enterprise Development Initiative moved to the Department of Arts, Heritage, Regional, Rural and Gaeltacht Affairs. Responsibility for three other significant projects (Gateway, Social Innovation Fund Ireland and Youth Employment Initiative) transferred to the Department of Housing, Planning, Community and Local Government. For further details see Annex 7A and Annex 7B.

2 Social Innovation Fund Ireland was established in 2013 as a partnership between the private sector and Government, based on a 50:50 matched funding arrangement to provide growth capital to innovative solutions aimed at social issues facing vulnerable communities.

7.31 In regard to the level of expenditure for these programmes, the Accounting Officer for the Department of Housing, Planning and Local Government[1] noted that

- Provision of funding to the Social Innovation Fund Ireland (SIFI), is dependent on matching funding being obtained by SIFI in the first instance from private philanthropic sources. Until mid-2016, SIFI effectively operated with one staff member. Since then, further staff have been appointed and SIFI is currently operating five innovative programmes while arrangements for a further two are nearing finalisation.
- The planned Disadvantaged Youth Employment Initiative has yet to be rolled out as it was necessary to review the original proposal in the context of the new Social Inclusion and Community Activation Programme. It is expected that the review will be completed shortly.

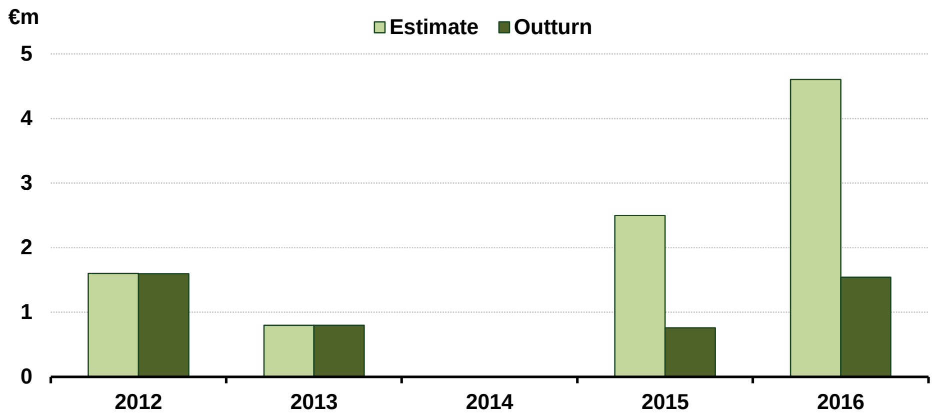
7.32 The Accounting Officer for the Department of Culture, Heritage and the Gaeltacht[1] noted that, for 2016, the underspending on the Social Enterprise Development Initiative was due to lower than anticipated expenditure in respect of administration costs, certain capital projects, and some delays arising from the transfer of functions in relation to the measure. The Accounting Officer stated that Pobal, on behalf of the Department, invited applications under the measure in February 2017. €1.68 million of funding was approved to projects under the measure in July 2017.

1 From July 2017, responsibility for community development transferred to the new Department of Rural and Community Development. As a result, the Department of Housing, Planning, Community and Local Government became the Department of Housing, Planning and Local Government. In addition, the Department of Arts, Heritage, Regional, Rural and Gaeltacht Affairs became the Department of Culture, Heritage and the Gaeltacht.

Children and Youth Affairs

7.33 Estimates for the Department of Children and Youth Affairs for the period 2012 to 2016 showed planned expenditure on Dormant Accounts measures totalling €9.5 million. Actual expenditure amounted to €4.7 million – just under half of what was planned. All of the underspend relative to estimate occurred in 2015 and 2016, when the Department spent just one-third of its planned expenditure of €7.1 million (see Figure 7.5).

Figure 7.5 Department of Children and Youth Affairs estimates and outturn, 2012 to 2016



Source: Analysis by the Office of the Comptroller and Auditor General. Further details provided in Annex 7B.

7.34 The Department spent almost all of the funding allocated for two of the six programmes in the 2014 and 2016 action plans — the Big Brother Big Sister programme (€1.5 million), which targets disadvantaged young people in need of one-to-one supports, and the Youth Employment Initiative (€0.8 million).

7.35 The most significant underspend was in respect of the Area Based Childhood (ABC) programme, a prevention and early intervention initiative targeting investment in effective services with the aim of improving outcomes for children and families living in areas of disadvantage. The Accounting Officer stated that the planned ABC programme expenditure between 2013 and 2017 was €34 million, to be funded by the Department and Atlantic Philanthropies.[1] The Department's estimates included planned expenditure for the programme of €1 million in 2015 (actual: nil) and €3 million in 2016 (actual: €40,000).

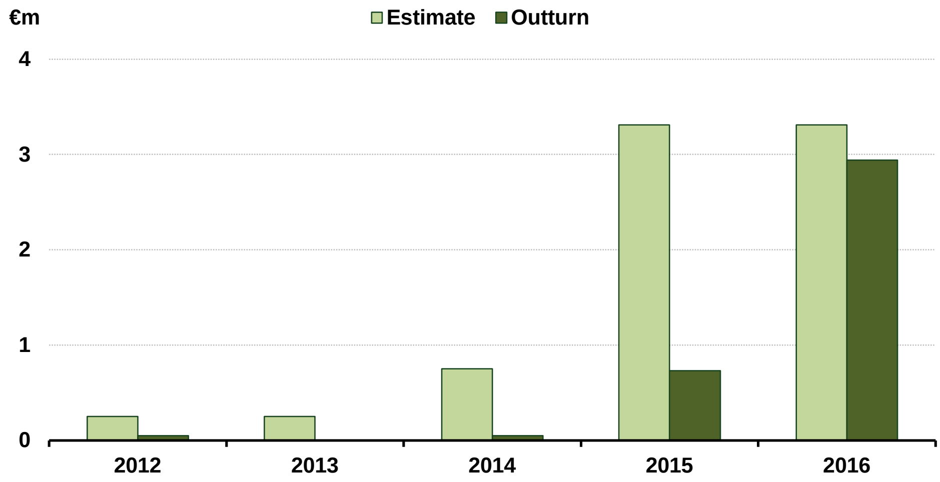
7.36 The Department pointed out that the development of a Quality and Capacity Building Initiative (QBCI) was subsequently undertaken rather than a further expansion of the ABC programme. The Department also stated that this revised approach through the QCBI is critical to minimise any potential duplication and provide additionality, while also ensuring robust governance, value for money and a clear return on previous investment and impact. However, the QBCI programme was not completed within the original timescale due to the requirement for a more strategic, sequenced and differentiated approach and significant consultation across a range of service providers and policy makers. The delay in finalising the approach to be adopted and receiving approval is the primary reason for the under-spend in 2015 and 2016.

1 Atlantic Philanthropies is a private foundation.

Justice and Equality

7.37 Between 2012 and 2016, the Department of Justice and Equality spent just under half (€3.8 million) of the budget allocated under its Vote for dormant accounts measures. The bulk of the underspend occurred between 2012 and 2015, when it spent just 17% (€0.8 million) of planned expenditure of €4.6 million. In 2016, the Department spent almost 90% of its estimate of €3.3 million (see Figure 7.6).

Figure 7.6 Department of Justice and Equality, estimates and outturn, 2012 to 2016



Source: Analysis by the Office of the Comptroller and Auditor General. Further details provided in Annex 7B

7.38 The largest underspend occurred in 2015 and relates to an allocation of €3.2 million to Irish Youth Justice Service in the 2014 action plan. This included five separate measures, the two most significant of which were

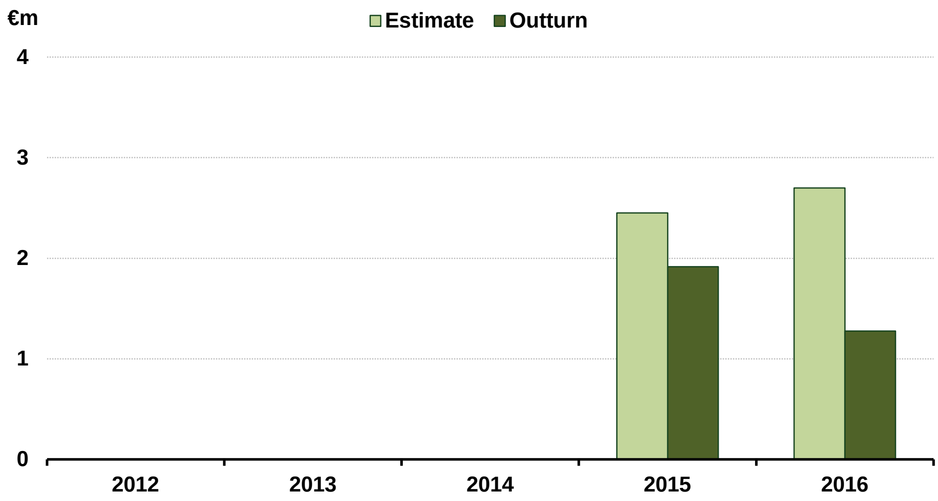
- the Garda Youth Diversion Projects (GYDP) — projects to provide support for young people coming to the attention of An Garda Síochána
- a mentoring programme with the purpose of providing one-to-one supports and matching suitable adults with young people who are without a stable and supportive adult in the home.

7.39 The Accounting Officer stated that delays to the implementation of programme expansion resulted in expenditure of just under €500,000 for the five programme measures in 2015. He noted that the programme expansion issues were resolved by 2016, with ten new GYDPs being established and the recruitment of additional youth justice workers, and expenditure of just over €2.5 million on these programmes in 2016.

Health

7.40 The Department of Health received its first Dormant Accounts Fund allocation in the 2014 action plan. In 2015, the Department spent 78% of the budget of €2.45 million allocated under its Vote for dormant account measures. The most significant expenditure (almost €820,000) was on a measure designed to tackle substance misuse. In 2016, the Department spent €1.3 million on dormant accounts measures, just under half the estimate of €2.7 million (see Figure 7.7).

Figure 7.7 Department of Health estimates and outturn, 2012 to 2016



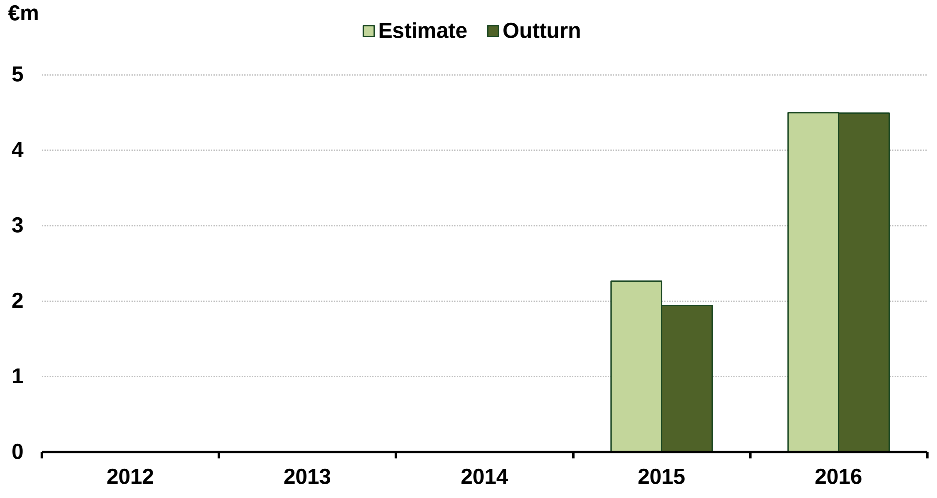
Source: Analysis by the Office of the Comptroller and Auditor General. Further details provided in Annex 7B.

7.41 The most significant underspend in 2016 was in respect of a measure to provide mobile health screening services to marginalised communities. Around €200,000 was spent out of an allocation of €1.5 million in the 2016 action plan. The Department stated that it requested the HSE to develop proposals to acquire a mobile unit and to operate the initiative and that the HSE has now entered into a service level agreement with a voluntary organisation to carry out the measure. The Department has advised that, while the initiation of this programme took longer than planned, a full programme of health screening and delivery of basic primary care commenced in March 2017 with a cohort of approximately 200 refugees at Ballaghaderreen Emergency Reception and Orientation Centre.

Transport, Tourism and Sport

7.42 The Department received its first dormant account funding allocation in the 2014 action plan. The total planned expenditure for 2015 and 2016 was €6.8 million, of which the Department spent €6.4 million or 95%.

Figure 7.8 Department of Transport, Tourism and Sport estimates and outturn, 2012 to 2016



Source: Analysis by the Office of the Comptroller and Auditor General. Further details provided in Annex 7B.

7.43 The 2014 and 2016 action plans allocated €6.8 million for community sport and physical activity hubs, and national sport education and training hubs. The stated aims of the programme are to provide

- information, support and advice on sports and physical activities for people in disadvantaged areas to help increase participation levels and to engage local communities in a more active and healthier lifestyle
- training and capacity-building for job seekers in the sports sector and youth leadership training with a focus on early school dropout in disadvantaged areas.

7.44 The Accounting Officer noted that his department has an arrangement with Sport Ireland, which has an established network of 29 local sports partnerships, and over 60 national governing bodies of sport, whereby Sport Ireland seeks applications for funding and determines which receive dormant accounts funding. Funding is not available to sports clubs directly.

Other Votes disbursing funds

7.45 Three other Votes — two departments and the Irish Prison Service — disbursed funds over the 2012-2016 period. Each had a significant level of underspend compared with the amounts spent.

7.46 The annual estimate for the Department of Education and Skills included a cumulative planned expenditure of €3.9 million in the 2012-2016 period. The Department spent around a quarter of this. The Accounting Officer noted that the annual allocation for dormant accounts is set having regard to two key determinants — commitments arising from projects that have been approved and are expected to materialise in the year in question, and the anticipated level of funding for new projects to be approved by Government during the year. He said that most of the underspend was due to

- Lower than expected demand for projects in 2012, resulting in expenditure of €400,000 where the estimate was for €1.1 million.
- A disbursement scheme not being in place in time for anticipated expenditure of €1 million in 2012 and 2013.
- The 2014 action plan was approved in July 2014 but due to the time required to publicise and process applications, a new scheme with a budget of €600,000, for the inclusion of children with special needs in early years settings did not become operational in 2014. Further delays in implementing the project meant that a planned €500,000 was also not spent in 2015.

7.47 The Irish Prison Service spent €0.5 million out of a total estimated expenditure of €2.1 million on measures in the 2014 and 2016 action plans, mainly on a community based health and first aid programme. The Accounting Officer for the Department of Justice and Equality pointed out that in some years the estimates were prepared pending finalisation of the dormant accounts plan. He noted that planned expenditure for supports for prisoners/ex-prisoners, which was facilitated by Focus Ireland, was based on an estimated level of activity in 2014 and 2015 which did not materialise.[1] The 2016 estimate was reduced to reflect lower activity levels.

7.48 The Department of Employment Affairs and Social Protection spent €1.1 million, mainly in 2015 on a programme for training home carers. Its total funding allocation for the period was €2.3 million, giving an underspend of 51% (see Annex 7B, Figure 7B.1).

1 Focus Ireland works with people who are homeless or who are at risk of becoming homeless.

Conclusions and recommendations

7.49 Since the Dormant Accounts Fund was established in 2003, a net €509 million has been transferred to the Fund. Net transfers to the Fund — after repayments where account holders make claims — have averaged €26 million a year since 2004.

Compliance with legislation

7.50 Following amending legislation in 2012, the Minister for the Environment, Community and Local Government made a disbursement scheme in 2013, covering the period December 2013 to November 2016, setting out funding principles. A review of the scheme, which was due within three years of the scheme being adopted (i.e. by December 2016), has not been carried out. A scheme covering the period 2017-2019 was approved by the Government in April 2017.

7.51 The 2012 Act requires action plans to be prepared annually to give effect to a disbursement scheme, and for these plans to be presented to the Houses of the Oireachtas. For the three years covered by the 2013 disbursement scheme, no action plan was prepared for 2015.

7.52 The accounts of the Dormant Accounts Fund, produced by the NTMA show disbursements by department. However, responsibility for those funding measures is spread across a wide range of Votes. This, along with the failure to meet the requirements in relation to action plans, make it difficult to obtain an overview of disbursement measures and how outturns compare with approved allocations.

Disbursements from the Fund

7.53 Significant funding is available through the Dormant Accounts Fund to provide supports for disadvantaged groups and for persons with a disability but disbursements under dormant accounts measures has been low in recent years — well below allocated funding for measures and estimates made annually.

7.54 A lack of preparedness was the main factor causing the underspend — among the main reasons put forward by departments were delays in implementing projects and delays in having a disbursement scheme or action plans in place. Low levels of uptake for some schemes was another cause of the underspend.

Recommendation 7.1

The statutory review of the 2013 disbursement scheme should be carried out to identify how well the scheme was implemented and how future schemes can be designed to ensure that the scheme's objectives are met. The review should consider the reasons for the low level of disbursements; whether allocating funds to measures which do not fully use the resources prevent other programmes from being funded; and how the available funding can be best applied.

Response of Accounting Officer of the Department of Rural and Community Development

Agreed. My Department intends to review all aspects of the administration of the Dormant Accounts Fund Disbursement Scheme as part of its forthcoming work programme. This review will, inter alia, consider the issues detailed in the recommendation.

7.55 The NTMA maintains sufficient liquidity in the Fund to meet estimated disbursements, and this is taken into account when making investment decisions. Overall investment returns earned on the fund have been impacted by the low level of disbursement compared with estimates.

Annex 7A

Figure 7A.1 Dormant Account 2014 Action Plan and projects presented to the Oireachtas, as at end-2016

Department / Project	Action plan	Value of approved applications presented to Houses of the Oireachtas	Disbursed amounts	
			2014-15	2016[c]
	€	€	€	€
Environment, Community and Local Government [a]				
Disadvantaged Youth Employment Initiative[b]	500,000	526,304	400,000	45,500
Public Participation Network (PPN) structures across Local Government sector	400,000	np	372,000	—
Community partnership media campaign	150,000	np	150,000	—
Total	**1,050,000**	**526,304**	**922,000**	**45,500**
Arts, Heritage, Regional, Rural and Gaeltacht Affairs [a]				
Social enterprise development initiative[b,d]	**1,000,000**	**1,004,410**	**750,000**	**232,252**
Housing, Planning, Community and Local Government [a]				
Social Innovation Fund Ireland 50% contribution[d]	**5,000,000**	np	**250,000**	**560,774**
Children and Youth Affairs				
Big brother big sister programme	775,000	775,000	746,000	—
Youth employability initiative	600,000	600,000	—	566,709
Area Based Childhood (ABC) Programme	7,000,000	170,000	—	41,510
Phone app for young people in care	100,000	100,000	4,274	1,760
Aftercare info packs	30,000	30,000	8,530	—
Total	**8,505,000**	**1,675,000**	**758,804**	**609,979**
Justice and Equality				
New Garda Youth Diversion Projects	1,700,000	2,245,000	330,451	—
Establish mentoring programme	1,000,000	798,830	—	—
Intervention training for youth justice workers	60,000	np	16,731	—
Emergency support services training	50,000	np	1,430	—
Expansion of services Limerick City and Mid-west area	400,000	np	135,000	—
Measures to address disadvantages of victims of trafficking	120,000	99,225	99,225	—
Helpline services for victims of crime	50,000	50,000	50,000	—
Specialist services for victims attending court	50,000	50,000	50,000	—
Support services to immigrants to access employment	166,666	np	—	—
Total	**3,596,666**	**3,243,055**	**682,837**	**—**

(Continued overleaf)

Figure 7A.1 Dormant Account 2014 Action Plan and projects presented to the Oireachtas, as at end-2016 (continued)

Department / Project	Action plan	Value of approved applications presented to Houses of the Oireachtas	Disbursed amounts	
			2014-15	2016[c]
	€	€	€	€
Health				
Substance misuse / prevention[b]	1,200,000	905,735	817,162	(2,000)[e]
Local area co-ordination initiatives[b]	600,000	548,201	318,000	156,706
Advanced best practice in meeting HIQA Disability standards [b]	600,000	271,219	245,000	(76,908)[e]
Health related supports for disabilities and autism[b]	400,000	339,012	351,000	155,358
Person service innovations in deliver of non-centre based respite services[b]	400,000	302,954	184,000	88,661
Total	**3,200,000**	**2,367,121**	**1,915,162**	**321,817**
Transport Tourism and Sport				
National Sport Education and Training Hub and Community Sport and Physical Activity Hub	**2,265,000**	**2,257,620**	**1,942,494**	—
Employment Affairs and Social Protection				
Training and support services for home carers[b]	**1,000,000**	**906,577**	**906,578**	—
Education and Skills				
Inclusion of Children with Special Needs in Early Years Settings	**500,000**	**500,000**	—	**500,000**
Irish Prison Service				
Community based health on first aid	**189,275**	**189,275**	**189,000**	—
Action plan – total approved	**26,305,941**	**12,669,362**	**8,316,875**	**2,270,322**

Source: Dormant Accounts Action Plan 2014 and 2016, Houses of the Oireachtas library and National Treasury Management Agency, Dormant Accounts Fund 2014 to 2016

Notes:

a In 2016, following reallocation of departmental responsibilities approved projects moved from the Department of Environment, Community and Local Government to the Department of Arts, Heritage, Regional, Rural and Gaeltacht Affairs (Social Enterprise Development Initiative) and the Department of Housing, Planning, Community and Local Government (Gateway, Social Innovation Fund Ireland and Youth Employment Initiative).

b Projects/programmes administered by Pobal.

c Funding for 2014 action plan projects/programmes disbursed in 2016

d In 2014-2015, expenditure on this programme was incurred by the Department of the Environment, Community and Local Government.

e For projects administered by Pobal, on behalf of implementing departments, there is a timing difference between disbursements by the NTMA to a department, and payment by Pobal to beneficiaries. Amounts paid to Pobal, if not ultimately drawn down by beneficiaries, may result in repayments due to the implementing departments, which are held by Pobal and offset against future drawdowns from the implementing department. Once the projects have closed any outstanding monies which are either recouped from the beneficiaries or are not drawn down by beneficiaries are returned to the implementing departments.

Key: np Not presented to Houses of the Oireachtas

Figure 7A.2 Dormant Account 2016 Action Plan and projects presented to the Oireachtas, at end-2016

Department / Project	Action plan	Value of approved applications presented to Houses of the Oireachtas	Disbursed amounts 2016
	€	€	€
Arts, Heritage, Regional, Rural and Gaeltacht Affairs [a]			
Social enterprise development initiative[b]	**1,750,000**	np	—
Housing, Planning, Community and Local Government [a]			
Disadvantaged Youth Employment Initiative	1,250,000	np	—
Gateway Initiative	2,400,000	np	97,170
Total	**3,650,000**	**—**	**97,170**
Children and Youth Affairs			
Big brother big sister programme	750,000	750,000	750,000
Area Based Childhood (ABC) Programme	7,000,000	np	—
Localise Service Skills for Life Programme	200,000	np	—
Youth Employability Initiative in disadvantage areas of Limerick	200,000	200,000	200,000
Total	**8,150,000**	**950,000**	**950,000**
Justice and Equality			
New Garda Youth Diversion Projects (GYDP)	1,955,000	np	1,651,657
Establish mentoring programme	1,100,000	np	221,587
Intervention training for youth justice workers	140,282	np	60,000
Emergency support services training	50,000	np	—
Expansion of services Limerick City and Mid-west area	400,000	np	210,000
Measures to address disadvantages of victims of trafficking	200,000	119,385	200,000
Helpline services for victims of crime	50,000	50,000	—
Specialist services for victims attending court	50,000	50,000	30,000
Support services to immigrants to access employment[b]	500,000	np	—
Capital funding for GYDP in Ballyfermot and Moyross	1,235,085	892,085	397,109
Awareness-raising of domestic and sexual violence	200,000	200,000	70,112
Midlands Traveller Conflict Mediation Initiative	100,000	np	100,000
Total	**5,980,367**	**1,311,470**	**2,940,465**

(Continued overleaf)

Figure 7A.2 Dormant Account 2016 Action Plan and projects presented to the Oireachtas, at end-2016 (continued)

Department / Project	Action Plan	Value of approved applicants presented to Houses of the Oireachtas	Disbursed Amounts 2016
	€	€	€
Health			
Mobile Health Screening Unit	1,460,000	np	200,000
Intercultural Health Project for Refugees	450,000	np	253,000
Community Based Models of Support for People with Dementia	1,050,000	np	500,718
Total	**2,960,000**	**—**	**953,718**
Transport Tourism and Sport			
National Sport Education and Training Hub, Community Sport and Physical Activity Hub and Sports measures for disadvantaged communities to support the National Physical Activity Plan	**4,500,000**	**5,223,118**	**4,492,761**
Employment Affairs and Social Protection			
Training and support services for home carers[b]	**500,000**	np	—
Education and Skills			
Integration of newcomer students through integration of services	370,000	370,000	—
Arts in Education Initiative	280,000	280,000	50,000
Total	**650,000**	**650,000**	**50,000**
Irish Prison Service			
Community based health on first aid	**388,775**	np	**188,075**
Action Plan – Total Approved	**28,529,142**	**8,134,588**	**9,672,189**

Source: Dormant Accounts Action Plan 2014 and 2016, Houses of the Oireachtas library and National Treasury Management Agency, Dormant Accounts Fund 2014 to 2016

Notes:
a In 2016, following reallocation of departmental responsibilities approved projects moved from the Department of Environment, Community and Local Government to the Department of Arts, Heritage, Regional, Rural and Gaeltacht Affairs (Social Enterprise Development Initiative) and the Department of Housing, Planning, Community and Local Government (Gateway, Social Innovation Fund Ireland and Youth Employment Initiative).

b Projects/programmes administered by Pobal.

Key: np Not presented to Houses of the Oireachtas.

Annex 7B

Figure 7B.1 Implementing Departments estimates and outturn, 2012 to 2016

Department	Year	Estimate €000	Outturn €000	Underspend €000	Underspend %
Environment, Community and Local Government	2012	3,231	1,932	1,299	40%
	2013	5,634	596	5,038	89%
	2014	4,706	1,942	2,764	59%
	2015	5,976	2,595	3,381	57%
Total		**19,547**	**7,065**	**12,482**	**64%**
Housing, Planning, Community and Local Government [a]	**2016**	**4,500**	**803**	**3,697**	**82%**
Arts, Heritage, Regional, Rural and Gaeltacht Affairs [a]	**2016**	**4,126**	**232**	**3,894**	**94%**
Children and Youth Affairs	2012	1,600	1,599	1	0.06%
	2013	800	800	—	—
	2014	—	—	—	—
	2015	2,500	759	1,741	70%
	2016	4,604	1,545	3,059	66%
Total		**9,504**	**4,703**	**4,801**	**51%**
Justice and Equality	2012	250	50	200	80%
	2013	250	—	250	100%
	2014	750	50	700	93%
	2015	3,311	733	2,578	78%
	2016	3,311	2,940	371	11%
Total		**7,872**	**3,773**	**4,099**	**52%**
Health	2012	—	—	—	—
	2013	—	—	—	—
	2014	—	—	—	—
	2015	2,450	1,915	535	22%
	2016	2,700	1,275	1,425	53%
Total		**5,150**	**3,190**	**1,960**	**38%**
Transport, Tourism and Sport	2012	—	—	—	—
	2013	—	—	—	—
	2014	—	—	—	—
	2015	2,265	1,942	323	14%
	2016	4,500	4,493	7	0.16%
Total		**6,765**	**6,435**	**330**	**5%**

Figure 7B.1 Implementing Departments estimates and outturn, 2012 to 2016 (continued)

Department	Year	Estimate €000	Outturn €000	Underspend €000	Underspend %
Employment Affairs and Social Protection	2012	260	191	69	27%
	2013	—	—	—	—
	2014	—	—	—	—
	2015	1,500	907	593	40%
	2016	500	—	500	100%
Total		**2,260**	**1,098**	**1,162**	**51%**
Education and Skills[b]	2012	1,600	379	1,221	76%
	2013	500	8	492	98%
	2014	600	(3)	603	101%
	2015	600	(12)	612	102%
	2016	600	549	51	9%
Total		**3,900**	**921**	**2,979**	**76%**
Irish Prison Service	2012	750	58	692	92%
	2013	750	83	667	89%
	2014	250	—	250	100%
	2015	189	189	—	—
	2016	189	188	1	0.5%
Total		**2,128**	**518**	**1,610**	**76%**
Overall total		**65,752**	**28,738**	**37,014**	**56%**

Source: Appropriation Accounts 2012 to 2016

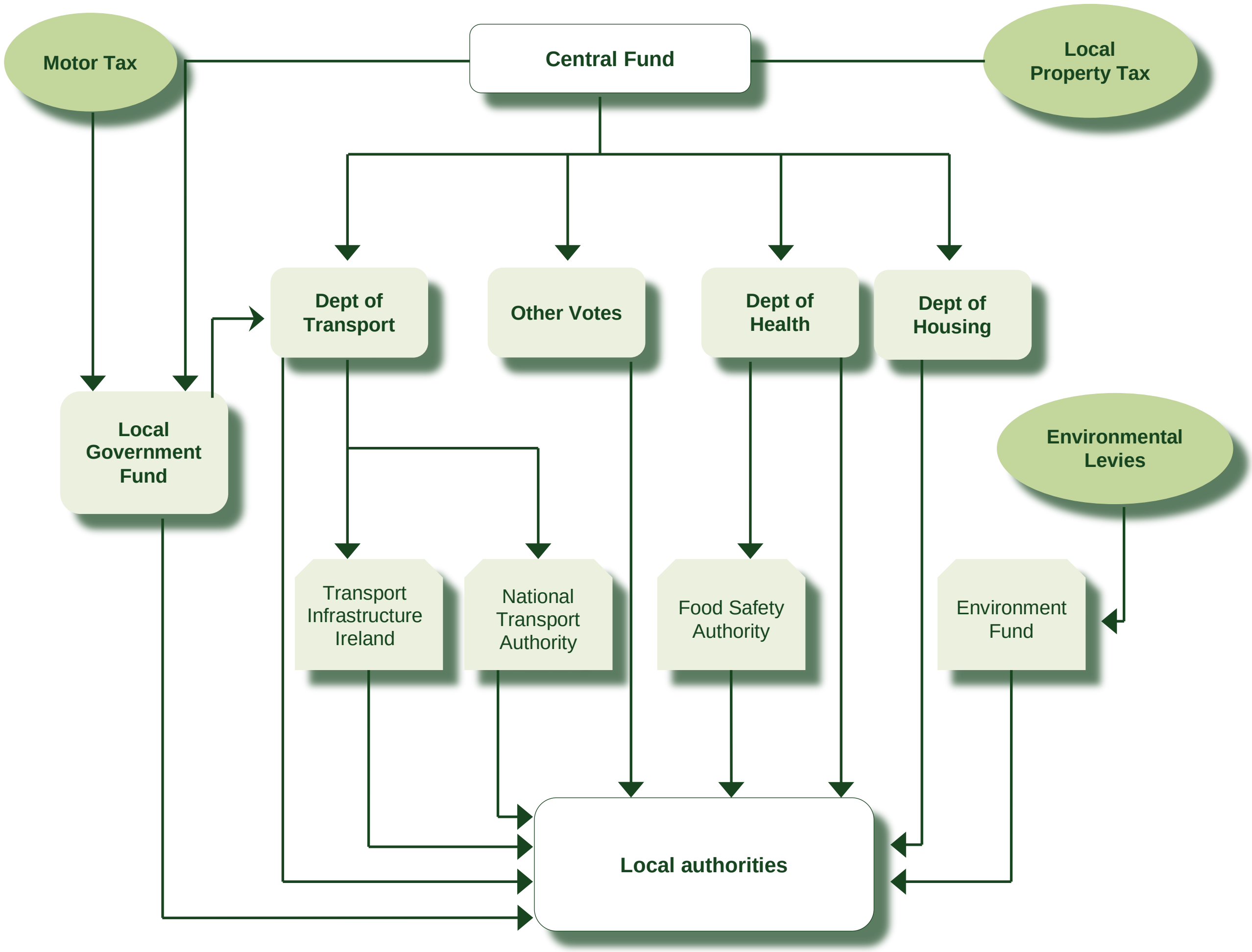
Notes:
a In 2016, following reallocation of departmental responsibilities approved projects moved from the Department of Environment, Community and Local Government to the Department of Arts, Heritage, Regional, Rural and Gaeltacht Affairs and the Department of Housing, Planning, Community and Local Government.

b Outturn figure is net of refunds repaid to the Dormant Accounts Fund in the year.

8 Central Government Funding of Local Authorities

8.1 Local authorities receive a substantial part of their annual funding from a range of central government departments and agencies (see Figure 8.1). 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 8.1 Flow of central government funding to local authorities in 2016

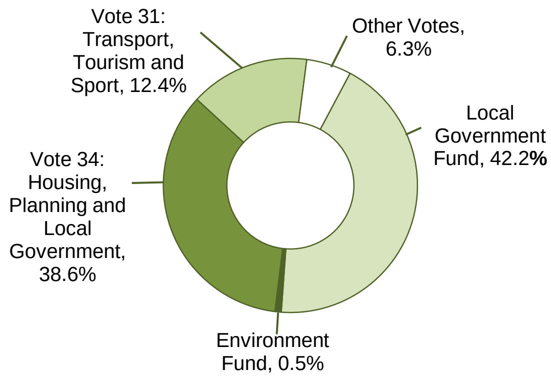


Source: Office of the Comptroller and Auditor General

Central government transfers

8.2 In 2016, funding to local authorities from central government sources totalled €2.22 billion — an increase of 12% on the €1.99 billion in 2015.[1] About 57% of this total originated as Exchequer funding. The balance was provided through the Local Government Fund and the Environment Fund (see Figure 8.2).

Figure 8.2 Sources of central government financing for local authorities, 2016



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

8.3 The Local Government Fund is administered by the Department of Housing, Planning and Local Government (the Department). In 2016, the Fund was financed mainly by the proceeds of motor tax (€1 billion), local property tax (LPT) receipts (€463.4 million) and a contribution of €396.5 million from the Exchequer, via the Vote for Housing, Planning, Community and Local Government.[2]

8.4 The Environment Fund[3] was established 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 Environment Fund is comprised of the proceeds of the plastic bag levy, which is paid by consumers and collected from retailers by the Revenue Commissioners, and receipts from the landfill levy. Disbursements from the Fund are ring-fenced to assist projects that aim to protect or enhance the environment.

Local Property Tax allocations to local authorities

8.5 Up to 2014, the Local Government Fund provided funding to local authorities for their 'day to day' activities through 'general purpose grants'. From 2015, general purpose grants are no longer paid and have been replaced by LPT allocations.

8.6 In September 2014, the Government decided that LPT allocations to local authorities from 2015 would be allocated on the following basis

- 80% of receipts in a local authority area are retained locally
- the remaining 20% is re-distributed to provide top-up funding to certain local authorities that have lower property tax bases, ensuring that LPT allocations would be at least equal to 2014 general purpose grant funding levels
- the allocation takes into account decisions taken by elected members of local authorities to vary LPT rates in the local authority area in accordance with the Finance (Local Property Tax) Act 2012 (2012 Act).

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

2 Local Property Tax is administered by the Revenue Commissioners. LPT receipts are paid into the Central Fund initially and then paid over to the Local Government Fund.

3 The Environment Fund is administered by the Department of Communications, Climate Action and Environment.

8.7 In analysing the impact of the LPT funding allocation, local authorities were classified between the 12 authorities in a surplus funding position when compared to their 2014 general purpose grant allocations (mainly large urban centres and commuter belt counties) and the remaining 19 authorities who required additional funding to bring them up to their previous funding level i.e. authorities requiring equalisation (see Figure 8.3).

Figure 8.3 Allocation of LPT to local authorities for 2016

	Classification of local authorities		2016	2015
	In a surplus position	Requiring equalisation		
	€m	€m	€m	€m
Local retention (80%)[a]	266	112	378	400
Equalisation funding				
- 20% of LPT	—	95	95	100
- Exchequer contribution[b]	2	14	16	2
Reduction for local cuts in LPT rate	(35)	(1)	(36)	(44)
LPT allocations for 2016	**233**	**220**	**453**	**458**
General purpose grant 2014	**62**	**220**	**282**	**282**

Source: Department of Housing, Planning and Local Government

Notes: a The 2016 allocations were based on Revenue's declared net liabilities for 2015 with adjustment to take account of the variation process.

b The Exchequer contributed €2 million compensatory funding in 2016, to ensure no authority in a surplus position was worse off in their discretionary grant than in 2015, and €14 million to authorities requiring equalisation funding.

8.8 Local authorities have discretion to vary the LPT rates in their area of operation by up to 15% in accordance with the 2012 Act. For 2016, five local authorities decided to decrease the LPT by the maximum 15% at a cost of €30.9 million. Another six local authorities reduced the LPT by between 1.5% and 10%, at a cost of €5.1 million. No local authority opted to increase the LPT rate in 2016.

8.9 For the 12 authorities in a surplus funding position, the Government decided that a portion of the surplus should be available for the authority's discretionary purposes, with the remainder (if any) to fund some local services in the housing and roads areas.

8.10 In the case of the 12 authorities in a surplus funding position, the amount of LPT funding provided in 2016 (€233.1 million) was €171.2 million more than the 2014 general purpose funding. Those authorities were directed to apply the additional funding as follows

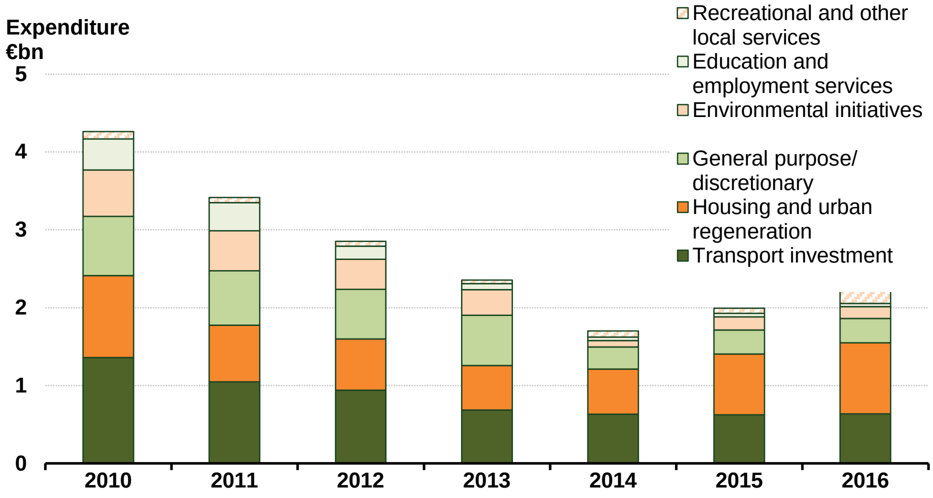
- €121 million for housing services
- €22 million for road services
- €90 million for local authority discretionary use.

Application of central government funding

8.11 Most of the funding sourced from central government and provided to local authorities must be used for specified local authority services. These can be grouped into six broad programme categories. Figure 8.4 presents a breakdown of the transfers to local authorities for 2010 to 2016 showing the programmes being supported (a detailed breakdown is at Annex 8A).

8.12 In 2016, around 70% of the total provision from central government to local authorities was accounted for by two categories — housing and urban regeneration programmes (41%), and transport (29%).

Figure 8.4 Central government transfers to local authorities, by expenditure programme, 2010 to 2016



Source: Annex 8A

Transport investment

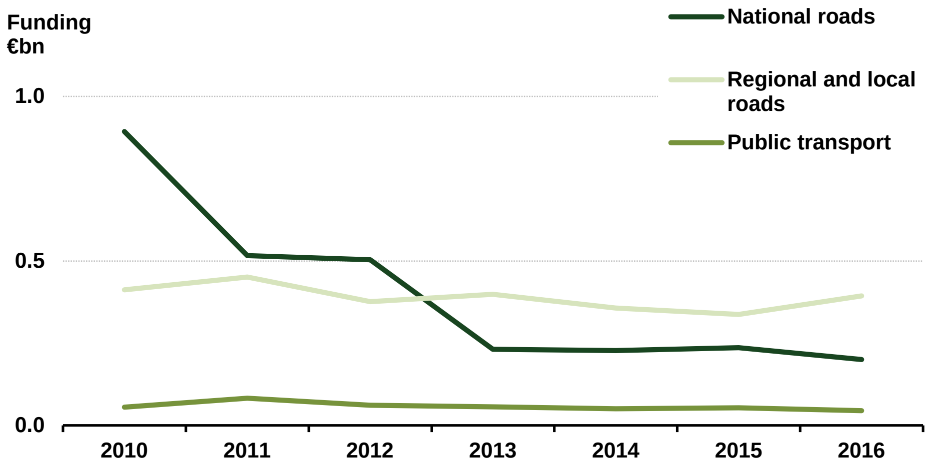
8.13 Improvement and maintenance of national roads is the responsibility of Transport Infrastructure Ireland, operating under the aegis of the Department of Transport, Tourism and Sport. Transport Infrastructure Ireland normally uses local authorities as its agents to deliver roads projects, and channels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

8.14 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 Transport Infrastructure Ireland's payment system.

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

8.16 Figure 8.5 shows the trend in the level of funding from central government sources provided to local authorities in respect of the key transport areas.

Figure 8.5 Funding to local authorities for transport infrastructure, 2010 to 2016

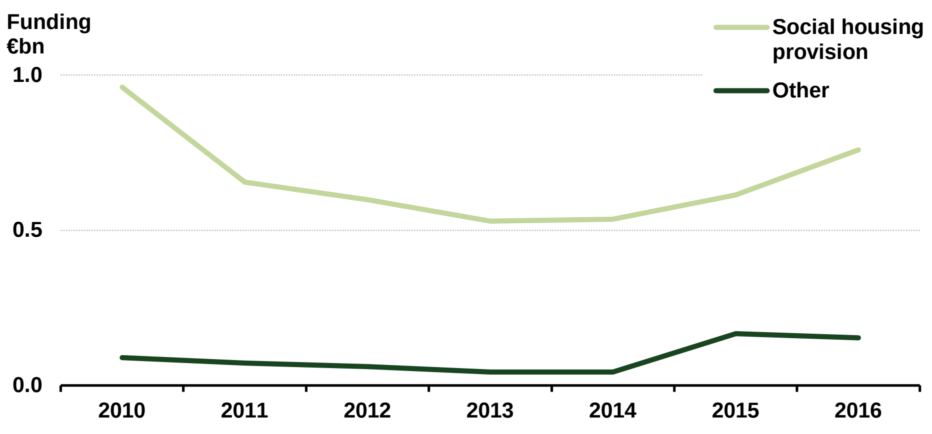


Source: Annex 8A

Housing and urban regeneration

8.17 The Department provides the bulk of the funding for housing and urban regeneration directly to local authorities with a number of local authorities (currently ten) required to fund housing services from their LPT receipts, to a value notified to the authority by the Department. The funding is used by the local authorities to support the provision of social housing including through the local authority build and acquisitions programme, regeneration and remedial work, returning empty units to productive use, provision of traveller accommodation, voluntary and cooperative housing, the Rental Accommodation Scheme, Social Housing Current Expenditure Programme, Housing Assistance Payment, housing adaptation grants, and accommodation for homeless people. Figure 8.6 indicates the trend in the level of funding for housing provision.

Figure 8.6 Funding to local authorities for investment in housing and urban regeneration, 2010 to 2016



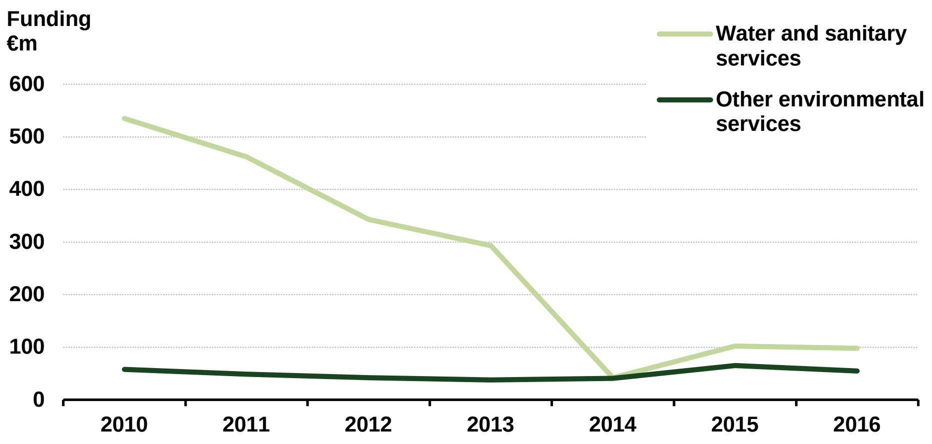
Source: Annex 8A

Environmental initiatives

8.18 Figure 8.7 shows the trend in the level of funding from central government sources provided to local authorities in respect of environmental initiatives. Central government funding of local authorities for water and sanitary services investment projects decreased significantly from 2013 due to the transfer of these functions from local authorities to Irish Water.

8.19 Funding for environmental initiatives in 2016 includes funds for flood relief works provided by the Office of Public Works. The Local Government Fund provided funding to local authorities for costs associated with the clean-up after a series of major storms which caused flooding at the end of 2015 and beginning of 2016.

Figure 8.7 Funding to local authorities for environmental initiatives, 2010 to 2016



Source: Annex 8A

Education and employment services

8.20 In 2015, the Department of Jobs, Enterprise and Innovation (DJEI) began to provide funding to local authorities through Enterprise Ireland (EI), to cover the costs associated with providing local enterprise development supports to the micro-enterprise sector via their Local Enterprise Offices (LEOs).

8.21 EI provides a range of supports to the LEOs including strategic, administrative, technical and financial support. Financial support includes administering the distribution of the DJEI funding to each local authority in accordance with agreed procedures.

8.22 The LEOs provide a wide range of services to local entrepreneurs and businesses including direct financial supports to eligible micro businesses and advisory services on a range of issues such as local property solutions, local authority regulations, planning, accessibility, environment and procurement. The LEOs also provide mentoring for entrepreneurs and businesses and training on areas such as starting and managing a business.

8.23 The Department of Communications, Climate Action and Environment also provides funding to the LEOs through EI in respect of the Department's Trading Online Voucher Scheme which supports small businesses to trade online.

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

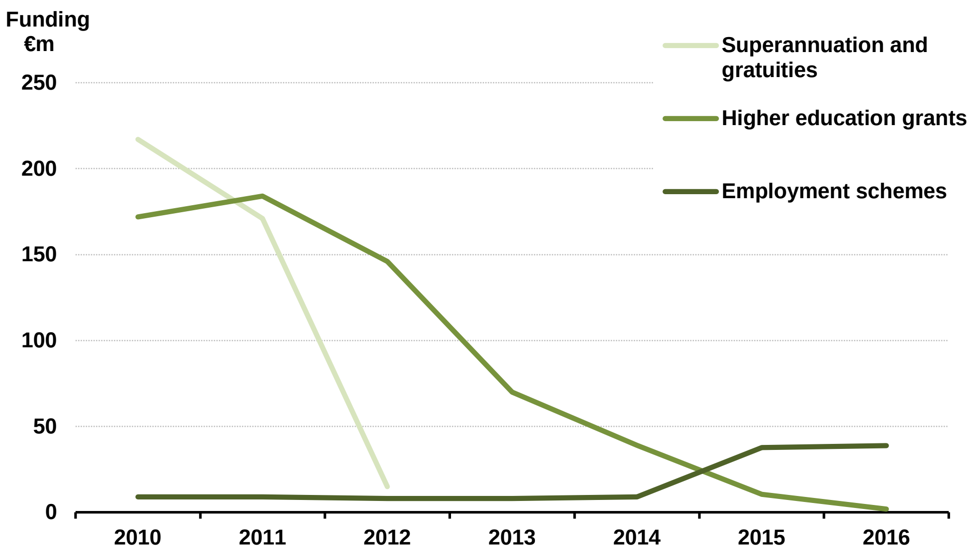
8.25 In the past (as shown in Figure 8.8), the Department of Education and Skills reimbursed local authorities for significant expenditure they incurred in relation to

- payment of student grants
- payment of pensions to retired employees of (former) vocational education committees and of institutes of technology.

8.26 Under revised arrangements

- since 2012, Student Universal Support Ireland (SUSI – part of City of Dublin Education and Training Board) has been paying student grants for students first enrolling in third level colleges
- pensions payments for retired employees of vocational education committees and institutes of technology are now paid for directly from the Education and Skills Vote.

Figure 8.8 Funding to local authorities for education and employment services, 2010 to 2016

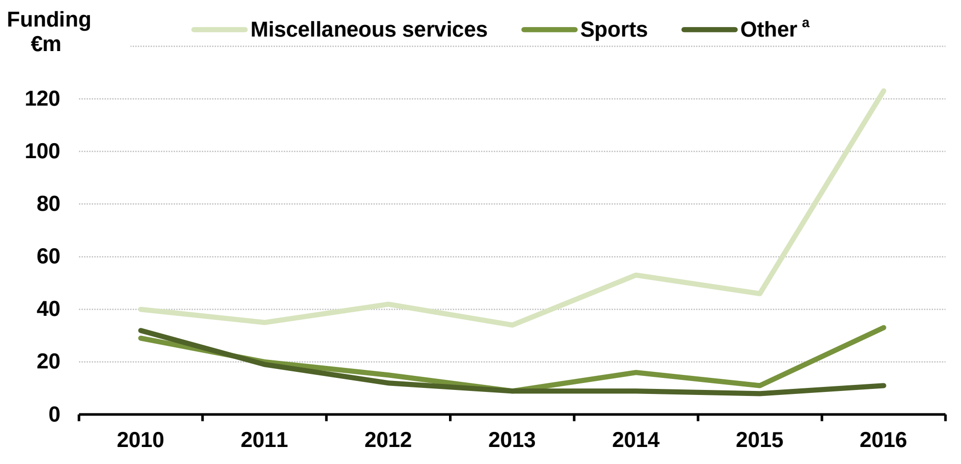


Source: Annex 8A

Recreation and other local services

8.27 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 8.9 shows the trend in the level of funding in respect of such services. The funding for miscellaneous services in 2016 includes one-off funding from the Local Government Fund in respect of the Lansdowne Road Agreement (€25.3 million) and compensation to local authorities for the global valuation of utilities (€16.6 million).

Figure 8.9 Funding to local authorities for recreation and other local services, 2010 to 2016



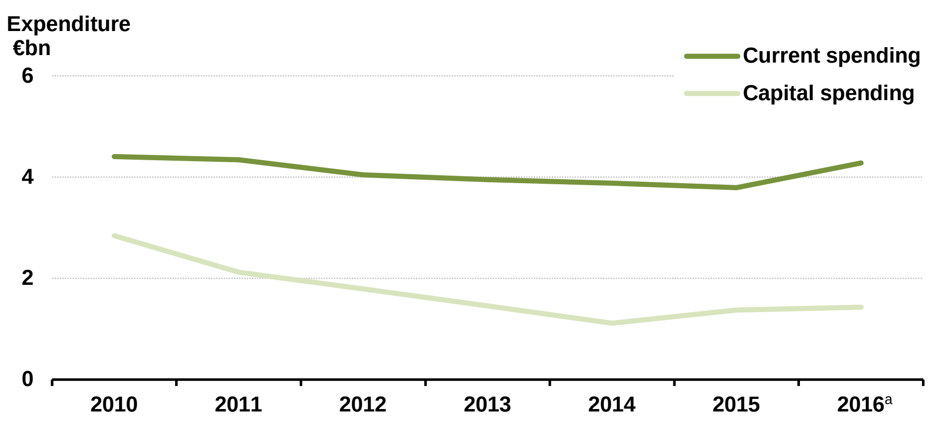
Source: Annex 8A

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

Trends in local authority expenditure, 2010 to 2016

8.28 Aggregate expenditure by local authorities in 2015 (the last year for which full audited information is available) was €5.1 billion.[1] This comprised around €1.3 billion in capital expenditure, and around €3.8 billion in current expenditure (see Figure 8.10). Estimated expenditure for 2016 is expected to be €5.7 billion.[2]

Figure 8.10 Local authority expenditure by type, 2010 to 2016



Source: Department of Housing, Planning and Local Government

Note: a Figures for 2016 are estimates. For all earlier years, audited figures are used.

1 Includes expenditure by the 26 county councils, three city councils and two city and county councils.

2 Collation of local authority expenditure outturns for 2016 had not been finalised by the Department of Housing, Planning, and Local Government at the time of this report.

Central oversight of Local Authorities

8.29 There are two main mechanisms for general central government oversight of local authority expenditure — the Local Government Audit Service and the National Oversight and Audit Commission.

Local Government Audit Service

8.30 The financial statements of each local authority are audited by the Local Government Audit Service (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 for Housing, Planning and Local Government and published on the Department's website. The Department identifies sector wide issues in audit reports for follow up, and engages with relevant local authorities in the event it requires information on a particular issue.

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

8.32 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 2017 and includes the results of the audits of the 2015 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.

National Oversight and Audit Commission

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

8.34 The Commission's annual report for 2016 sets out its strategy and reports on its activities for the year.[3] The Commission scrutinises local authority performance by means of thematic reports and, where warranted, oral hearings, on matters within its remit. Its key outputs are its published reports (see Figure 8.11) which are submitted to relevant Oireachtas Committees. It monitors the outcome of its work in terms of the implementation of its recommendations.

1 Local Government Audit Service, *Overview of the Work of the Local Government Auditors,* March 2017.

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

3 National Oversight and Audit Commission *Annual Report 2016* (April 2017).

Figure 8.11 Reports of the National Oversight and Audit commission, 2014 – June 2017

As at June 2017, the Commission has published eleven reports

- Local Authority Corporate Plans 2015 - 2019
- Performance Indicators in Local Authorities 2014
- Local Authority Tenants Satisfaction Survey
- Public Spending Code Local Authority Quality Assurance Report 2014
- Local Government Efficiency Review Reforms
- Local Government Shared Services Projects
- Local Authority Rates Collection 2013 - 2014
- Financial Performance of Local Authorities 2013 – 2015: Deficits, Audit Opinion and Financial Statements
- Performance Indicators in Local Authorities 2015
- Public Spending Code Local Authority Quality Assurance Report 2015
- Private Rented Sector Review
- A Review of the Maintenance and Management of Local Authority Housing

Source: National Oversight and Audit Commission

8.35 The Commission's current workload includes projects on

- local authority customer engagement
- performance of local authority audit committees
- local authority internal audit function.

8.36 The Commission's work is funded by the Local Government Fund. Expenditure in 2016 was €83,846 and mainly comprised member fees. The Commission secretariat comprised two staff provided by the Department. The cost of these staff, which is met from the Department's vote, was €110,000.

Conclusions

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

8.38 Transfers of funding from central government sources to local authorities in 2016 totalled just over €2.2 billion. This compares with transfers of €4.3 billion in 2010. 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 and the reduction in capital expenditure by local authorities.

Annex 8A

Figure 8A.1 Central government transfers to local authorities, by expenditure programme, 2010 to 2016[a]

Expenditure Category	2010	2011	2012	2013	2014	2015	2016
	€m	€m	€m	€m	€m	€m	€m
Transport investment							
National roads improvement	893	516	503	232	228	236	200
Regional and local roads improvement[b]	412	451	376	399	357	337	394
Public transport (capital payments)	56	83	64	57	51	54	45
	1,361	**1,050**	**943**	**688**	**636**	**627**	**639**
Housing and urban regeneration							
Social housing provision[b]	961	655	598	529	536	614	759
Affordable housing, etc.	84	68	58	43	39	3	2
Other housing supports	6	4	3	1	5	114	92
Urban regeneration	—	—	—	—	—	50	60
	1,051	**727**	**659**	**573**	**580**	**781**	**913**
Environmental initiatives							
Water and sanitary services	535	462	343	293	42	102	98
Flood relief works	17	8	22	10	21	44	34
Waste management	11	11	5	9	5	3	18
Recycling	14	12	4	8	2	—	—
Other environmental measures	16	18	11	12	13	18	3
	593	**511**	**385**	**332**	**83**	**167**	**153**
Education and employment services							
Higher education grants	172	184	146	70	39	11	2
Superannuation and gratuity costs	217	171	15	—	—	—	0
Employment schemes	9	9	8	8	8	37	39
	398	**364**	**169**	**78**	**47**	**48**	**41**
Recreation and other local services							
Swimming pools	3	10	8	5	—	1	4
Fire and emergency services	19	12	6	5	7	6	9
Library service	6	7	6	4	2	2	2
Sports grants, playgrounds and cultural projects	21	9	6	3	11	9	28
Heritage services (architectural heritage)	5	1	1	1	5	1	1
Disability services	7	—	—	—	—	—	—
Miscellaneous capital services	18	11	16	11	9	14	24
Miscellaneous services[c]	22	24	26	23	44	32	99
	101	**74**	**69**	**52**	**78**	**65**	**167**
General purpose grants	763	700	638	642	281	—	—
LPT allocations - general purpose/discretionary[b]	—	—	—	—	—	306	310
Total funding provided to local authorities	**4,267**	**3,426**	**2,863**	**2,365**	**1,705**	**1,994**	**2,223**

Source: The Office of Public Works; Department of Housing, Planning and Local Government; Department of Education and Skills; Department of Transport, Tourism and Sport; Department of Arts, Heritage, Regional, Rural and Gaeltacht Affairs; 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 Communications, Climate Action and Environment; Department of Defence; Department of Jobs, Enterprise and Innovation; Local Government Fund and Environment Fund financial statements (2016 unaudited).

Notes:
a Adjustments have been made to some previously reported amounts to reflect amounts not previously included and reclassification.
b The total LPT allocation from the Local Government Fund in 2016 was €453.2 million, allocated as follows; housing €121.1 million; roads €21.6 million; general purpose/discretionary €310.5 million.
c The miscellaneous services figure for 2016 includes one-off payments from the Local Government Fund in respect of the Lansdowne Road Agreement (€25.3 million) and compensation for the global valuation of utilities (€16.6 million).

9 Internal Controls in the Tax Appeals Commission

9.1 The Tax Appeals Commission (the Commission) was established on 21 March 2016 as an independent statutory body, tasked with providing a modern and efficient appeals process in relation to the hearing and adjudication of tax case disputes.[1] The Commission replaced the former Office of the Appeal Commissioners, which was charged with the adjudication of tax appeals prior to the establishment of the Commission.[2]

9.2 A number of changes to the tax appeals process were made by statute. For example, more transparency was introduced by giving taxpayers the option to have their cases heard in public, and by requiring the Commission to publish a report of each determination on the Commission's website.[3]

9.3 The reform of the tax appeals process has led to an increase in the level of staff required by the Commission and a need to develop a new case management system. At the end of 2015, the two (then) Appeal Commissioners retired and two new Commissioners were appointed.[4,5] By the end of 2016, four administration staff and a legal researcher were also employed by the Commission. The gross expenditure of the Tax Appeals Commission in 2016 was €890,000, compared to €543,000 for the Office of the Appeal Commissioners in 2015.

9.4 This report examines the corporate governance arrangements introduced by the Tax Appeals Commission since its establishment in March 2016 and the management of overtime payments in 2016.

Corporate governance framework

9.5 Corporate governance comprises the systems and procedures by which organisations are directed, controlled and managed. Effective governance provides clarity in relation to authority and responsibility and supports good decision making within an organisation.

9.6 Good governance is central to the effective operation of Government departments and is important in discharging statutory and policy obligations. It ensures that a framework of structures, policies and processes are in place to deliver on these obligations and it allows for an objective assessment of management and corporate performance. The Department of Public Expenditure and Reform has issued guidance on corporate governance for the civil service, to assist departments and offices to develop their own individual governance frameworks.[6]

9.7 The corporate governance standard issued by the Department of Public Expenditure and Reform sets out a summary of good governance principles, and an adaptable governance framework including provisions to be used by each department/office in their own arrangements. All departments/offices are required to document and publish their governance arrangements in accordance with the principles of the corporate governance standard. The governance standard sets out five governance principles (see Figure 9.1).

1 Finance (Tax Appeals) Act 2015.

2 Neither the Commission nor the Office of the Appeal Commissioners are/were involved in the collection of taxes.

3 The main reforms to the appeals process are listed in Annex 9A.

4 An Appeal Commissioner's term is seven years.

5 The Accounting Officer role will be rotated between the two Commissioners over their current term of office.

6 *Corporate Governance Standard for the Civil Service, 2016* Department of Public Expenditure and Reform.

Figure 9.1 Public sector governance principles

The culture and ethos which ensures behaviour with integrity, a strong commitment to ethical values, and respect for the rule of law.
Priorities and outcomes are defined in terms of sustainable economic and societal benefits and to determine the policies and interventions necessary to optimise the achievement of these priorities and outcomes. It means implementing good practices in transparency, reporting, communications, audit and scrutiny to deliver effective accountability.
The capacity of the Department is developed, including the capability of the leadership team, management and staff.
Risks and performance are managed through robust internal control systems and effective performance management practices.
Openness, effective public consultation processes and comprehensive engagement with domestic and international stakeholders is ensured.

Source: Corporate Governance Standard for the Civil Service 2016, Department of Public Expenditure and Reform.

9.8 Accounting Officers are responsible for the safeguarding of public funds and property under their control, for the regularity and propriety of all transactions in each appropriation account bearing their signature and for the efficiency and economy of administration in their department/office. Specific obligations of Accounting Officers include the preparation and presentation of a vote appropriation account incorporating a statement of internal financial control, and the establishment of an internal audit function and an audit committee.

9.9 A service agreement is in place for the provision of certain services by the Office of the Revenue Commissioners (Revenue) to the Commission. Under this agreement, Revenue provides administrative and other supports to the Commission including processing of supplier payments and the administration of personnel matters by Revenue's Human Resources division. The service agreement also provides that Revenue's internal audit function is available to the Commission to provide an advisory service on request, on matters pertaining to standards in internal audit, as well as practices and procedures in auditing generally.[1]

9.10 This examination found no evidence that the Commission had engaged with Revenue's Internal Audit Unit or Audit Committee to seek advice in meeting its corporate governance obligations through the identification of risk areas or the completion of internal audit reviews.

9.11 In February 2017, the Tax Appeals Commission published a governance framework, providing details on the mission and operations of the Commission. The framework also includes details of senior management roles and responsibilities, of management board and other governance structures together with audit, assurance and compliance arrangements.

9.12 The published framework refers to the internal audit advisory service provided for under the service agreement in place with Revenue. However, the Commission has stated that in line with a significantly increased annual budget and larger organisation, it will arrange its own internal audit services and establish an audit and risk committee. Internal auditors were appointed in August 2017, and the Commission has stated that it is now in the process of establishing the committee.

1 Prior to 2013, Revenue also processed salaries, overtime payments and travel claims on behalf of the Office of the Appeal Commissioners. These functions are now carried out, on behalf of the Commission, by the Payroll Shared Services Centre.

9.13 The Commission has not established a risk assessment and management system. The published framework states that responsibility for risk assessment, including the preparation of a risk management policy, will be allocated to an employee who will also have responsibility for the internal finance management function. The Commission has stated that a draft risk assessment and management plan is currently being reviewed by the newly appointed internal auditors.

Control of overtime payments

9.14 The Commission's 2016 vote appropriation account records overtime payments of €65,400 to one employee. These payments represented 7% of the gross expenditure on the Vote, or just under 10% of salaries paid in the year.

9.15 Department of Public Expenditure and Reform guidelines require that overtime is authorised and that the nature of the work involved makes overtime unavoidable.[1] There is no record that the overtime hours in respect of which the payments were made had been authorised by a more senior official.

9.16 The records that are available from the Commission are insufficient to substantiate the overtime payments. The Commission has hand-written summaries of hours worked compiled using the employee's work diaries over a number of years, and copies of e-mails issued during a small number of the claimed overtime periods. The Commission has no other records or evidence to support the claims.

9.17 The overtime claims were submitted directly to the Appeal Commissioners. The Commission's Head of Administration (an experienced officer on secondment from the Department of Finance) was not aware of or involved in the review of the overtime claims.

9.18 The Commission has stated that a sample of the overtime claims was checked by both of the Appeal Commissioners prior to being approved for payment by the Accounting Officer. The majority of the overtime claims submitted related to periods which predated the current Commissioners' tenure and so assurance in relation to the additional hours worked by the employee was sought from one of the previous Appeal Commissioners, prior to the payments being made. There is no documentary evidence of any of these checks.

9.19 Legal advice was not sought or obtained by the Commissioners in respect of whether the overtime claims should be paid, nor was sanction from the Department of Public Expenditure and Reform obtained in advance of the overtime payments being made.

9.20 In November 2016, Revenue contacted the Commission querying the amount of overtime being processed on behalf of the Commission. At that time, €65,400 (gross) had already been paid to the employee. The Commission decided that no further overtime payments would be made. Additional overtime claims submitted in May 2017 have not been paid.

1 Circular 14/2014, *Overtime in the Civil Service*, Department of Public Expenditure and Reform.

Overtime policy

9.21 In February 2017, an overtime policy was introduced by the Commission, which was subsequently further refined in May 2017. The Commission has stated that the policy is in line with Department of Public Expenditure and Reform guidelines and the civil service code of conduct. The policy discourages overtime and staff are expected to complete their work within normal business hours. Overtime may be sanctioned in exceptional circumstances if it is unavoidable and authorised in advance by the Head of Administration or the Assistant Principal Officer.[1] Employees are required to submit overtime claims within four weeks of the additional hours being worked.

Conclusions and recommendations

Corporate governance

9.22 The Commission was established formally in March 2016 but is not yet fully compliant with its corporate governance obligations. A governance framework was published by the Commission in February 2017. This provides details of proposed governance structures including audit, assurance and compliance arrangements but the Commission has yet to establish a formal risk assessment and management system including a risk management policy and risk register. The absence of an effective risk management process could prevent the Commission from achieving its overall objectives as risks to the organisation may not be identified and managed in a timely and effective manner.

Recommendation 9.1

The Commission should develop and implement a risk assessment and management process to ensure that risks to the organisation are identified, analysed and managed in a timely and effective manner.

Accounting Officer response

Agreed. A governance framework was published by the Commission in February 2017 and updated and published in summer 2017. This provides details of existing and proposed governance structures including audit, assurance and compliance arrangements. The Commission has established a risk assessment system, but it is a work in progress, as is the risk management policy and risk register, as these are under review by the Commission’s internal auditors.

9.23 A service agreement in place with Revenue provides that Revenue’s internal audit function is available to the Commission in an advisory capacity if required. The examination found no evidence of this facility being utilised by the Commission since its establishment.

9.24 Under the new governance framework, the Commission has recently arranged its own internal audit services and has begun the process of establishing an Audit and Risk Committee. Such functions will assist the Accounting Officer fulfil corporate governance and oversight responsibilities in relation to the internal control and risk management systems operating in the Commission.

1 Overtime claims can only be made by Higher Executive Officer grades and grades below.

Recommendation 9.2

The Commission should ensure that it complies fully with its corporate governance obligations in relation to maintaining an appropriate internal audit function, together with the establishment of an audit committee.

Accounting Officer response

Agreed. The Commission has now appointed an internal auditor and put in place an internal audit function, has established an Audit Group, and has begun the process of establishing an Audit and Risk Committee. The Commission's Audit Group, established on foot of advice received from the Institute of Public Administration, comprises the Head of Administration, the Assistant Principal, an internal auditor and the project manager. Its mandate is to consider specific processes extant in the Commission, with a view to establishing their propriety and keeping day-to-day risk considerations to the forefront. It also considers and agrees proposals for internal audit review and/or advice. It is a preparatory arrangement, pending establishment of the Commission's Audit and Risk Committee.

Overtime payments

9.25 The circumstances surrounding the payment of overtime indicate a very weak control environment. The bypassing of the Head of Administration, the lack of formal procedures for authorisation of overtime and the lack of documentation to support the claims or to evidence the checking of the claims, are of particular concern.

9.26 The process of developing a modern system of governance was ongoing but not implemented when the overtime claims were approved for payment in 2016. In February 2017, a new overtime policy was introduced by the Commission, which was subsequently further refined in May 2017. Under the terms of the new overtime policy, overtime working must be authorised in advance, and employees are required to submit overtime claims within four weeks of the additional hours being worked. The timely submission of claims allows an organisation to effectively manage budgets and cash flows.

Recommendation 9.3

The provisions of the new overtime policy should be clearly communicated to all staff to ensure that they are familiar with the overtime claims system.

Accounting Officer response

Agreed. The provisions of the new overtime policy have been clearly communicated to all staff, who are now fully familiar with the overtime claims system. This was done as part of a series of weekly governance workshops now held for staff to ensure that they are fully aware of the Commission's governance systems and procedures.

Annex 9A

Main reforms of the tax appeal process

Statutory underpinning of the independence of the Tax Appeals Commission

A new focus on flexible and active case management

Discretion to make determinations based on written submissions in the case of straightforward matters, subject to the agreement of the parties to the proceedings

Public hearings as the default position, although an appellant may request that a hearing or part of a hearing be held in private

Publication of Appeal Commissioners' determinations

Ability to dismiss appeals where, for example, a taxpayer does not comply with directions given by Appeal Commissioners in relation to the conduct of the proceedings

A renewable, fixed term of office of Appeal Commissioners of seven years

Introduction of a requirement for the Tax Appeals Commission to submit annual reports

Decisions of the Appeal Commissioners are now final and conclusive

Ability to appeal to the High Court on a point of law only, and not in relation to the facts of a case

Enhanced case management procedures, including the power to determine a broad range of interlocutory applications, to facilitate a more efficient and structured flow of appeals

Source: Tax Appeals Commission Annual Report 2016

10 Shared Services — Management of Salary Overpayments

10.1 The concept of administrative ‘shared services’ involves the provision of common corporate services to a number of organisations by a separate service provider. The National Shared Services Office (Shared Services) was set up in 2014 and is responsible for delivering shared services, mainly for civil service departments.[1] Shared Services is an administrative office within the Department of Public Expenditure and Reform.[2]

10.2 Shared Services currently consists of two services

- PeoplePoint — which provides a human resource (HR) and pensions administration service
- Payroll Shared Service Centre (PSSC) — which provides a payroll and pension payment service.

10.3 At the end of 2016, 39 departments had transferred HR functions to PeoplePoint and 43 had transferred payroll to PSSC (see Figure 10.1).

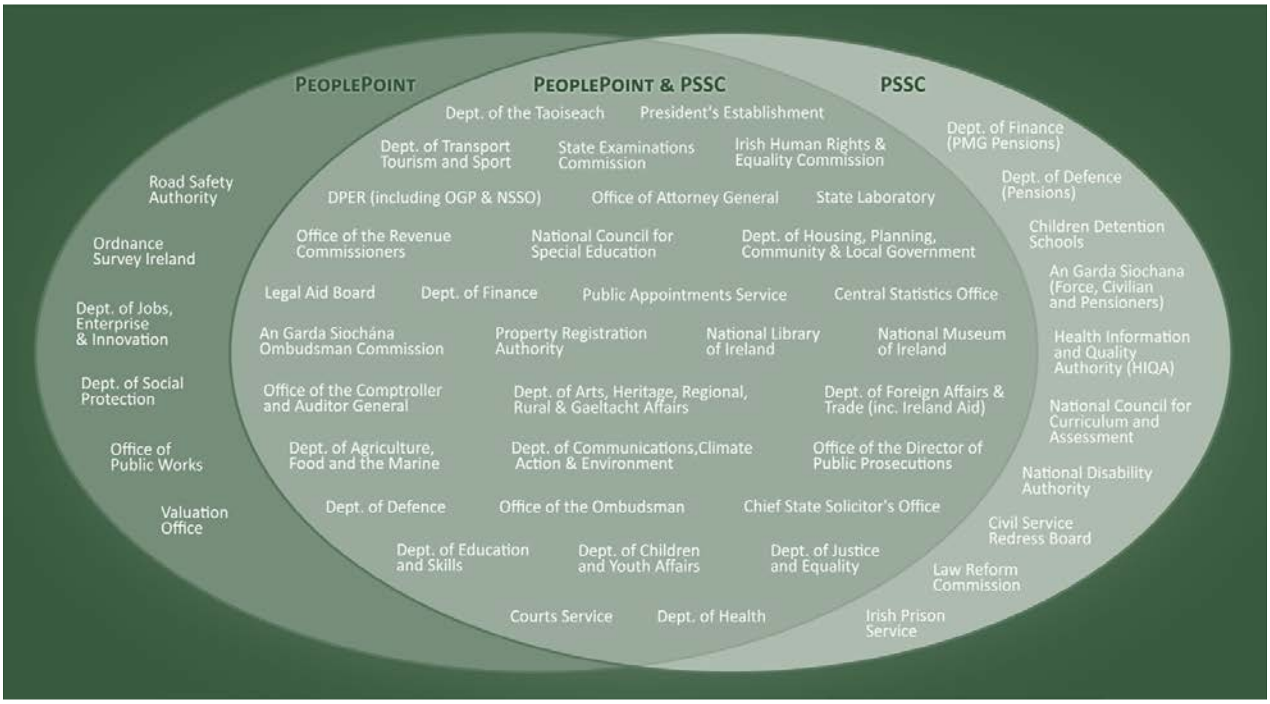
10.4 Through PSSC, Shared Services processed payroll payments of €3.2 billion relating to 102,401 employees in 2016. There are 2,438 weekly, 1,482 fortnightly and 192 monthly payroll and pension payment runs processed. Salary and pension payments for the departments to which PSSC provides payroll services are charged to the appropriation account or financial statements of those bodies. The audits of those bodies did not find any material errors in the payroll charges for 2016.[3]

1 Reference to departments in this report includes all government departments, offices and agencies availing of shared services.

2 The Secretary General of the Department of Public Expenditure and Reform is the Accounting Officer for Vote 18 National Shared Services Office.

3 The audits of all but a number of small bodies had been completed when this report was finalised.

Figure 10.1 Departments under the remit of the National Shared Services Office



Source: National Shared Services Office

10.5 Shared Services undertakes functions on an agency basis. In order to give assurance to its clients, Shared Services engaged independent firms of accountants to conduct assessments of its control system. A number of assessments have been completed.

10.6 A programme board for PeoplePoint first met in November 2011. The board was chaired by an official of the Department of Public Expenditure and Reform and met monthly to discuss all areas of operations. Its members included representatives from a number of departments — Employment Affairs and Social Protection, Agriculture, Food and the Marine, Central Statistics Office, Revenue Commissioners and Transport, Tourism and Sport.

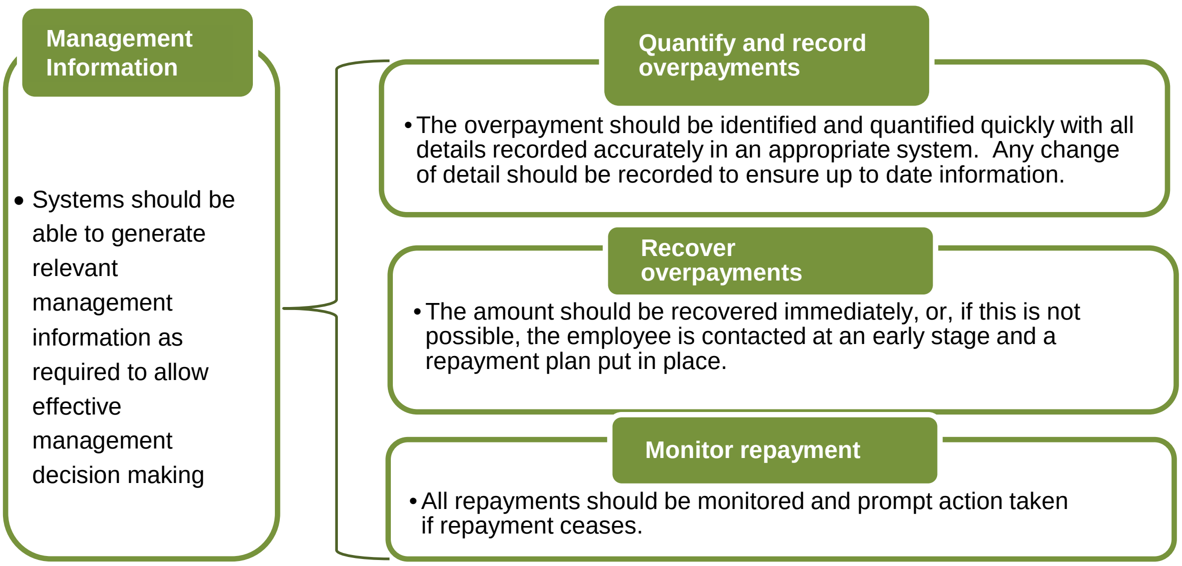
10.7 The programme board has been replaced by a Customer Service Group and an Employee Shared Services Strategy Committee. The groups first met in February and March 2017, respectively. Both groups have cross departmental representation and meet on a quarterly and bi-monthly basis, respectively.

Salary overpayments

10.8 Shared Services has reported to its client departments that salary overpayments totalling €4.6 million were outstanding at the end of 2016. In order to address the issue it has put in place a salary overpayments working group which meets monthly. The main objective of the group is to develop recommendations and review their implementation. Its members are representatives of the departments of Employment Affairs and Social Protection, Agriculture, Food and the Marine, Public Expenditure and Reform, the Revenue Commissioners and PeoplePoint management.

10.9 It is inevitable some salary overpayments will occur given the scale and complexity of the payments involved. When overpayments arise, it is important that they are managed effectively. A system capable of providing information in relation to individual overpayments as well as management information at an aggregate level is key in underpinning the management of overpayments. Figure 10.2 sets out a good practice framework for the management of salary overpayments, based on debt collection principles published by the Department of Public Expenditure and Reform.

Figure 10.2 Good practice framework for the management of salary overpayments

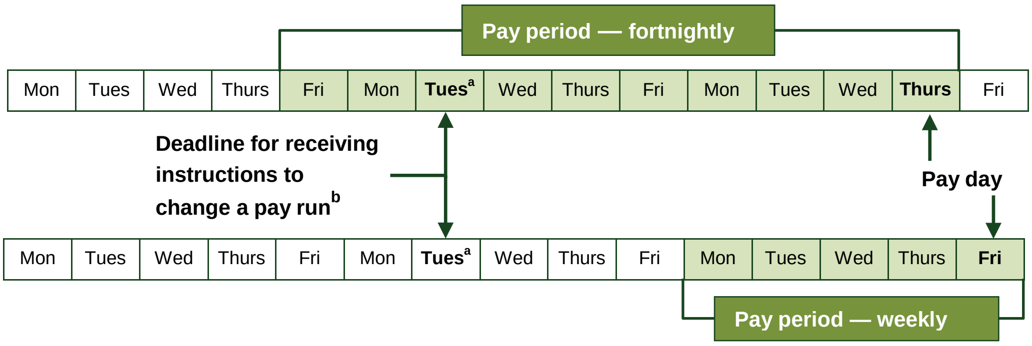


Source: Adapted from *Best Practice Guide: Collection of Debt by Public Service Bodies*, Department of Public Expenditure and Reform, 2017

The causes of overpayments

10.10 Figure 10.3 outlines the PSSC timeline for processing payroll. Typically, instructions for a pay run must be provided to PSSC more than a week in advance of the planned pay day. Where an issue that requires an employee's pay to be reduced for a pay period is only identified and/or notified after the payroll has been processed, an overpayment will arise.

Figure 10.3 Payroll processing by PSSC



Source: National Shared Services Office

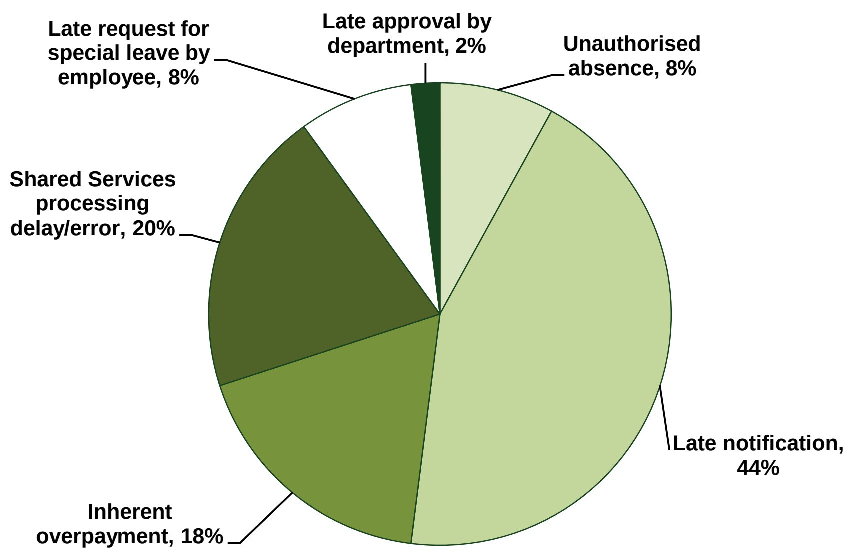
Notes: a The instruction to change a pay run must be received before 1pm.

b At certain times of the year, for example at the year-end, the payroll is run further in advance, and the period to make adjustments is further reduced or eliminated.

10.11 The cut-off for processing changes to the payroll is 6.5 working days in advance of pay day in the case of fortnightly paid staff and 7.5 days in the case of weekly paid staff. Shared Services has indicated that this requirement for advance processing includes time for the client departments to transfer the necessary funds to Shared Services and to ensure the bank can make payment on the appropriate day.

10.12 For this examination, a random sample of 50 overpayment cases was reviewed to identify the reason for the overpayments. The results are set out in Figure 10.4.

Figure 10.4 Causes of overpayments — sample of cases



Source: Office of the Comptroller and Auditor General

10.13 Late notification of the request for a payment reduction is the reason for overpayment in the majority of cases reviewed. In the sample examined, this mainly occurred because PSSC were only notified weeks, and in some cases months, after an employee was put on 'zero rate' of pay or reduced rate of pay due to sick leave. There can be late notification by the relevant department to PeoplePoint and/or by PeoplePoint to PSSC.

10.14 An inherent overpayment usually occurs where an absence is notified for a pay period for which the payroll has already been processed. An inherent overpayment can also occur where an individual's employment ends but they have

- annual travel pass deductions not fully recouped or
- taken excess annual leave.

10.15 This examination has identified two ways in which overpayments arise, but which are currently not captured by Shared Services.

- The Department of Public Expenditure and Reform instructed that, with effect from January 2011, deductions of pay for days of absence should be calculated at a standardised rate of one-fifth of weekly pay and not at the rate of one-seventh of weekly pay. Accordingly, staff paid on a fortnightly basis should have absences calculated as one-tenth of the fortnightly pay for each day absent. However, PSSC calculates deductions at a rate of one-fourteenth. As the rate of deduction using this method is less, an overpayment occurs each time but it is not currently recorded. Shared Services has stated that it is in discussions with the Department of Public Expenditure and Reform and clarification of the deduction rule is being sought.
- Officers appointed at the grade of assistant principal or higher since December 2011 are entitled to 30 days annual leave. Currently, PeoplePoint are allocating 32 days to some of these officers resulting in a potential overpayment. Shared Services has stated that it is examining all cases where more than 30 days annual leave has been allocated as there may be valid reasons for such allocation. When the examination is concluded, PeoplePoint will pursue recoupment of any overpayments identified.

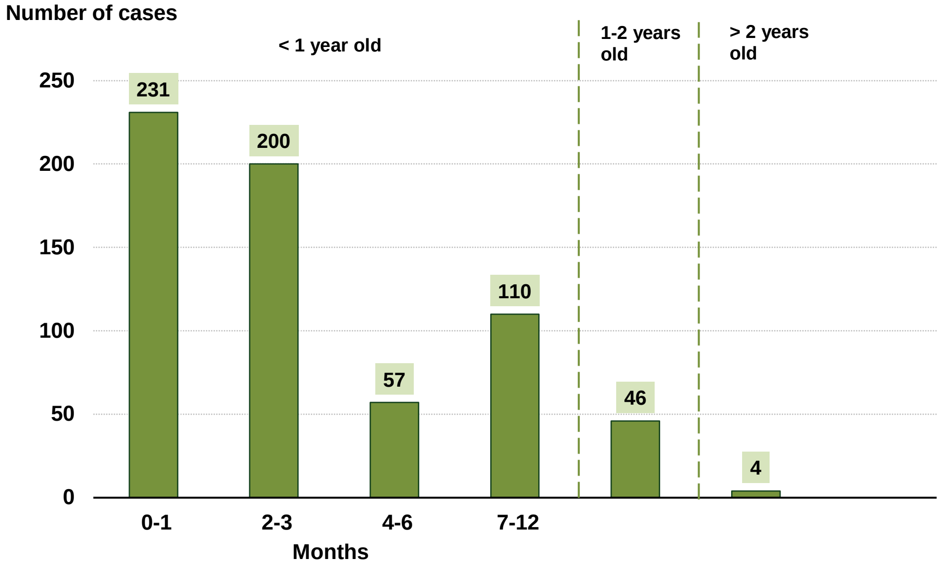
Quantifying and recording the overpayment

10.16 To enable the process of recovering an overpayment to commence, it is first necessary to quantify the amount and record all relevant details accurately.

10.17 Departmental employee records are updated and maintained on a human resource management system (HRMS) operated by PeoplePoint. Individual salary overpayments are also managed by PeoplePoint on a separate case management system (CMS). When an overpayment is identified, a case is created in CMS. The amount of the overpayment is calculated and recorded in both CMS and HRMS, and the recoupment process begins. A separate case and case number is created on CMS for each overpayment. As a result, an individual employee can have a number of overpayment cases.

10.18 At the end of 2016, there were 648 CMS overpayment cases for which no value had yet been recorded. One in four of these cases was over six months old (see Figure 10.5). Based on the average value of all cases created in 2016 where a value had been calculated, the total overpayment in these cases could be of the order of €650,000.

Figure 10.5 Overpayment cases without a value at December 2016, by age[a]



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

Note: a An employee can have a number of overpayment cases.

Recovering overpayments

10.19 To commence recovery of an overpayment, PeoplePoint send a letter of notification to the employee, setting out the options available for repayment. The policy is to recover on the basis of a minimum deduction of 8% of gross salary per pay period or within 12 months, whichever is sooner. Where an employee has taken unpaid leave, either unplanned or at short notice, or exceeds the permitted limits for uncertified sick leave, the policy provides for full repayment on the next available pay date or all subsequent pay dates until the amount is fully recouped. Follow up letters are sent where there is no response to the letter of notification. Recovery should commence, at the latest, five weeks after notification in cases where the employee does not respond.

10.20 When a repayment plan is agreed, the case is closed in CMS and the agreed plan is recorded in HRMS. If a repayment plan is by regular deductions from the employee's salary, an instruction is issued to PSSC.[1] The amount subsequently deducted and the reducing balance of the overpayment is recorded on the relevant payroll system. The reducing balance is not recorded in CMS or HRMS.

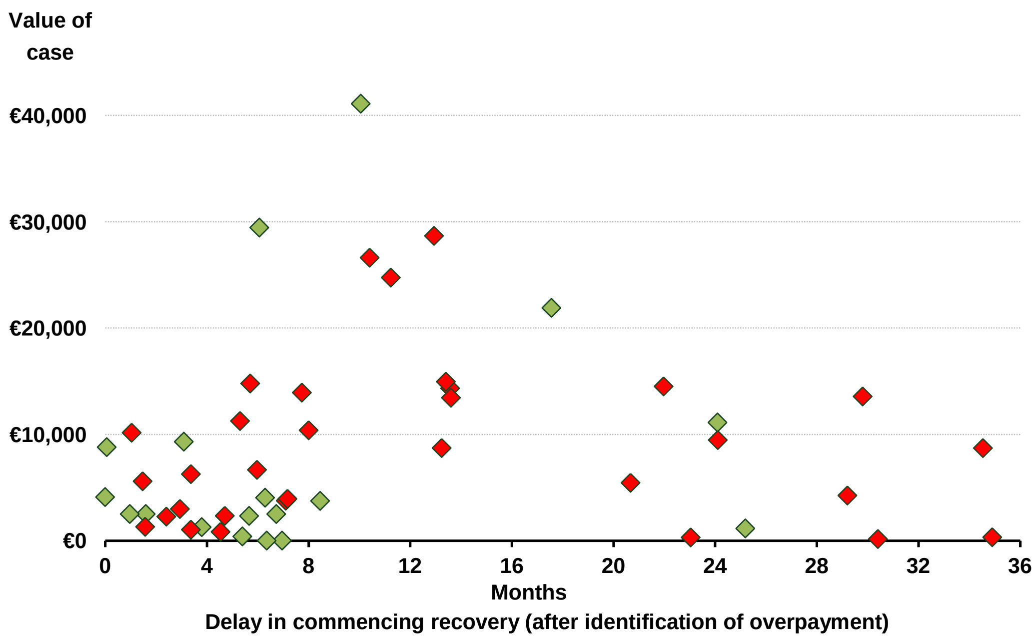
10.21 In its service management agreement with its clients, PeoplePoint has a target of ten days to put a recoupment plan in place and aims to achieve this in 90% of cases. Based on examination of a sample of 50 cases which had overpayment values recorded on the CMS, this is rarely achieved (see Figure 10.6).[2]

10.22 In response to the findings of this examination, Shared Services has stated that although not specifically set out, the ten day target refers to the time to put a recoupment plan in place once the value of the overpayment is confirmed. The 2017 service management agreements set a revised target of commencing deductions within 40 days (maximum of 50 days) of the relevant department giving approval to recoup the overpayment.

1 Where a department's HR functions have transferred to PeoplePoint but it continues to process its own payroll, the instruction is issued to the departmental payroll section.

2 Sample selected on a stratified (case status) sample basis.

Figure 10.6 Time taken to process overpayments, by overpayment value — sample cases



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

◆ Case classified as closed prior to 31 December 2016 ◆ Case open at 31 December 2016

10.23 Of the sample CMS cases examined,18 had been classified as closed by PeoplePoint – five had been cancelled, six had been referred back to the relevant department for processing, and recovery plans were agreed in seven cases. The average processing time of the seven cases that had been closed with a recovery plan in place was five months. Only two cases had been processed within the ten day target — both of these were cancelled as it was established that there was no overpayment. Two thirds of the closed cases were under €5,000 in value each.

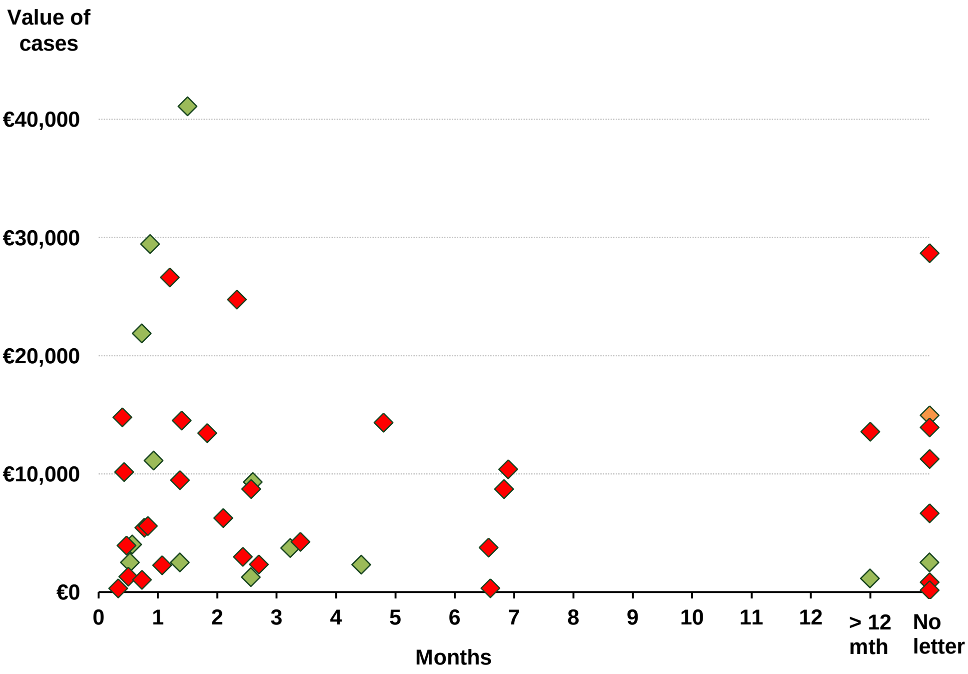
10.24 Most of the cases reviewed (32 of 50) were still being processed at end 2016, and had no recovery plan in place. The average processing time at that date was already 13 months. Nearly two thirds of the overpayment amounts in those cases were over €5,000 each.

10.25 Employees need to be notified by way of letter in order to put a recoupment plan in place. Letters should be issued as soon as possible notifying the employee of the amount owing and any subsequent letters should be issued within the prescribed timeframe. Figure 10.7 sets out the time taken to issue the notification letter in the sample cases.

10.26 At 31 December 2016, a notification letter had not been sent in eight cases. Nevertheless, two of those cases had a recovery plan in place at the year end and one had been closed on CMS. The average processing time (to end 2016) of the remaining six was 11 months and the total amount outstanding was just over €61,000.[1]

1 Three of the six cases had notification letters sent in 2017.

Figure 10.7 Time taken to issue notification of overpayment letter, sample cases, at 31 December 2016



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

Notes: The graph excludes the five cancelled cases.

Closed case | Case open at at 31 December 2016 | Recovery plan in place but not formally closed at 31 December 2016

10.27 Letters of notification had issued in the remaining 37 cases examined. The average time taken to issue the notification from when the overpayment case was created on the system was 13 weeks. In one case with a recorded overpayment value of €13,500, it took just over a year to issue the letter of notification. Overpayments had been repaid or recoupment plans were in place at 31 December 2016 for only six of the 37 cases.

Management of legacy cases

10.28 Shared Services considers that it is responsible for recouping salary overpayments arising after a department transfers functions to it, and that the relevant department is responsible for managing all overpayments known at the date of transfer i.e. 'legacy cases'. This division of responsibility for overpayments does not appear in the agreement of responsibilities signed each year by Shared Services and each department.

10.29 At the point where functions are transferred to Shared Services, it issues the client department with a formal analysis report. The respective responsibilities for legacy cases was not set out for the 25 departments who transferred functions before July 2015. Analysis reports provided to the 14 departments who transferred functions after that date did set out the respective responsibilities. Shared Services has stated that this was because there was no obvious issue in relation to overpayments until after the change in public service sick leave entitlements took effect.

10.30 The management of legacy overpayment cases was examined in four departments

- Department of Employment Affairs and Social Protection
- Department of Agriculture, Food and the Marine
- Central Statistics Office
- Property Registration Authority.

10.31 Both the Department of Employment Affairs and Social Protection and the Department of Agriculture, Food and the Marine confirmed their understanding that they are responsible for the management of legacy cases.[1] A sample of legacy cases at the date of transfer was reviewed in each department.

- Department of Employment Affairs and Social Protection — a sample of 20 legacy cases with a combined value of €78,600 was reviewed. While eleven cases had a recoupment plan in place at the date of transfer, there was no evidence of management of recovery since then. Likewise, there was no evidence of attempts to recoup the overpayments in the nine cases where no recoupment plan was in place. The Department has stated that it is now reviewing all legacy overpayment cases and is putting plans in place for recoupment of monies owed.
- Department of Agriculture, Food and the Marine — a sample of 20 legacy cases with a combined value of €62,700 was reviewed. Half of the cases had a recoupment plan in place at the date of transfer. For the remaining ten, there was no evidence of management of the overpayment since that date. For one of these, Shared Services made attempts to recover the amount owed without success and subsequently referred it back to the Department. The Department has indicated that it is planning a programme of work on the cases without a recoupment plan in place which will be informed by its involvement in the Shared Services salary overpayments working group.

10.32 Both the Central Statistics Office and the Property Registration Authority expressed their understanding that the management and pursuit of legacy cases is the responsibility of Shared Services.

Former employee ('off pay') cases

10.33 In addition to legacy cases, Shared Services decided that departments would manage overpayment cases where the individual is no longer employed and Shared Services had sent three letters without response. These are termed 'off pay' cases. However, this decision was not formally communicated to the departments. Shared Services was unable to provide the examination team with a schedule of 'off pay' cases with definitive values.

Monitoring repayment

10.34 Recovery of an overpayment by regular deduction from pay (or pension) should be monitored to ensure full recoupment and to address in a timely manner cases where deductions from payments cease, for whatever reason. There is no evidence that recovery plans are monitored to ensure full recovery.

10.35 The examination identified overpayments totalling €50,000 to four individuals where payroll deduction recovery plans had been put in place but payroll reports indicated that deductions were not taking place at the end of 2016.

1 The Department of Employment Affairs and Social Protection transferred to PeoplePoint in February 2014 and the Department of Agriculture, Food and the Marine transferred in March 2013.

10.36 Shared Services has pointed out that the deductions for three of the individuals are processed through a departmental payroll system because that department continues to process its own payroll. There is no system in place for notifying PeoplePoint if these deductions stop in order for PeoplePoint to recommence recovery procedures. Similarly, there is no mechanism to notify PeoplePoint if deductions stop for individuals whose payroll is processed by PSSC.

Management information

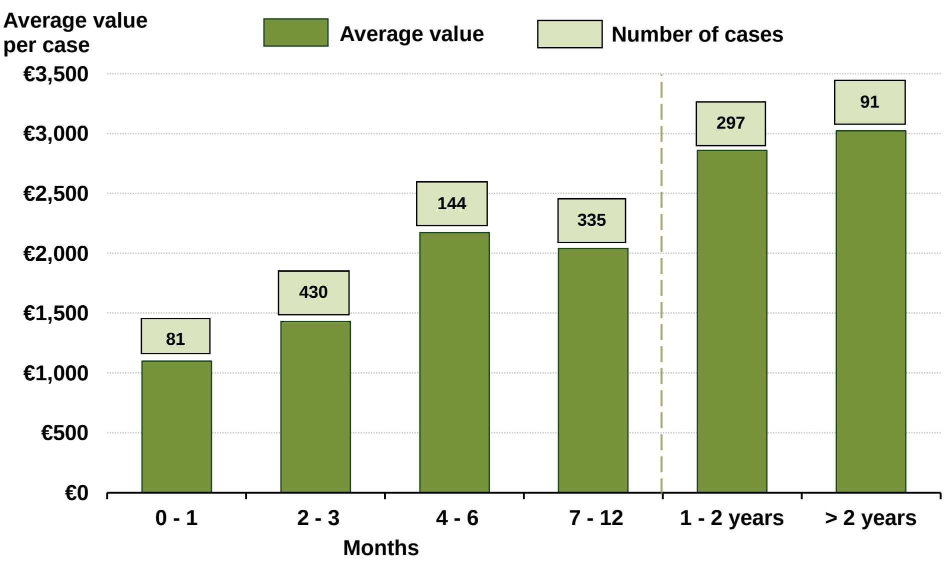
10.37 The systems Shared Services use to manage salary overpayments do not facilitate the generation of reports with information relating to a date in the past. If information is required for a certain point in time, the report must be generated on that date. In addition, the unique identifier in CMS is the case number while in the payroll system the employee number is used. Both systems do contain the PPSN but there is currently no process to match and reconcile the information on the two systems.

Age analysis of debts

10.38 The systems used by Shared Services cannot generate an age analysis report. The CMS generates a daily report listing every case. Shared Services has indicated that this is used to prioritise older cases. This examination analysed 1,378 cases without a recovery plan. The total value of these cases was €2.8 million. Over a quarter of cases, representing 40% of the value, had been on hand for more than a year (see Figure 10.8).

10.39 The average value of the overpayment is significantly higher for cases that are taking a long time to process. This suggests that targeted work on older cases could have a beneficial impact on the amount outstanding. PeoplePoint has not performed targeted work of this nature to date. Shared Services has stated that a special programme to clear older cases will commence shortly.

Figure 10.8 Age analysis of overpayment cases without a recoupment plan in place at 31 December 2016



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

10.40 The examination found that the largest overpayment recorded without a plan in place is €38,000. The overpayment was created in August 2016 and categorised as a process error. The case was put on hold in September 2016 as the person was on zero rate of pay. Arrears of approximately €10,000 due to the employee were off-set against the overpayment, but this has not been reflected in CMS.

Level of recoupment

10.41 In 2016, 4,419 overpayment cases with a value of €4.4 million were closed. Due to the limitations on the information available, the examination cannot quantify how much of this amount had been recovered at the year-end. Shared Services only has information relating to deductions that take place through PSSC. It does not have sight of information relating to deductions that take place through departmental payrolls. No information is available in relation to overpayments recouped through one-off repayments or by way of deduction from retirement lump sums or pensions. In addition, the payroll reports generated by PSSC reflect deductions on a employee number basis rather than on a case basis.

Reporting at year-end

10.42 Shared Services reported to client departments that the amount of salary and pension overpayments outstanding at the end of 2016 was €4.6 million, comprising

- €2.8 million for open cases with no recovery plans in place and
- €1.8 million being the reducing balance of some cases with ongoing recovery plans in place.

In order to establish this year-end figure, Shared Services staff undertake a substantial amount of manual intervention and manipulation of data extracted from the systems used.

10.43 This examination reviewed a random sample of 50 cases with a total value at the year-end of €77,000 to provide assurance on the figures reported to departments. The review compared the value of the cases as reported to the actual value per the CMS. Six of the 50 were found to be misstated in the year-end report with an error value of almost €17,000 representing an error rate of 22%.[1]

10.44 The year-end figure extracted does not take account of a number of values — some which Shared Services should have and some which are only available from departmental systems. The values excluded are the amounts recouped

- by 'one-off' repayment
- via pension lump sum/deductions
- where salary deduction is processed outside Shared Services.

10.45 Also excluded from the reported year end figure are the outstanding balances of

- cases closed but deductions stopped prior to the year-end
- cases closed but deductions processed outside Shared Services
- legacy cases
- cases closed and referred to local HR
- cases where no value has been attributed.

1 Three cases were overstated by a total of €11,300 and three cases were understated by a total of €5,400.

10.46 The total overpayments outstanding as reported in the appropriation accounts of the Votes for which PeoplePoint provide a HR function is €7.5 million.

10.47 Shared Services systems and processes are not capable of providing information on the overall overpayment activity in the year which would enable the amount outstanding to be reconciled. Such a reconciliation is an essential control feature and typically involves adjusting the opening balance of overpayments outstanding for activity in the year (new overpayments identified, amount recouped and any adjustments or cancellations) and agreeing the resulting amount to the year end figure extracted from the system. An illustrative format for such a reconciliation is shown in Annex 10A.

Views of the Accounting Officer

10.48 The Accounting Officer has stated that Shared Services is at an early stage of maturity and, while accepting that there will always be a running balance of overpayments, he believes it is getting closer to the minimum number. Shared Services provides greater transparency to the issue of salary overpayments and it brings a standard way of managing overpayments for all staff.

10.49 The value of overpayments in 2016 represents less than half of one percent of the paybill. Therefore over 99% of the paybill is being administered effectively. The reform of sick leave in the public service has created standardisation of administration and removed significant legacy issues, while also creating an increase of overpayments primarily because staff are reaching sick leave thresholds earlier. Nearly 20% of overpayments relate to a small number of staff with high absenteeism. A recent examination of the causes of overpayments, assisted by an external consultant, found that the total processing error and delay attributed to Shared Services is 20%.

10.50 In 2016, PeoplePoint administered over 200,000 transactions and answered 77,500 telephone calls. PSSC administered 4,112 payrolls with an annual value of €3.2 billion. This level of delivery was acknowledged in the award of the CCMA Shared Services Award 2015 to PeoplePoint.[1]

10.51 In 2016, the payroll of nine organisations with 25,000 employees transferred to PSSC and four organisations with 4,400 employees transferred to PeoplePoint. When an organisation transfers, there is a period where legacy practices come to light. These practices are examined and worked through before they are revised. It is accepted across the shared services sector that it takes time to properly embed operational practices and new ways of working.

10.52 For the period under review, all elements of the overpayment cycle were not managed by Shared Services in all cases. A number of departments that transferred HR functions to PeoplePoint were still processing their own payroll. In these cases, Shared Services did not have sight of all recoupments made or balances outstanding as reported in appropriation accounts.

1 Customer Contact Management Association.

Conclusions and recommendations

10.53 Currently, the systems in place in Shared Services do not provide the necessary management information to allow for effective management of salary overpayments. The key information not available includes the overall amount of overpayments, the amount recovered, the total amount outstanding, age analysis of cases and the level of recovery. Information is not collated about the amount recovered via one-off payments or recouped via pension lump sum deductions. Therefore, there is no effective way to measure the change in the level of overpayments or to determine the level of performance of Shared Services in relation to the management of salary overpayments.

10.54 There are further limitations as Shared Services' systems cannot generate information relating to a date that has passed — reports only provide information as at the date they are produced.

10.55 Ideally, the reports available from the system would facilitate monitoring of debt management activity to allow an assessment of the effectiveness of efforts to recover overpayments and to inform targeted work that is required.

10.56 Extensive manual intervention and manipulation is required in order to calculate an amount outstanding at the year-end. The examination found a sample error rate of 22% in the value reported for cases with no recovery plan in place. In addition, the reported year-end figure does not include all overpayments.

Recommendation 10.1

Shared Services should review current systems and consider ways of obtaining the management information necessary for effective management and reporting of salary overpayments. In addition, Shared Services should conduct a review of the year-end reporting process in order to minimise the risk of misstatement and to ensure that all money recouped in the year is recorded and reported.

Accounting Officer response

Agreed. The limitations in reporting are being targeted by reporting development activity currently underway. The development of a reporting system for the provision of financial information for client departments to support the preparation of the appropriation accounts is a key priority. A development to provide payroll information on a case-by-case basis to include gross overpayment, recouped amount and reducing balance is currently being tested. This will be brought together with data held in CMS using the combination of the case number and the PPSN. A pilot test for the Revenue Commissioners is scheduled. The goal is that reports with detailed data will be provided to all clients from the first week of October.

Shared Services can only report on those elements of the overpayment cycle it manages. Where a client is served only by PeoplePoint and processes its own payroll, Shared Services will not have sight of recoupments made or the reducing balance. Similarly, where clients are in PSSC and not in PeoplePoint, the reporting on overpayments will be limited to overpayment values and reducing balances.

A workaround is in place to support reporting of overpayments at year end and reports are retained for future reference.

10.57 Responsibilities for cases that existed at the time a department transferred to Shared Services as well as some cases that are classified as 'off-pay' are not set out in the service management agreement between Shared Services and each department, or otherwise formally agreed. There appears to be a lack of clarity in some departments in relation to the respective responsibilities.

Recommendation 10.2

Shared Services should formally agree with departments where responsibility lies for each category of salary overpayment to ensure that all overpayments are managed actively and effectively.

Accounting Officer response

Agreed. Shared Services will formally communicate with Personnel Officers setting out the position with regard to responsibility for legacy cases. This will also be reflected in the next version of the employee services management agreement. In relation to 'off-pay' cases, a communication will issue formally from Shared Services to all Personnel Officers.

10.58 The amount of overpayment had not been calculated for 648 cases at the year-end. Based on the average value of cases where the overpayment had been quantified, the value of these 648 cases could be of the order of €650,000 or 14% of the value reported to departments. A quarter of such cases are over six months old. Delays in recording the value of an overpayment means the recovery process cannot begin, which may make it more difficult to ultimately ensure full recovery.

10.59 Delays are also evident in relation to commencing recovery in cases where the overpayment value has been calculated. At the year-end, there were 388 cases (value €1.1 million) outstanding for more than a year with no recoupment plan in place. The older cases tend to have a higher average value.

10.60 Review of the recovery action in a sample of cases identified that, where a notification of overpayment letter had issued (37 of 50 cases), the average time taken to do so was 13 weeks. Six cases open at the year-end had not received a letter. One of these, with an overpayment amount outstanding of €29,000, was open for over a year.

Recommendation 10.3

Shared Services should conduct a review of the cause of delays in recording an overpayment value and effecting a recoupment plan in order to achieve timely recording and commencement of recovery of salary overpayments. In addition, regular analysis of the information available would inform areas for targeted work.

Accounting Officer response

Agreed. A comprehensive programme is already underway to address the multiple causes of delay in processing. Operational reports are used on a daily and weekly basis to monitor and manage the workload and to reflect progress and flows of data on new cases and cases closed. A summary report issued monthly to the programme board during 2016.

As each department transferred, PSSC inherited a number of legacy cases where overpayment values were required to be calculated. With an average of 400 new overpayment cases arising each month, there will always be around 200 to 300 cases in the process of being calculated at any given time. There are some dated and complex cases outstanding at present and PSSC is working to clear these as soon as possible.

10.61 In relevant cases, overpayments can be recovered by deduction from salary or pension over a period of time. Monitoring such deductions is important to ensure that if repayment ceases for any reason, prompt action is taken to reactivate the recovery process. This examination identified overpayments to four individuals where payroll reports indicate that salary deductions had ceased but the full amount of the overpayment had not been recovered.

10.62 Regular reconciliations between the data held on the HR systems relating to overpayments and the deductions in place on the payroll system could identify cases that require action because deductions have ceased. However, Shared Services has indicated that such a reconciliation is not easily performed due to the different unique identifiers used by each system.

10.63 In addition, the generation of a 'flag' when a deduction stops would facilitate immediate action being taken. This could take the form of an exception report following each pay run, noting employees that had a deduction in a previous pay-run but not in the current pay run.

Recommendation 10.4

Shared Services should establish processes to match and reconcile salary overpayment details on the HR and payroll systems to ensure full recovery. Shared Services should consider the need for an exception report facility that would highlight repayments that have ceased.

Accounting Officer response

Agreed. A recent change to the overpayments process in the PSSC where the case reference number is recorded against each overpayment activity on the payroll system enables the data from the payroll system to be linked to data on the HRMS/CMS. This will allow the overpayment data from the PSSC to be matched to the data from the HRMS/CMS using the case reference number and PPSN.

Exception reports will be introduced to ensure effective monitoring of the complete recovery of all overpayments that have a recoupment plan in place. As part of the reporting improvements being introduced, the possibility of including a 'flag' to ensure that appropriate and relevant exception reporting is facilitated will be investigated.

Annex 10A

Figure 10A.1 Salary overpayments outstanding

	Shared Services	Department	Total
Overpayments outstanding at 1 January	**X**	**X**	**X**
Overpayments:			
Recorded	X	X	X
Cancelled	(X)	(X)	(X)
Written off	(X)	(X)	(X)
Adjustments[a]	X/(X)	X/(X)	X/(X)
Less amount recovered via			
Salary deduction (PSSC)	(X)	(X)	(X)
Salary deduction (department)	(X)	(X)	(X)
Deduction from pension	(X)	(X)	(X)
Cash payments	(X)	(X)	(X)
Overpayments outstanding at 31 December	**X**	**X**	**X**

Source: Office of the Comptroller and Auditor General

Note: a Adjustments can include cases closed and referred back to the department.

11 The National Property Revaluation Programme

11.1 The Valuation Office (the Office) is responsible for the valuation of commercial and industrial property in the State for the purposes of levying of commercial rates by local authorities. The Office also provides property valuation services to government departments and State agencies. The Commissioner of Valuation (the Commissioner) is responsible for the work of the Office.

11.2 Valuations by the Office are conducted according to the standards and procedures prescribed in the Valuation Acts 2001 to 2015. The value of a property is determined by estimating its 'net annual value' by reference to the property's category and use, location, type of structure and trading data where appropriate.[1]

11.3 The main methods used by the Office to assess the net annual value are set out in Figure 11.1.[2] The comparative method is the most commonly applied.

Figure 11.1 Standard methods used to assess the net annual value of property

Valuation method	Description
Comparative method	Valuation is by direct comparison with annual rental values of similar properties in the same local authority area.
Contractor's method	Valuation is by a percentage of the aggregate of the depreciated replacement cost of the property and the site value.
Receipts and expenditure method	Valuation is by reference to the receipts and expenditure of one or more undertaking(s) carried on at the property.

Source: Valuation Office

11.4 Local authorities calculate commercial rates bills by applying a locally determined annual rate on valuation (ARV) to the valuations determined by the Office.

11.5 In order to bring the valuation of all commercial properties up to date and to redistribute rate liabilities based on current market conditions, a national revaluation programme was provided for in the Valuation Act 2001. In local authority areas not yet revalued under the programme, valuations in use are based on property values which reflect market conditions in 1988.

11.6 A revaluation of a local authority area begins with the signing of a revaluation order. After all properties are revalued, a new valuation list is published. The list becomes effective for commercial rates purposes from 1 January of the year following publication provided it is published in advance of the local authority holding its annual budgetary meeting. Local authority budget meetings are held during a period directed by the Minister for Housing, Planning and Local Government. The Minister has directed that this period be 1 November to 30 November for 2016 and 2017. The key steps in the revaluation process are set out in Annex 11A.

1. Net annual value is defined as the annual rent expected from a property where the maintenance costs are borne by the tenant.

2. The Valuation Office has stated that these valuation methods are based on international best practice and have been endorsed by the Valuation Tribunal and the Courts.

11.7 The revaluation process does not increase income for local authorities but rather redistributes its payment — after revaluation, some ratepayers are expected to pay less commercial rates while others pay more. The overall aim is to have a more equitable and uniform distribution of the rates burden, by reference to current property market conditions.

11.8 In addition to the work on the revaluation programme, the Office may conduct a review of the value of an individual property on a valuation list. An occupier of a property, an interest holder in the property or the local authority may apply to have the valuation of a property revised. A revision is only carried out if a material change of circumstances has taken place since the property was last valued. The revised valuation becomes effective for rates purposes in the year following revision.

11.9 The Office also conducts valuations of new properties. The valuation of new properties becomes effective immediately for rating purposes.

11.10 In the years 2012 to 2016, valuations were revised for 23,345 existing individual properties, and 5,603 new properties were valued.

Progress to date on the National Revaluation Programme

11.11 At March 2017, there were approximately 180,000 properties on valuation lists. At September 2017, revaluations had been completed for 15 local authorities accounting for 43% of all rateable properties (78,000). Revaluation of properties in the remaining 16 local authorities — which account for over half of all properties in the State — is planned for completion over the next five years (see Figure 11.2).

11.12 The first revaluation undertaken under the 2001 Valuation Act related to South Dublin County. This commenced in November 2005 and was completed in December 2007. The Act specifies that a period of not less than five years and not more than ten years can elapse before valuations of all properties are updated. Accordingly, a second revaluation of South Dublin County Council was completed in September 2017. Further revaluations for other local authority areas will be necessary in the coming years.

11.13 The Valuation (Amendment) Act 2015 made provision for new approaches to revaluation. In addition, it provided for changes to the valuation appeals process.

Figure 11.2 Status of revaluation programme, by local authority, September 2017

Local authority	Number of rateable properties[a]	Status of revaluation	Year of completion/ planned completion
Carlow County Council	2,375	Revaluation complete	2017
Cavan County Council	3,200	Revaluation not yet started	2019
Clare County Council	4,843	Revaluation not yet started	2021
Cork City Council	8,065	Revaluation not yet started	2021
Cork County Council	20,669	Revaluation not yet started	2021
Donegal County Council	6,923	Revaluation not yet started	2021
Dublin City Council	20,439	Revaluation complete	2013
Dun Laoghaire Rathdown County Council	5,194	Revaluation complete	2010
Fingal County Council	6,142	Revaluation complete	2009
Galway City Council	4,234	Revaluation not yet started	2021
Galway County Council	6,531	Revaluation not yet started	2021
Kerry County Council	7,213	Revaluation not yet started	2021
Kildare County Council	5,812	Revaluation complete	2017
Kilkenny County Council	4,035	Revaluation complete	2017
Laois County Council	2,409	Revaluation not yet started	2018
Leitrim County Council	1,519	Revaluation complete	2017
Limerick City and County Council	6,617	Revaluation complete	2014
Longford County Council	1,703	Revaluation complete	2017
Louth County Council	5,485	Revaluation not yet started	2019
Mayo County Council	6,507	Revaluation not yet started	2021
Meath County Council	4,903	Revaluation not yet started	2019
Monaghan County Council	2,962	Revaluation not yet started	2019
Offaly County Council	3,444	Revaluation complete	2017
Roscommon County Council	3,292	Revaluation complete	2017
Sligo County Council	2,955	Revaluation complete	2017
South Dublin County Council	6,937	Revaluation complete	2007 & 2017
Tipperary County Council	7,514	Revaluation not yet started	2019
Waterford City and County Council	3,949	Revaluation complete	2013
Westmeath County Council	3,559	Revaluation complete	2017
Wexford County Council	5,504	Revaluation not yet started	2019
Wicklow County Council	5,493	Revaluation not yet started	2019
All properties	**180,427[b]**		**2021**

Source: Valuation Office

Key: Revaluation complete; Revaluation not yet started

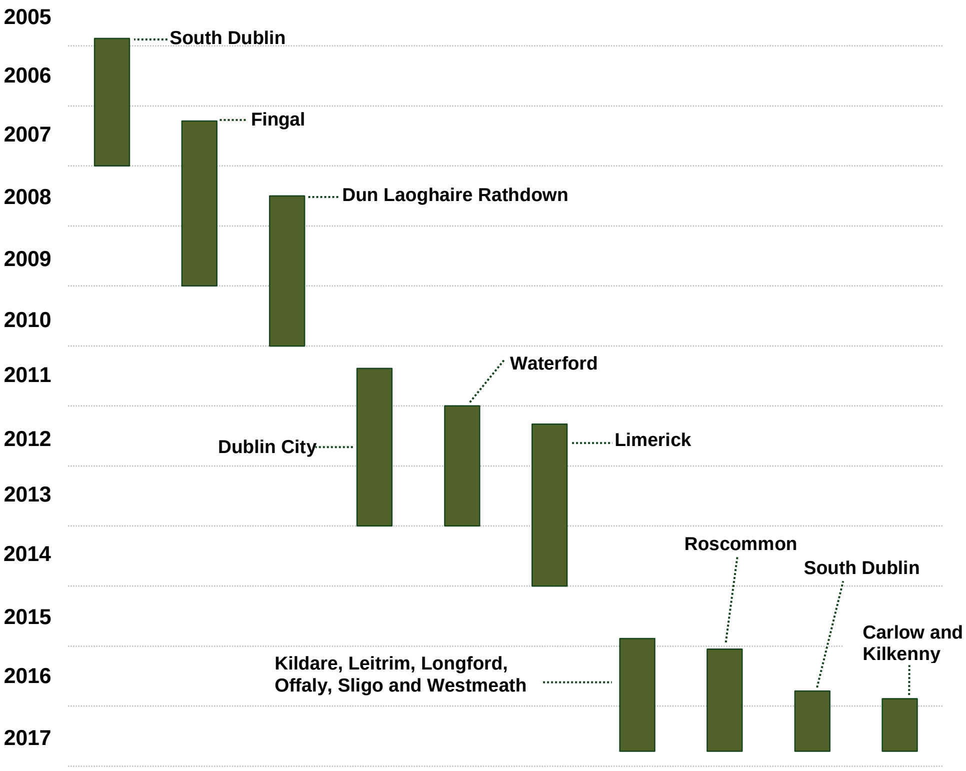
Notes: a Rateable properties as at 28 March 2017. The number of properties in any local authority changes as a result of changes in use, amalgamation or subdivision of properties, etc.

b The Valuation Office estimates that the number of properties will be approximately 160,000 following the completion of the revaluation programme.

11.14 There was an initial delay in commencing the national revaluation programme related to industrial action that continued until 2004 and a high level of staff turnover between 2004 and 2006. The Office had a number of retirements at senior level between 2007 and 2010 that caused further delays. The Commissioner has stated that the volatility of the commercial property market in the period 2008 to 2011 also created highly unfavourable conditions for conducting revaluations.

11.15 Figure 11.3 sets out a timeline of the revaluations completed since the commencement of the programme.

Figure 11.3 Timeline of revaluations completed



Source: Office of the Comptroller and Auditor General

11.16 The average time taken by the Office to complete the revaluation of a rating authority prior to 2015 was two and a half years. This compares to an average of 22 months for revaluations completed by the Office after 2015.[1] The outsourced revaluations of Carlow and Kilkenny took 12 months.

11.17 The elapsed time for individual revaluations does not reflect the number of properties to be revalued. For example, the 6,142 rateable properties in Fingal County Council were revalued in 33 months whereas the revaluation in Dublin City Council with over three times as many properties (20,439) took 31 months to complete.

11.18 The Commissioner has stated that the amount of time required to carry out a revaluation is principally governed by statutory procedures and associated timelines which are determined by the relevant provisions of valuation and rating legislation. The number of staff available is also a major factor.

External valuation services

11.19 In September 2016, the Office contracted private valuers CBRE to revalue all commercial properties in Carlow and Kilkenny, prepare valuation lists for each county and manage any appeals subsequent to the publication of the lists. The contract value is €2.4 million based on 5,052 properties.[2] The valuation lists were published in September 2017.

11.20 A programme board set up by the Office has overall responsibility for the delivery of all revaluations that are planned for completion in 2017, including the work performed by CBRE. The Commissioner has stated that the data received from CBRE is audited and an experienced manager is responsible for day-to-day liaison with CBRE. In addition, and similar to all revaluations that take place, the CBRE project is subject to oversight by a separate review board.

Occupier assisted valuation

11.21 Planning is underway to pilot an 'occupier assisted valuation' approach in County Laois rating authority. Under this methodology, occupiers will self-assess the value of their properties within guidelines and regulations prescribed by the Office. The Commissioner intends to sign the valuation order to commence the occupier self assessment of County Laois rating authority in November 2017 and to publish the new valuation list in September 2018.

11.22 A business case for the use of external valuation services and the planned 'occupier assisted valuation' was not prepared. The Commissioner stated that neither of the new approaches had been deployed in this or neighbouring jurisdictions previously. Therefore, relevant, reliable examples on which to base the development of a business case were not available. As a result, it was decided that appropriate pilot projects should be undertaken. It is planned to commission an independent review of the external valuation services once complete. The Office also intends to review the outcome of the pilot 'occupier assisted valuation' approach. The reviews will form the basis for any future business case to conduct further revaluations using these methods.

1 This excludes the second revaluation of South Dublin County Council which was completed in 14 months.

2 Inclusive of VAT.

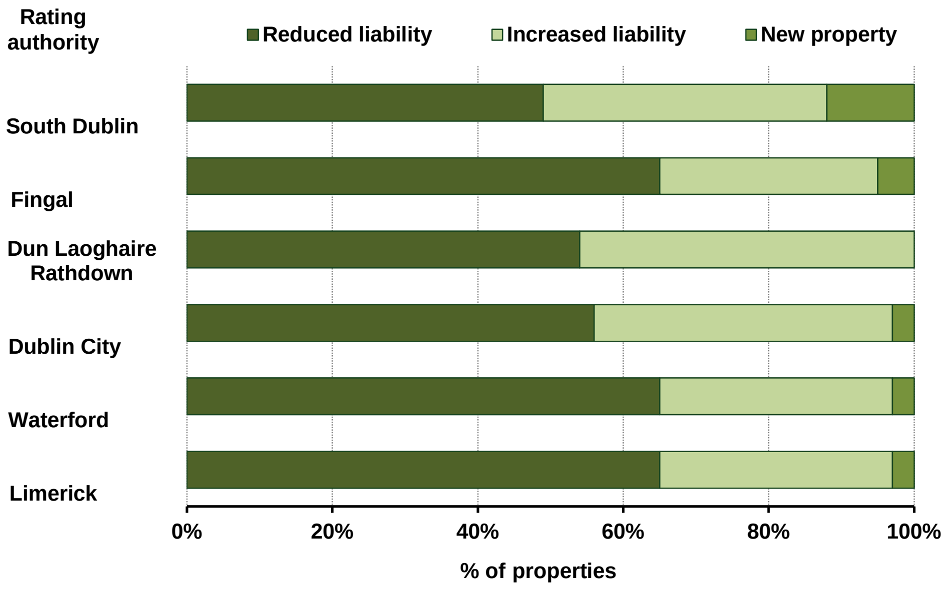
Statistical valuation techniques

11.23 Statistical valuation techniques involve the use of general market data or aggregated data (including statistical and computer-aided techniques) in determining valuation where it is considered appropriate to do so. This facilitates the move to a multiple property approach as opposed to the process in place prior to the legislative changes in 2015 where revaluation was on a property-by-property basis. The Commissioner indicated that the Office uses some statistical techniques to apply common valuation levels from its market analysis to individual properties and categories of properties.

Outcome of completed revaluations

11.24 Before September 2017, the revaluation process had been completed in six rating authorities. The redistribution of rates following these revaluations is set out in Figure 11.4. Overall, the number of ratepayers who experienced reductions from the revaluation has exceeded those who have experienced increases.

Figure 11.4 Redistribution of rates following revaluation

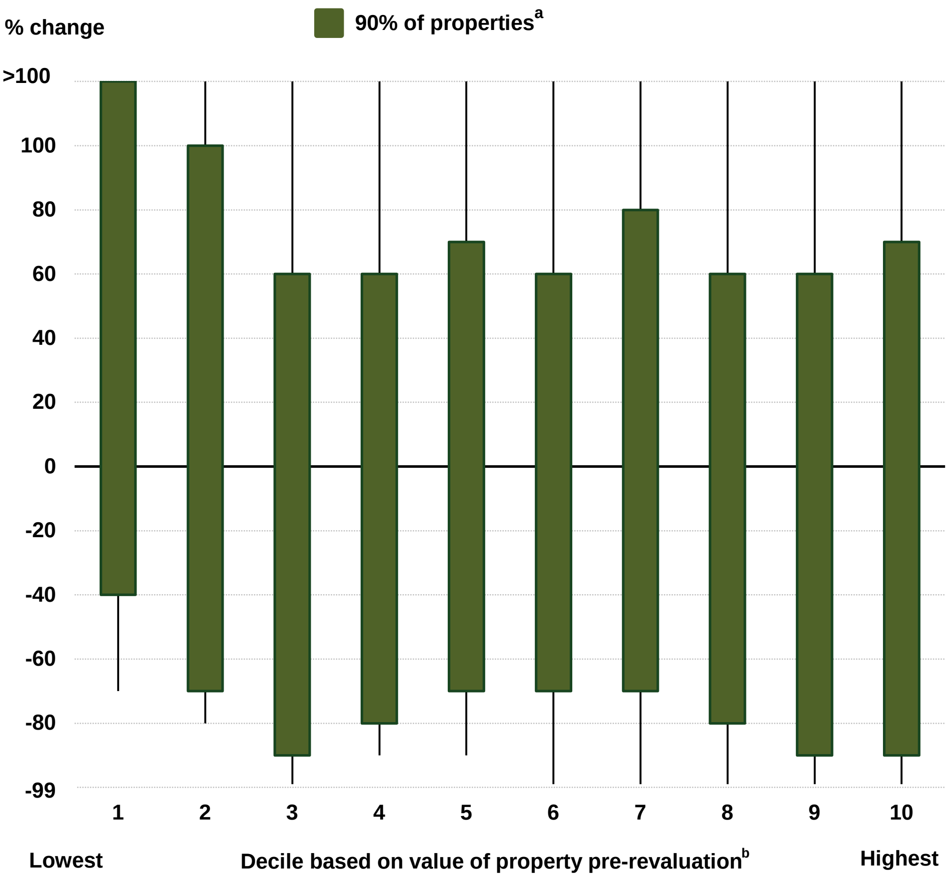


Source: Valuation Office

11.25 An in-depth analysis of the impact of the revaluation in Limerick based on the value of the property pre-revaluation was undertaken as part of this examination (see Figure 11.5).

11.26 The properties with the lowest pre-revaluation values generally incurred the highest proportionate increase in rates payable, but they account for a small proportion of overall rates. The rate payable increased for 61% of these properties compared to on average 28% of the properties in the other deciles.

Figure 11.5 Changes in the rates payable, Limerick



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

Notes: a Analysis excludes new properties valued for the first time during revaluation.

b Each decile is 10% of the pre-revaluation property listing. Decile 1 contains the lowest value properties and decile 10 contains the highest value properties.

11.27 Revaluation can have a significant impact on the rate payable for individual properties. For example, for one property in Limerick, the annual rate payable increased by €474,000 to €490,000. In the case of another property, the annual rate payable reduced by €558,000 to €2.4 million.

11.28 The Commissioner has stated that the Office conducts analysis of the outcome of revaluations such as the rate of increase/decrease in the rates payable by district and by category of business. A programme to increase the awareness of ratepayers in relation to the outcome of revaluations is a priority for the Office. It is developing geographic information systems to present the outcome, for example, 'heat maps' showing valuation levels in particular locations. The Office also intends to explore making the background data sets available through an open data portal.

Appeals

11.29 An appeal can relate to a revaluation or a revision and can be made by an occupier of a property, a rating authority or an interest holder. Prior to the Valuation (Amendment) Act 2015, an appeal was required to be made first to the Office followed by a further appeal to the Valuation Tribunal.[1] If an appellant is dissatisfied with the decision of the Tribunal, an appeal can be made to the High Court or to the Court of Appeal on a point of law. Under the 2015 Act, appeals are made directly to the Tribunal within 28 days of the publication of the valuation list in the case of revaluations, or of the issue of a valuation certification in the case of revisions.[2]

11.30 Previously, the legislation required that an appeal was decided within six months. Under the new legislation, the Valuation Tribunal is required to endeavour to make a decision within six months. The number of appeals to the Office in the last five years is set out in Figure 11.6.

Figure 11.6 Appeals to the Valuation Office, 2012 to 2016

	Revaluation cases			Revision cases		
Year	**Appeals received**	**Processed**	**On hand at year end**	**Appeals received**	**Processed**	**On hand at year end**
2012	—	—	—	90	349	154
2013	—	—	—	118	96	176
2014	2,810[a]	2,810	—	218	266	128
2015	301	301	—	145	82	191
2016[b]					128	63

Source: Valuation Office

Notes: a There was a significant number of revaluation appeals in 2014 due to the finalisation of the revaluation for Dublin City Council and Waterford City and County Council at the end of 2013.

b The Valuation Office did not receive any appeals in 2016 due to the abolition of that appeal avenue.

11.31 The Office received 3,682 appeals in the period 2012 to 2014. The revaluation appeal cases were dealt with in the year they were received. At the end of 2016, the Office had 63 appeal cases on hand relating to revision work. All these cases are over a year old and have exceeded the six month statutory deadline.

11.32 The number of appeals to the Valuation Tribunal in the last five years is set out in Figure 11.7.

11.33 In the period 2012 to 2016, the Valuation Tribunal received 1,469 appeals. Just over one fifth (312) were on hand at the end of 2016. Of the 312 cases on hand, 239 are yet to be heard, 71 were heard and are pending a decision, and two cases are with the courts. The number of appeals to the Tribunal from 2017 onwards may increase substantially as a result of the elimination of the first appeal to the Office.

1 The Valuation Tribunal is an independent body set up to settle disputed valuations between the Valuation Office and ratepayers or local authorities.

2 Prior to enactment of the 2015 Act, an appeal could be lodged up to 40 days after publication of the valuation list or the issue of a valuation certificate.

Figure 11.7 Appeals to the Valuation Tribunal, 2012 to 2016

	Revaluation cases			Revision cases			Total
Year	Appeals received	Processed	On hand at year end	Appeals received	Processed	On hand at year end	On hand at year end
2012	—	273	13	74	96	66	79
2013	—	13	—	11	70	7	7
2014	1,001[a]	13	988	62	29	40	1,028
2015	68	623	433	113	31	122	555
2016	—	290	143	140	93	169	312

Source: Valuation Office

Note: a There was a significant number of revaluation appeals in 2014 due to the finalisation of the revaluation for Dublin City Council and Waterford City and County Council at the end of 2013.

Rate and outcome of revaluation appeals

11.34 The average rate of appeal to the Office for properties revalued up to the end of 2014 was 12%. Figure 11.8 outlines the rate of appeal for each local authority area, and the outcome of those appeals.

Figure 11.8 Appeals of revaluations by local authority[a]

Local authority area	No. of properties	No. of first appeals[b]	Rate of appeal	Outcome of appeal		No. of appeals to Tribunal
				Valuation Upheld	Valuation changed	
South Dublin	6,937	804	12%	480	324	228
Fingal	6,142	883	14%	457	426	100
Dun Laoghaire Rathdown	5,194	1,160	22%	588	572	303
Dublin City	20,439	2,581	13%	1,256	1,325	927
Waterford	3,949	229	6%	48	181	74
Limerick	6,617	301	5%	94	207	68
Total	**49,278**	**5,958**	**12%**	**2,923**	**3,035**	**1,700**

Source: Valuation Office

Notes: a Appeals do not arise until the revaluation is complete and the new valuation list is published.

b First appeal to the Valuation Office.

11.35 The rate of appeal in the later revaluations (Waterford and Limerick) is significantly less than in the earlier revaluations. However, the percentage of appeals that had the valuation revised is greater.

11.36 Overall, 29% of first appeal cases were further appealed to the Valuation Tribunal. The outcome of these cases is set out in Figure 11.9.

Figure 11.9 Outcome of revaluation appeals to the Valuation Tribunal

Local authority area	Appeals received	Outcome of appeal		Did not proceed	Appeals on hand
		Valuation upheld	Valuation changed		
South Dublin	228	16	27	185	—
Fingal	100	9	25	66	—
Dun Laoghaire Rathdown	303	12	118	173	—
Dublin City	927	16	43	750	118
Waterford	74	10	13	46	5
Limerick	68	5	5	38	20
Total	**1,700**	**68**	**231**	**1,258**	**143**

Source: Valuation Office

11.37 The Valuation Tribunal had 143 appeals relating to the revaluation programme on hand at the end of 2016. Of those, 86% related to revaluations completed in December 2013. When the appeals were received the requirement to make a decision within six months was in place.

11.38 Almost three quarters of the appeals received by the Valuation Tribunal did not proceed. The valuation was changed in 77% (231 cases) of the appeals processed by the Valuation Tribunal.

11.39 The Commissioner has stated that an appeal manager monitors the outcome of appeals and disseminates the determinations of the Tribunal on an ongoing basis. This informs future actions including whether individual training and skills development are required.

Cost of revaluation programme

11.40 The Office does not have a costing system that allows it to accurately identify the costs attributable to the revaluation programme or the cost of the revaluation for each of the local authorities completed to date. Based on actual costs attributed to the programme for the years 2001 to 2010 and an apportionment of the total costs of the Office from 2011, it has estimated that the total cost of work on the revaluation programme carried out 'in-house' up to the end of 2016 was around €41 million.

11.41 The cost of the contract with CBRE for the revaluation of 5,052 properties in Carlow and Kilkenny is €2.4 million i.e. around €475 per property.[1] Taking into account estimated internal Office costs of €250,000 associated with the contract, the overall cost to revalue each property is expected to be around €525 per property. To date, €1.4 million has been paid under the contract.[2]

1. This may vary pro rata with the number of properties.

2. As at 13 June 2017.

Conclusions and recommendations

11.42 The national revaluation programme is a major project involving the revaluation of an estimated 180,000 properties. There has been slow progress on the programme. In the fifteen years since the Valuation Act 2001 provided for a programme, only 43% of rateable properties have been revalued. The revaluation of over half of all properties is yet to commence. Arising from a requirement that no more than ten years can elapse between the date of a valuation list and any subsequent valuation list, further revaluations of properties in already completed local authority areas will be necessary in the coming years. Already, one such revaluation has been completed.

11.43 There has been an improvement in the time taken to complete revaluations since 2015 — a reduction on average of eight months.

11.44 The change in the rates bill for a particular property can be substantial — one property in the Limerick rating authority incurred an increase of €474,000 in its annual rates bill as a result of the revaluation, while for another property the rate reduced by €558,000.

11.45 Except for the contracted out revaluation for Carlow and Kilkenny, the costs of the revaluations are not known. Because of the range of approaches to revaluation now available to the Office, accurate cost information in relation to each approach is increasingly important to enable business case analyses of the relative merits of the different approaches.

Recommendation 11.1

The Office should review its approach to the recording of costs associated with the revaluation programme to ensure that accurate costings of the different elements of and approaches to revaluation are available. This will inform decisions on the most effective approach to revaluing property given the various options open to the Office.

Accounting Officer response

Agreed. The Valuation Office acknowledges that there are inadequacies in its ICT operational systems which do not currently support it in accurately attributing costs to individual revaluations. These shortcomings were identified in a process review carried out in 2015 by external consultants. The current ICT system used by the Valuation Office for revaluation and revision work does not have the appropriate functionality in relation to activity costing of its work, conducting detailed cost-oriented case management or workflow stage costs. This is a priority for the Office and is acknowledged as such in the Strategic Plan 2017-2019. A specific recommendation to address the shortcoming is an important component of a new ICT strategy for the organisation which will be finalised shortly.

11.46 The revaluation of the local authorities of Waterford and Limerick were completed in December 2013 and December 2014 respectively. While the rate of appeal was low, the level of adjustment to valuations following the first appeal was significant in both areas compared to the areas previously revalued. In such circumstances, it is important that the Office develops an understanding of the reasons for the high level of appeal cases that resulted in a change to the valuation.

11.47 There is a significant delay in dealing with appeals that were previously referred to the Valuation Tribunal following an appeal to the Office. With the change in appeal process brought about by the new legislation, the level of appeals to the Tribunal may increase significantly.

Recommendation 11.2

A review of the appeals process within the Appeals Tribunal should be conducted in order to identify and address the causes of delay in dealing with appeals.

Accounting Officer response

Agreed. The Tribunal has recently conducted a review of its operations and is carrying out a number of developments and initiatives to address delays in dealing with appeals. A ‘call over’ system has been introduced that alerts the Tribunal to cases that are ready to proceed so that hearing dates can be assigned and affords the Chairperson an opportunity to give directions to the parties’ representatives to progress the appeal.

The Tribunal proposes whenever possible to hold two hearings a day to deal with the expected influx of appeals that will follow the revaluation of ten counties in September 2017 as all appeals will now be made to the Tribunal in the first instance. Four temporary clerical staff were assigned to the Tribunal from August 2017 to assist in the administration of casework. A recruitment campaign is planned for later this year to bring the membership of the Tribunal to the full complement of 28.

An on-line appeals application process and electronic payment of appeal fees which is expected to expedite the processing systems is being introduced.

The Valuation (Amendment) Act 2015 provides that appeals may be determined by a single member of the Tribunal based on written documentation thereby removing the need to hold a hearing which should ensure that appeals can be dealt with more expeditiously. The Tribunal proposes to identify appeals suitable for disposal in this manner. The Tribunal is also preparing draft rules to regulate Tribunal practice and procedures so that appeals can be commenced and heard within the statutory time frame.

The aforementioned measures will go a considerable way to addressing the delays in determining appeals and result in a more efficient and timely appeals process. At the end of June 2017, the number of appeals on hand was reduced by 50% and it is anticipated that the remaining appeals will be dealt with by the end of this year.

Annex 11A

Figure 11A.1 Summary of the Revaluation Process for a Local Authority

Commissioner consults with the Minister for Housing, Planning and Local Government and with the relevant local authority

↓

Commissioner signs a valuation order which specifies the valuation date, publication date and effective date[a]

↓

Commissioner appoints a valuation manager to compile a valuation list and conduct the revaluation

↓

Proposed valuation certificate for each property is issued

↓

Property occupier has the right to make a representation within a 40 day period. Representations received are considered and final certificates must issue no later than seven days before the publication date of the the list.

↓

Publication of the valuation List

↓

Appeals of the published valuation can be made to the Valuation Tribunal within 28 days

Source: Valuation Office

Note: a Valuation date is the date the valuation is based on, the publication date is the date the valuation list will become public and the effective date is the date the valuation list will take effect.

12 Management of Ancillary Services at the Garda College

12.1 The Garda College is An Garda Síochána's national centre for police training, development and learning. The functional structure of the college covers foundation training for new recruits, as well as crime and specialist training and leadership, management and professional development for serving members. The college is located on a campus within the town of Templemore, County Tipperary.

12.2 In 2016, the Internal Audit of An Garda Síochána commenced an examination of the financial structures and procedures at the Garda College, to assess the corporate governance and financial controls, including the controls in relation to the operation of the restaurant and other ancillary services at the college.

12.3 A draft interim report in September 2016 highlighted significant governance, accounting and control shortcomings.[1] The interim report was completed in February 2017.

12.4 As a result of the findings contained in the draft report, the Accounting Officer amended her statement on internal financial control (SIFC) which was published along with the 2015 appropriation account. The amended SIFC stated that "A number of issues associated with the provision of ancillary services in the Garda College, Templemore, have been identified which are not in compliance with current public standard corporate governance procedures. A draft internal audit report has made a number of recommendations to ensure compliance with the *Public Financial Procedures* which will be incorporated into any action plan to address these issues."[2]

12.5 In mid-2017, the matters outlined in the internal audit report were the subject of hearings and a report by the Committee of Public Accounts of Dáil Éireann.[3] The hearings and report focused mainly on concerns around internal audit, oversight and governance, internal structures and organisational culture within An Garda Síochána.

12.6 This report examines the implications for the 2016 appropriation account of An Garda Síochána Vote of

- the funding and accounting for ancillary services at the Garda College, and
- the management of college land.

1 The report is described as interim because Internal Audit expect it to be the first in a series on issues related to the College.

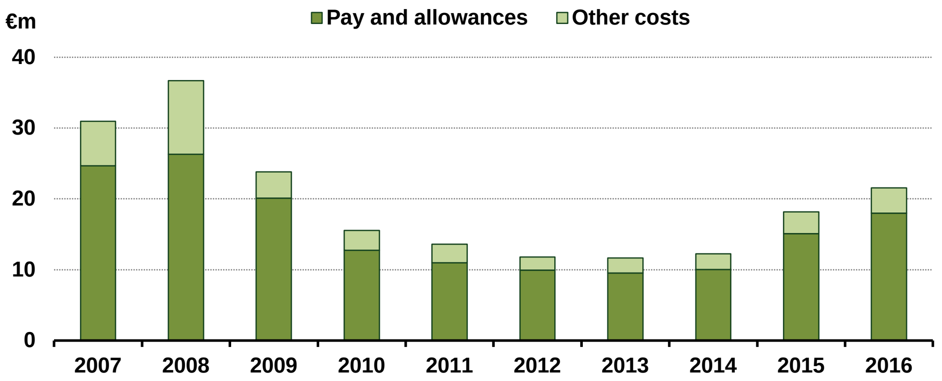
2 *Public Financial Procedures* are issued by the Minister for Public Expenditure and Reform. The document sets out the principles of Government accounting and financial management and how they are to be applied in the day-to-day operations of central government departments and offices.

3 *Committee of Public Accounts report — examination of matters in relation to financial procedures at Garda College, Templemore*, July 2017 (Module 1).

Operation of the Garda College

12.7 The cost of running the Garda College is charged to Vote 20 Garda Síochána. Figure 12.1 sets out the cost of the college between 2007 and 2016. There was a significant fall from the €36.7 million spent in 2008 to around €12 million a year between 2012 and 2014, as a result of the moratorium on recruitment to the public service introduced in light of the economic crisis. Recruitment recommenced in 2014 with over 1,800 new trainees attending the college since then.

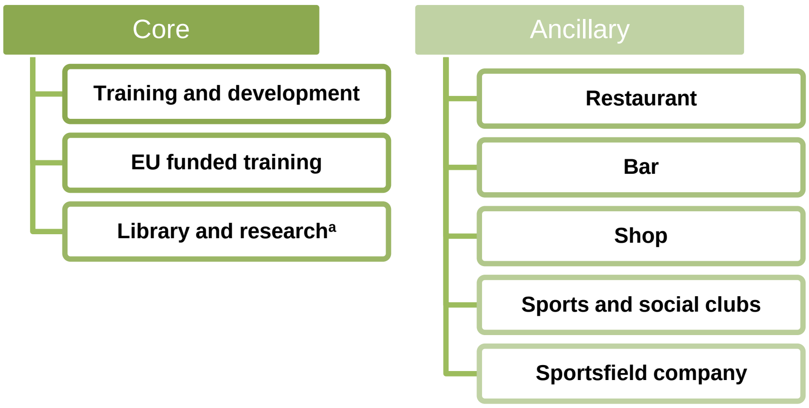
Figure 12.1 Expenditure at the Garda College, 2007 to 2016



Source: An Garda Síochána

12.8 In addition to the core operations of the college funded by the Vote, a variety of ancillary services and social activities have operated within the college campus, mainly for the benefit of trainees. These include a restaurant, bar and shops, a number of college clubs and societies, and a company called Garda College Sportsfield Company Ltd, established to provide and manage sports facilities for the college community.

Figure 12.2 Core functions and ancillary services at the college



Source: An Garda Síochána

Note: a Library materials for the college were charged to the Vote. A separate library account was maintained where trainees paid for services such as photocopying.

College banking

12.9 The Commissioner, as Accounting Officer, is personally responsible for safeguarding the public funds and property under her/his control, and for ensuring that appropriate systems are in place for the management of public funds. This includes the operation of public bank accounts.[1]

12.10 The operations and costs of the Garda College are administered in a similar manner to Garda districts. Most expenditure, including pay, equipment and capital costs, are managed centrally, while local management is responsible for expenditure incurred locally through the imprest accounting system.[2]

12.11 The Internal Auditor's interim report found that, in addition to the bank accounts required for the operation of the college's core activities (including the imprest account), over 40 accounts with financial institutions had been operated within the college to support ancillary services. Of those accounts identified, 18 had been closed in 2010, following a 2008 review by the Garda's Finance Directorate.

12.12 The college bank accounts which were operated since 2011 (a total of 30) are summarised in Figure 12.3 (overleaf). As at August 2017, nine accounts are operating — five controlled by An Garda Síochána, and four club/society accounts.

12.13 Since 2014, government departments have been obliged to ensure that the balance sheets attached to their appropriation account(s) include "all commercial bank account balances (payroll and other vote-related accounts) held at the year-end which are funded by the Exchequer through voted expenditure or contain receipts due to be deposited back to the Exchequer as appropriations-in-aid."[3] The accounts which were core to the college's activities, comprising the college imprest account and accounts relating to EU funded programmes, were recorded on the appropriation account bank balances from 2014, in accordance with those instructions.

12.14 A number of accounts were used for ancillary services. In some cases, these accounts were subject to the control of organising committees, while in others, these accounts were under the control of college management. None of the ancillary activity bank accounts under the control of management were recorded as part of the bank balances on the appropriation accounts for 2014 or 2015.

12.15 For 2016, the restaurant and shop bank accounts have been included in the balance sheet.

1 Section 29 of the Garda Síochána Act 2005 provides that the Garda Commissioner may, for the purposes of performing her/his functions under the Act in relation to the administration and business of An Garda Síochána, operate in the State or elsewhere bank accounts of any description, with the prior consent of the Ministers for Justice and Equality and Public Expenditure and Reform.

2 Imprest accounts are a feature of government accounting whereby funds are advanced from headquarters to local management to obviate the need for them to expend their own resources on public services. When expenditure is incurred, details are remitted to the central finance unit which in turn charges the expenditure to the appropriation account and replenishes the imprest account.

3 Department of Public Expenditure and Reform circular 17/2014 – *Requirements for Appropriation Accounts 2014*.

Figure 12.3 Summary of bank accounts operating in college since 2010

Account	Balance Dec 2016	Balance Dec 2015	Funding source	Status of account (Aug 17)
Core activities	**€**	**€**		
College imprest account	49,216	85,813	Public	Open
EU Central Fund[a]	242,094	154,157	Public	Open
Garda College International Training (CEPOL)	21,704	17,027	Public	Open
EU Central Fund (two deposit accounts)	–	–	Public	Closed (2015)
Garda College European Courses	–	–	Public	Closed (2013)
Library materials account[b]	–	–	Public	Closed (2012)
Total	**313,014**	**256,997**		
Ancillary services (accounts controlled by management)				
Restaurant current account[c]	210,415	456,443	Public and private	Open
Restaurant deposit accounts (ten)[d]	–	–	Restaurant surplus	Closed (2011 – 2015)
Shop	13,732	4,161	Sales	Open
Library – student purposes	–	–	Students	Closed (2012)
Student sports	670	5,950	Private and restaurant	Closed (2017)
Bar accounts (current and deposit)	8,099	16,133	Sales	Closed (2017)
Total	**232,916**	**482,687**		
Ancillary services (accounts not controlled by management)				
Coiste Roinne — sporting activities	N/A	N/A	Public and private[e]	Open
Student welfare	N/A	N/A	Public and private[e]	Open
Tours	N/A	N/A	Private	Open
Golf society	N/A	N/A	Private	Open
Golf club bar	N/A	N/A	Sales	Closed
Social events	N/A	N/A	Private	Closed
Water safety	N/A	N/A	Public and private	Closed

Source: An Garda Síochána. Balances for some private accounts were not supplied to the examination.

Notes:
- a Managed by Finance Directorate from April 2016.
- b Funded through the college imprest account from 2013.
- c Funded from the Vote through the living allowance and direct charges, and from sales to paying customers.
- d Ten accounts were used to manage surpluses from the restaurant.
- e Includes apportionment from the living allowance.

Operation of the college restaurant

12.16 The largest ancillary service related to the operation of the college restaurant which has functioned since the foundation of the college. While the restaurant was not formally established as a company, it had its own accounting records and a separate tax number. The internal audit report questioned whether it had a separate legal identity from An Garda Síochána. Its legal status is being examined by An Garda Síochána.

12.17 Arrangements were made by college management to have the accounts of the restaurant audited, but it appears they were not transmitted beyond college management. The audited accounts outline that up to 2008, the restaurant generated accumulated surpluses, with around €2 million in reserves at the end of that year.[1] Over the period 2009 to 2016, the restaurant accumulated trading losses of €1.95 million. An analysis of the financial information from the restaurant activities is shown in Figure 12.4. The main funding sources comprised

- a 'living allowance' for student meals, paid from the payroll subhead of the Vote
- direct charges for events and training of other Garda personnel at the college which were paid from the Vote training subhead
- direct charges at the till for paying customers of the restaurant, including staff and visitors.

Figure 12.4 Garda restaurant — summary of financial outcome 2008 to 2016

	2008	2009	2010	2011	2012	2013	2014	2015	2016
	€000	€000	€000	€000	€000	€000	€000	€000	€000
Sales[a]	2,590	1,477	533	430	354	330	427	755	1,105
Cost of sales	1,041	643	274	203	180	176	225	438	543
Gross profit	*1,549*	*834*	*259*	*227*	*174*	*154*	*202*	*317*	*562*
Expenses	1,449	1,232	576	478	439	366	411	556	621
Net profit/(loss)	*100*	*(398)*	*(317)*	*(251)*	*(265)*	*(212)*	*(209)*	*(239)*	*(59)*

Source: 2008 to 2014 audited accounts; 2015 and 2016 supplied by An Garda Síochána.

Note: a Garda management report that the restaurant generates annual cash sales currently of the order of €160,000.

12.18 Garda management stated that the losses incurred since 2009 were financed by the reduction of cash balances and the realisation of investments. They also stated that by the end of 2008, the model for funding the restaurant through the use of the living allowance had resulted in surpluses of income over expenditure during periods of accelerated trainee recruitment. They stated that the surpluses were retained and used to finance other ancillary student services in the college including purchases of land for the development of sporting facilities (playing fields), financing of sporting clubs and activities and other broader college expenditure.

1 The reserves were held in bank accounts and a number of investments.

12.19 In May 2017, An Garda Síochána commissioned external accountants to carry out a review of the tax affairs of the shop, restaurant, bar and Sportsfield Company Ltd. The review concluded that the tax affairs of the various activities were in order except for an underpayment of tax in relation to the bar. As a result, Garda management submitted an unprompted disclosure to the Revenue Commissioners in May 2017.[1] An amount of €32,800 was paid to the Revenue from the Vote in respect of

- incorrect accounting for VAT on bar sales since 2010, resulting in a liability of around €18,300, plus interest and penalties of €4,200
- incorrect treatment of payroll taxes on casual wages for the period 2014 to 2016 in the bar, resulting in a liability of around €8,800, plus interest and penalties of €1,500.

A determination on the matter by the Revenue is awaited by Garda management.

Governance of ancillary services in other public bodies

12.20 A number of public bodies provide restaurant and canteen services on-site for staff and other users, generally where there is a sufficient number to avail of the services, or due to the nature or location of the work. Different approaches are adopted by public bodies, with some providing services directly and other providing services on an ‘outsourced’ or contracted basis, procured under a competitive process.

12.21 An Garda Síochána has had no clear framework for the college restaurant which sets out its governance structure and accountability arrangements, and the use or application of any surpluses generated. A comparison of the arrangements for the college restaurant with the models in place for the provision of restaurant facilities in other public bodies is set out in Figure 12.5.

1 In accordance with the *Code of Practice for Revenue Audit and Other Compliance Interventions*, an unprompted disclosure of a previously undeclared tax liability may qualify for reduced penalties, depending on the circumstances giving rise to the liability.

Figure 12.5 Comparison of models for the provision of restaurant services in public bodies

Key arrangements	Garda college restaurant	Typical arrangements in other public bodies	
		In-house provision (including army messes and campus companies)[a]	Contracted provision
What is the operational model for the provision of services?	The basis for the provision of services is unclear. No contract or service level agreement in place.	Services are part of the body's operations.	Publicly procured service with a contract in place.
Who employs the staff?	Status of staff is unclear.	Staff employed by body or subsidiary.	Contractor
Who pays for supplies, utilities, premises and equipment, cleaning, etc?	Costs such as premises, facilities and utilities are charged to the Vote. Payment for equipment varies. Supply costs are charged to the restaurant account.	All costs charged to body or subsidiary.	Contractor, but in most cases, public bodies fund some costs, such as the provision of premises and some facilities.
How are sales prices set?	College management set prices charged to paying customers. In the case of trainees, meals were paid for through the living allowance.	In general, sales prices are set by management (of body or subsidiary) with input from user forums.	Contractor sets sales prices.
Who controls surplus funds generated from services?	In practice, college management control surpluses.	Surplus funds are not usually generated (i.e. break even).[b]	Contractor
Are the services provided within overall financial and governance control of the body?	Not in the past but changes now being made.	Yes	No
Are activities subject to internal audit and audit committee oversight?	In practice, they were not.	Yes	No
Does the body recognise the trading results of the operations in its financial statements?	No Separate annual audited accounts for the restaurant .	Yes[c]	Not applicable
Are operations compliant with public procurement rules?	Not applied	Yes	Not applicable

Source: Analysis by the Office of the Comptroller and Auditor General of the arrangements for the provision of restaurant/canteen services in An Garda Síochána, Defence Forces, a number of government departments, the Houses of the Oireachtas Commission and a number of third level colleges.

Notes:
a The Defence Forces Canteen Board is established under military regulations and has its own governance structures. Many third level colleges operate campus companies that provide catering service on-campus.

b In the case of the Defence Force Canteen Board, the relevant mess committee has control of surpluses under the relevant regulations. The Houses of the Oireachtas Commission is paid an annual contribution from the Oireachtas catering service based on the trading surplus, with some funds retained for working capital.

c In most cases, restaurant activities are consolidated into annual financial statements. The Houses of the Oireachtas Commission 2016 accounts disclose summary trading results.

Living Allowance for Garda Trainees

12.22 An in-depth review of the training approach in An Garda Síochána was undertaken in 1985 under the chairmanship of Dr Thomas Walsh. The report included a number of recommendations to modernise the training and development for recruits.[1] On foot of the recommendations, the Government approved changes in January 1988 to the manner of the recruitment, training, conditions and accommodation of new members of An Garda Síochána.

12.23 Up to 1988, training of new recruits was limited to a six-month programme in the Garda College, after which recruits were attested as Gardaí. As part of the reforms, an extended training period and system for new recruits was introduced in 1989. This had five phases

- Phase 1 — 22 weeks training in the college, plus 2 weeks annual leave
- Phase 2 — 24 weeks in a designated training Garda station, plus 2 weeks annual leave
- Phase 3 — 12 weeks in the college (followed by attestation as a Garda)
- Phase 4 — 32 weeks in a designated training Garda station, plus 4 weeks annual leave
- Phase 5 — 6 weeks at the college.

Allowance rates

12.24 Prior to the introduction of the phased training regime in 1988, new recruits commenced on the Garda incremental pay scale upon first appointment. A weekly deduction was made from their pay for food and accommodation while undergoing the six-month training programme at Templemore.

12.25 Changes in remuneration of recruits were made in parallel with the introduction of the Walsh training regime. Under the phased regime, recruits received a weekly personal allowance (£58 in 1989) paid directly to them during the first three phases of training. In addition, a meal/lodging allowance referred to as the 'living allowance' was payable. Both elements of the training allowance ceased upon attestation, when members were placed on the normal Garda Síochána pay scale and received standard Garda allowances.

12.26 While the personal allowance element was constant, the rate of payment of the living allowance varied over the different phases of training. When trainees were attending the college as students (i.e. the first and third phases), the allowance was paid directly to the college restaurant account, at a rate of £30 a week in 1989. When trainees were assigned to designated training stations during the second phase of training, the living allowance was paid directly to them through the relevant Garda district imprest account. In that case, the amount paid was the lesser of £50 a week (in 1989) or the actual cost of food and accommodation. The same living allowances were paid to trainees while on leave during the initial two phases of training.

1 *Report on Probationer Training by the Garda Training Committee*, December 1985 (referred to as the Walsh Report).

12.27 A submission in 1989 from Garda management to the Department of Justice and Equality seeking an increase in the living allowance refers to the provision of college recreational facilities as one of the reasons for seeking the increase. Internal Garda college correspondence in January 1990 directed that an element of the living allowance be set aside for providing facilities for trainees, including sports and social clubs and student welfare. The Department has not identified any records which indicate that it specifically approved the use of part of the allowance in this way.

12.28 By 2009, when the last intake of trainees under the Walsh regime were finishing their training, the allowances payable up to attestation were

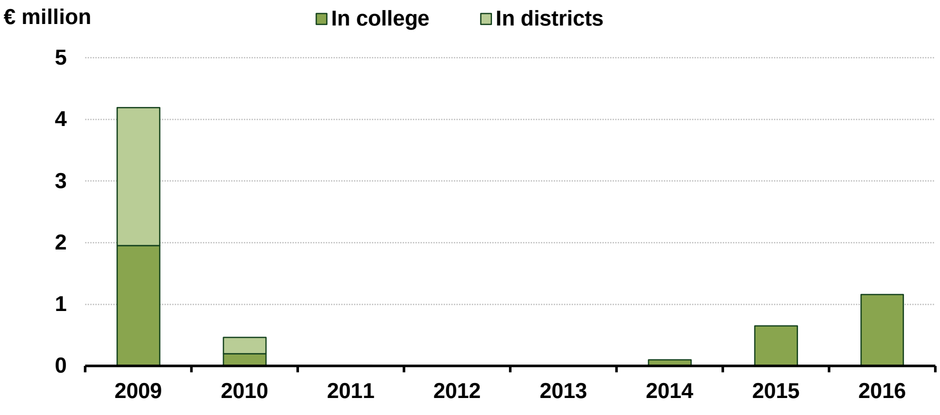
- personal allowance of €203.44 a week for phases 1, 2 and 3 (62 weeks in total)
- living allowance of €71.42 a week while in college i.e. phase 1 (24 weeks in total) and phase 3 (12 weeks in total), and
- living allowance of €120.47 a week during the phase 2 station assignment (26 weeks in total).

12.29 In 2014, a change was made to the time a recruit was on a training contract prior to attestation — this was reduced from 62 weeks to 32 weeks. Trainees now commence on the first point of the Garda incremental pay scale after that period. As a result, since 2014, the living allowance is payable only when the recruit is attending the college as a student.

Allowance expenditure

12.30 Figure 12.6 shows the charge to the Vote for the living allowance over the period 2009 to 2016. Living allowances totalling €1.157 million were paid in 2016 in respect of recruits, representing 0.12% of total pay and allowances charged to the Garda Vote.

Figure 12.6 Living allowance expenditure, 2009 to 2016



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

Tax treatment of the trainee allowance

12.31 The terms and conditions notified to recruits to An Garda Síochána under the revised training regime specified that the living allowance was payable 'towards food and accommodation' at the specified rates during the first three training phases. A key issue in determining the tax treatment of the living allowance is whether it is regarded as income of the trainees or simply an internal transfer within the Garda Vote. If it is income of trainees, then the only basis for not taxing it is that it represents reimbursement of expenses that would be deductible under tax rules.

12.32 There is evidence on the Department's files of some initial consultations with the Revenue in 1988 regarding the tax treatment of the allowances. The Department concluded that if the allowance was paid directly to recruits, it would most likely be taxable whereas, if food and accommodation were provided to recruits and the college 'mess committee' was paid directly, then tax probably would not be payable.[1] It also noted that payment of the living allowance would be taxable during phase 2 training, while recruits were attached to designated training Garda stations.

12.33 In 1989, the Department directed that the living allowance should be paid

- direct to the Garda College 'mess committee' while recruits were at the college, and
- in the form of a subsistence allowance during phase 2 of training.[2]

Subsistence payments are generally paid by public bodies in respect of expenses incurred when staff are required by their employers to carry out duties away from their permanent base. Subsistence payments within standard civil service rates are generally not subject to taxation.

12.34 There is no evidence on file of Revenue having been formally consulted, or having agreed to this treatment.

12.35 Following a review of the tax treatment of a range of Garda allowances in November 2011, Revenue wrote to An Garda Síochána and directed that the practice of the payment of the living allowance during phase 2 as a subsistence allowance (i.e. without deduction of payroll taxes) was to be discontinued, and that amended procedures should be introduced to comply with rules on the tax treatment of employee expenses. No arrears of tax were levied in that regard. No reference was made by Revenue to the tax treatment of the living allowances paid during the period students were attending the college.

Current position

12.36 The Department has sought the views of the Attorney General in relation to the legal status of the living allowance.

12.37 An Garda Síochána have stated that the funding model for the college restaurant was changed in May 2017 when responsibility for the restaurant was handed over to the newly appointed (interim) Principal Administrator. The restaurant is now being run on a 'net cost' basis. Monthly funding from the Vote for the restaurant is now calculated from the cost of staff wages and restaurant supplies, and takes account of the till receipts. A record of the number of students in attendance in the college during that period is also provided to the Finance Directorate for information and correlation purposes. This should avoid any surplus occurring in the account.

1. Mess committees are provided for in Garda regulations which permit committees to be established to arrange the provision of meals to members.

2. The Department also directed that the payments should be charged to subhead A Salaries, wages and allowances of the Garda Vote and a separate payroll code should be established to facilitate tracking of expenditure on the living allowance.

12.38 The Secretary General has stated that his Department is in discussion with Garda management in relation to changing the existing structure for financing the college in order to give a transparent picture of the total costs and income. It is envisaged that changes to the existing structure will be reflected in the estimates provision for 2018 and subsequent years.

Management of land at the Garda College

12.39 The land and buildings used to operate the Garda College belong to the Office of Public Works (OPW).

Garda College Sportsfield Company Ltd

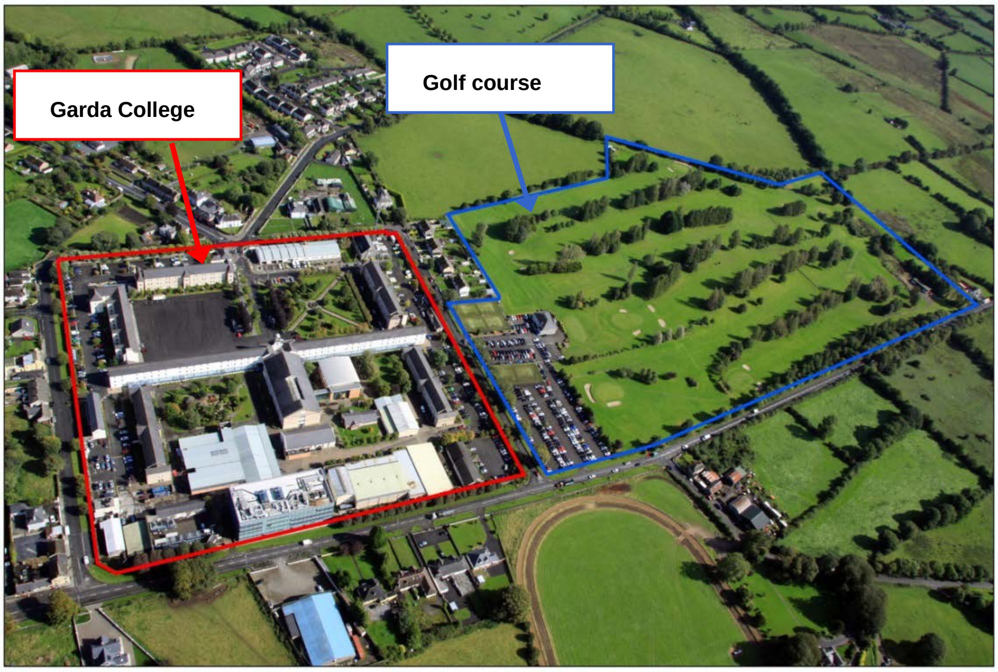
12.40 Garda College Sportsfield Company Limited was established in 1993 by management in the college to provide sporting facilities for students.

12.41 In the past, the Director of Training and other senior managers at the college acted as directors of the company. There was no overall written framework setting out how acting as directors of the company interacted with management's responsibilities in relation to the running of the college. An Garda Síochána have stated that none of the current managers in the college are directors of the company and that it is intended to wind up the company once all land assets have been transferred to State ownership.

Golf course land

12.42 37 acres of land adjacent to the college were acquired by OPW in 1964 and had been developed as a nine-hole golf course over the following years (see Figure 12.7). In 1998, Sportsfield Company Ltd purchased an interest in the golf course land under a 99 year lease for £85,000 and the payment of annual peppercorn rent of £1.

Figure 12.7 Garda College and golf course land



Source: An Garda Síochána

12.43 In 2000, Sportsfield Ltd agreed to allow the use of the land by a local golf club for an annual fee of €12,600. An Garda Síochána have stated that the payment of the fee subsequently fell into arrears and an amount of approximately €88,000 is currently outstanding.

Dromard farm

12.44 A Government decision was taken in 2004 to increase Garda numbers to 14,000. To cater for the consequential increase in the number of students attending the college, existing tactical training facilities at the college were demolished to make way for upgraded and extended accommodation on the campus.

12.45 In planning to replace and extend the tactical training facilities for the college, Garda management proposed development of a 'centre of excellence' to be provided on additional land procured in the Templemore area. The objective of the new centre was to deliver strategic, tactical and operational training and development of gardaí. The arguments cited in favour of the proposal to develop a centre of excellence included

- facilities at the college campus had been limited and supplementary facilities had to be occasionally sourced, risk assessed and indemnified
- available supplementary facilities had limitations including a lack of training rooms, telecommunications and technology, difficulties with access, health and safety concerns, security risks and increased travel costs due to the distance from the college
- the new centre could provide a variety of training areas for public order, method of entry, tactical, search, firearms, driving school and other practical training facilities.

12.46 Acting on behalf of An Garda Síochána, the OPW set about procuring a site for the new training centre in late 2004. In March 2005, advertisements were placed in national and local media seeking 'expressions of interest' to sell a site of 15 to 25 acres in the vicinity of the college.

12.47 A number of responses were received to the initial advertisement and each proposed site was visited by college management and an OPW official. In early May 2005, Garda management expressed concerns about the sites offered due to the proximity to local housing, the quality of some of the sites or the proposed purchase prices.

Procurement of Dromard farm

12.48 At about the same time, a farm at Dromard — 6 km from the college — was advertised for public auction on 10 May 2005, at a guide price of €2.5 million. The farm included a Georgian period house, out-houses and 252 acres, including 92 acres of woodland. Garda management expressed an interest in this property, citing the benefits of the additional space for an outdoor firing range, a driver training course, and rural surveillance techniques training for specialised units.

12.49 The OPW estimated the open market value of the Dromard farm at €3 million and advised that, given the special value of the site to the Gardaí, a bid of up to €3.5 million would be justified. The Department of Public Expenditure and Reform gave sanction to purchase the site on the basis of the potential to provide a broader range of activities and the cost being significantly less than some of the sites submitted in response to the Garda request for expressions of interest. The sanction also directed that the site should be shared with other State agencies if required, and that the potential for disposing of any surplus part of the site was to be given due consideration.

12.50 The Dromard farm was withdrawn on the day of the auction for a private sale. An OPW staff member recorded at the time his understanding that the sale price was €3.5 million.

12.51 In June 2005, the Department informed OPW that the Garda requirements could be met more effectively than through the purchase of the Dromard farm. It pointed out that a 25 acre site was available in the same general area as the Dromard farm with an asking price of €500,000. Another site of around 29 acres with a price of €3.5 million close to the college was assessed in December 2005 as meeting training needs into the future. The latter was stated to be the preferred option of Garda management, even though the site had been assessed in May 2005 and rejected as being marshy land.

12.52 In March 2006, following a request from Garda management, the Department asked OPW to acquire the 29 acre site in Templemore. Given that problems arising from proximity to the town had been given in May 2005 as one of the reasons for seeking an out of town property, the Department asked Garda management to explain their latest proposal. They responded that the site had capacity for incremental development and for a complete 'centre of excellence'. Acquisition of the 29 acre site was pursued in the following months but was not completed.

12.53 In September 2006, the Dromard farm was again put up for auction at a guide price of €4.5 million. The Chief State Solicitor's Office advised OPW that the previous sale had not been completed and that the property was to be auctioned as a sub-sale of the previous transaction. The Department pointed out in a letter to OPW that the Dromard farm could be purchased for a price similar to the 29 acre site then being pursued within the town environs, and that every effort be made to acquire the farm.

12.54 OPW inspected the Dromard farm and noted that the land would not rank as best quality farmland. Property consultants engaged by OPW valued the site at €5.45 million, and OPW noted that it agreed with this valuation.

12.55 On 11 October 2006, OPW acquired the Dromard farm at auction for €4.3 million.

Letting of land at Dromard farm

12.56 Since the enactment of the Garda Síochána Act 2005, the Garda Commissioner does not have the power to enter into a contract in relation to land.

12.57 In March 2007, OPW arranged a short-term letting of the land at Dromard for grazing through a local auctioneer. The amount of land let was around 162 acres, yielding rental income of €38,000 (less fees and costs of €2,838) which was paid to OPW. In 2008, the lands were again let for two autumn months, and rent of €5,100 (less fees of €242) was paid over to OPW. Records on file indicate that college management sought advice from OPW in November 2008 for the continued letting of the land. No reply is on record.

12.58 Over the period 2009 to 2013, the local auctioneer continued to advertise short-term lettings on instruction from Garda management at the college. An Garda Síochána have estimated that rental income of around €131,000 (net of fees and expenses) was received.[1]

1. This amount was paid over to OPW in July 2017 by An Garda Síochána.

12.59 In May 2013, OPW asked An Garda Síochána about the Dromard farm in the context of a search to identify public land for use in helping to alleviate a national fodder crisis. On being informed of the local letting arrangement for the farm, the Garda Finance Directorate queried college management about the authorisation for the letting of the lands, the legal safeguards in place including the insurance arrangements, the appropriate accounting for the receipts and any possible tax implications.

12.60 In January 2014, the Garda Finance Directorate wrote to OPW outlining the events leading to the letting of the land between 2009 and 2013 and asked OPW to take steps to arrange for future lettings. In April 2014, OPW arranged a letting through the local auctioneer until November. OPW received rent of €27,000 in 2014 which it recognised as appropriations-in-aid of its Vote. Following a number of development and restoration works on the land, OPW arranged further lettings until 2020 which are yielding income of €30,000 per annum.

Development of training facilities at the 'centre of excellence'

12.61 A master plan for the development of the proposed centre of excellence at Dromard farm was developed in May 2007. This envisaged that the centre would be used by around one-tenth of the Garda organisation at any one time. The plan included elements for firearms training, a tactical and public order training school, a driving training school, detective and command training, operation support units, communal and residential facilities and sporting and recreational facilities.

12.62 Actual development on the farm was limited to construction of a building for tactical training. Garda management at the college have stated that the tactical facility is used periodically, for search, public order, and armed support and commend training. The site is used for off-road training and has also been used by the Civil Defence for training from time to time.

12.63 An Garda Síochána explained that given the budgetary constraints following the economic crisis, the development of all of the planned training facilities had not been possible.

12.64 In February 2016, Garda management reviewed facilities at the college and training demands within the force. It outlined the urgent need for additional accommodation and training facilities to cater for training for the following 10 to 15 years. It noted that the facilities should be located as close as possible to the town in order to use the existing services which are available at the college.

12.65 In addition to the requirements which it had previously set out in 2007, the review also outlined the need for 500 additional bedrooms to offset the need to seek accommodation outside the college, and additional car parking spaces. Car parking spaces available at the golf course next to the college are currently used for college parking.

Conclusions and recommendations

Ancillary services bank accounts

12.66 The total number of bank accounts operating at the Garda College has been reduced since the 2008 review by the Garda's Finance Directorate, with five accounts controlled by Garda management operating at August 2017. Two accounts relate to ancillary services — the college restaurant and the campus shop. Most of the balances in the restaurant account arose from the living allowance payments in the past, and from trading.

12.67 At the end of 2016, €224,000 held in bank accounts of ancillary services at the Garda College were included on the balance sheet. Minor balances in two accounts which have since closed were not included in the balance sheet.

12.68 An Garda Síochána has stated that a revised funding model for the operation of the college restaurant has been put in place in 2017 which is expected to eliminate the accumulation of a surplus in the restaurant bank account.

Framework for management of services

12.69 Measures have also been implemented by An Garda Síochána to regularise controls over ancillary services, and to bring them formally within An Garda Síochána's financial control system. However, no clear framework is yet in place to govern the relationship between the college (and An Garda Síochána more generally) and those activities.

Recommendation 12.1

An Garda Síochána should set out in a document the governance arrangements in relation to ancillary services operating within the organisation.

Accounting Officer's response

Agreed. The Accounting Officer of An Garda Síochána stated that the events that unfolded in the college were due to structures that were established in the 1980s. Following the publication of the interim internal audit report in February 2017, An Garda Síochána appointed a new interim Principal Administrator at the grade of Principal Officer to manage all administrative functions in the college. New structures are being established in line with the recommendations of the report.

Management of State land

12.70 OPW provides specialised support and assistance to central government departments and agencies, including An Garda Síochána, in relation to the acquisition, development, management and disposal of land and buildings. In general, OPW retains ownership of property acquired for use by public bodies which manage the property on a day-to-day basis. OPW also has a role in ensuring there is an overall strategy in place in relation to the portfolio, and that good value is obtained in relation to the State's investment.

12.71 In relation to the management and control of State owned property at the Garda College, there are concerns that the approach did not achieve good value.

- There is no evidence An Garda Síochána involved OPW in advising on the granting in 2000 of a licence for access to the golf course lands to a local club.

- There is no evidence that the buy-out of the lease of the golf course land was considered for college development purposes when An Garda Síochána and the Department sought to procure additional land to increase capacity of the college on foot of a Government decision on Garda numbers in 2004.
- There is no evidence that the purchase of the Dromard farm and transfer of control over it to An Garda Síochána has been underpinned by any formal agreement or clarification of responsibilities.
- There is no evidence that OPW followed up or monitored the extent to which the Dromard farm was used for the purposes for which it was acquired, or that its value was otherwise protected or optimised.

Recommendation 12.2

An Garda Síochana and OPW, in conjunction with the Department, should develop a long term plan for the development of land and buildings in relation to the Garda College.

Accounting Officer's response

Agreed. The Accounting Officer of An Garda Síochána has stated he recognises that the Garda College is key to the future development and achievement of the organisations objective to grow An Garda Síochána to 21,000 Garda, civilian and reserve members by 2021. In 2007, the Director of Training developed a plan for the establishment of a centre of excellence to expand the training facilities of the college. In 2016, An Garda Síochána set out the requirements and investment required to modernise the college. The option to use the golf course lands adjacent to the Garda College provides an ideal opportunity to expand the existing campus in Templemore with obvious benefits for the Garda organisation and the town of Templemore.

He stated that An Garda Síochána has already discussed this option with the OPW as part of the on-going work to transfer lands from the Garda College Sportsfield Company Ltd to the OPW. Both organisations recognise the complexities associated with the golf course lands and the significant investment required to develop the facilities at the college. An Garda Síochána will continue to work with all of the relevant parties to ensure that all lands are transferred to the OPW in line with the interim internal audit report recommendation, and that the college is developed in the most appropriate way to meet future organisational requirements.

Secretary General's response

The Secretary General of the Department of Justice and Equality stated that his Department's submission for the mid-term review of the capital plan included details of a longer-term master-planning programme at the college, under which it is also proposed to progress two projects that comprise: a new purpose-built education and training facility, including classrooms, break out room, and ancillary teaching and administration functions; and new or expanded residential accommodation predominantly for use by trainee Gardaí undergoing foundation training.

OPW Chairman's response

The Chairman of OPW has stated that, as the golf course lands are in the town, and adjoin local housing, proximity to housing and the town was deemed problematic for An Garda Síochána, this site, at that time, would not have been deemed suitable. Therefore, no further consideration was given by OPW to locating the new training centre on the adjacent golf course lands. He also stated that the purpose for which the Dromard farm was acquired dissipated with the onset of the financial crisis and the consequential termination of the development project.

Recommendation 12.3

OPW should put formal agreements of responsibility arrangements in place with public bodies to which State property has been assigned.

OPW Chairman's response

Agreed. The Chairman of OPW stated that he accepts the general intent of the recommendation to ensure that there is clarity between OPW as a property holder, and its occupants as to respective responsibilities relating to property. He stated that, traditionally, in the case of central government departments, there is no lease or license arrangement put in place, as many departments are not allowed hold leases in their own name. While OPW is currently examining the advisability of putting in place letters of agreement/understanding relating to such occupancy, it has been our experience that such arrangements have never been seen as necessary as occupants traditionally care for, and utilise the property for its intended purpose. The use of any such agreements could only be completed following the receipt of legal advice as consideration would need to be given to any unintended consequences relating to existing legislation on health and safety, etc.

Recommendation 12.4

Cyclical inspection should be undertaken by (or on behalf of) OPW of all property it owns to ensure the property continues to be used for authorised purposes, that the State's interest in the property is protected and there is optimum return from property no longer (or not yet) required for strategic purposes.

OPW Chairman's response

Agreed. The Chairman of the OPW stated that the OPW, through its regional network of offices throughout the country, routinely inspects properties and lands to ensure they are protected and free of encroachments. As set out above, the OPW is currently examining ways of ensuring heightened clarity between the roles and responsibilities of both the OPW in its role as property owner, and its various tenants. Given the scale and dispersed nature of the OPW portfolio, the existing resource allocations do not allow for constant oversight of all property managed by the OPW. The OPW believes there needs to be a shared responsibility acknowledged and defined for both parties in terms of property management.

13 Development of ICT Systems by the Department of Justice and Equality

13.1 The Department of Justice and Equality (the Department) provides information and communication technology (ICT) support services for many functional areas and agencies within its Vote group. The ICT Division provides ICT support on shared services basis to over 3,000 users in more than 70 locations across the group.

13.2 Between 2012 and 2016, ICT projects undertaken by the Department on behalf of agencies included

- a case management system and ancillary developments for the Insolvency Service of Ireland
- a reporting and registration system and ancillary developments for the Charities Regulatory Authority
- an on-line licence renewal system for the Private Security Authority.

An outline of the projects is set out in Figure 13.1.

Figure 13.1 List of agencies and key ICT project features

Agency	Key ICT project features
Insolvency Service of Ireland — established as a statutory agency in 2013 to help insolvent debtors resolve their indebtedness.	Case management system for processing of individual debt settlement applications; on-line system for registration, authorisation and management of Personal Insolvency Practitioners (PIP) and Authorised Intermediaries (AI); third party software interface for PIPs and AIs; two new websites; interface with the Courts systems; data mart and enhanced reporting systems.
The Charities Regulatory Authority — established in 2014 as the independent statutory regulator of charities.	On-line reporting and registration system by charities; on-line register for public search; two new websites; on-line concern and query submit forms.
Private Security Authority — established as a statutory agency in 2004 to regulate the private security industry.	On-line system for renewal of security licences by companies and individuals.

Source: The Department of Justice and Equality

13.3 As set out in Figure 13.2, the Department has incurred direct project costs of around €4.6 million to the end of March 2017 on external contractors such as developers and systems analysts.[1] The expenditure was met from the ICT budgets within the respective non-pay subhead allocations of the three agencies.

1 Excludes in-house staff time cost. The projects were developed within the existing infrastructure and software, so no expenditure was incurred in that regard.

Figure 13.2 Direct ICT project costs incurred, as at March 2017

Agency	€000
Insolvency Service of Ireland's project	3,647
Charities Regulatory Authority project	772
Private Security Authority licence renewal system	220
Total	**4,639**

Source: Department of Justice and Equality

Insolvency Service of Ireland's project

13.4 As part of the Troika financial aid programme, the Personal Insolvency Act 2012 reformed the existing bankruptcy legislation and introduced non-judicial debt settlement arrangements to help eligible individuals and businesses address growing levels of debt. Key provisions of the Act included the establishment of a State-run insolvency service to help people manage their debt, and the setting up of three non-judicial voluntary debt settlement procedures. The Insolvency Service of Ireland (the Service) was established on 1 March 2013 under the Act.

13.5 During the drafting phase of the legislation, an initial review indicated that the new debt settlement procedures would be relatively complex, and that the processing of each application would require the secure recording of multiple statutory documents, as well as the enforcement of various mandatory business rules. Given the large volume of applications expected (approximately 8,000 per year), a highly-automated IT system was considered the only viable option for their timely and efficient handling.

13.6 The Department did not develop a formal business case for the project, and did not set a project budget. The Department has stated that the earliest possible opening of the Service was a top priority for the Government and the Troika and, thus, was the subject of weekly monitoring by the Government and the Cabinet Committee on Mortgage Arrears and by the Troika in their regular reviews. The Department was given the task of setting up the Service, and the Director Designate of the Service took up office in November 2012, while the draft legislation went through the Oireachtas. The Department has stated that the establishment of the Service was a core deliverable in the Troika agreement. An immediately functioning ICT system was required in order that this key national commitment could be met, and was achieved in very pressurised circumstances.

13.7 The Department stated that when development of the system began in 2012, the lead analyst from its ICT Division developed the first draft of business processes, by means of meetings and workshops with the Service's staff and legal advisors. In early 2013 development work continued in tandem with the formal establishment of the Service. The use of a Rapid Application Development methodology enabled the Department's ICT Division to be flexible and responsive to evolving and changing business requirements. The project was initiated in a situation where the Service was not formally established and the legislation required to be updated during the course of the project.

13.8 The initial case management system went live in September 2013 following the establishment of the Service in March 2013. Since then, there have been several upgrades and functional enhancements, with the current version going live in January 2016. To date, there have been 11 releases for the case management system plus a number of ancillary developments providing additional functionality.

13.9 The Service requested approval in March 2016 to go to the market to identify and cost other external systems that could better meet its business needs. With the agreement of the Service, a decision in this regard was put on hold until an external review was carried out. The review of the existing system commissioned by the Department concluded that

- significant functional gaps remain
- excessive manual processing is required by Service case staff outside the system
- excessive manual interventions are required by the Department's IT staff to progress workflow
- the system does not meet the management information and reporting needs of the Service.

13.10 The external review also highlighted significant project management difficulties, including

- ownership of both the system and the project was not always clear
- changes in personnel resulted in an inconsistent approach and delays
- there was disagreement as to the best approach and assignment of responsibilities for testing
- there were differing views regarding the level of detail required in project plans and other project documentation.

13.11 The Service is currently working on the required documentation to issue a request for tender for the procurement of a replacement on-line case management system, under the oversight of the ICT Governance Group and the Office of Government Procurement.[1] The request for tender will ascertain, based on the response, whether there is a system in the market place that could more effectively meet the business needs rather than committing resources to further in-house development of the existing systems. The Department stated that it is not possible at this time to estimate the cost of a replacement system. The existing system will remain in use until such time as a replacement — if one can be procured — is fully implemented. This is expected to occur at the end of 2018 or early 2019.

The Charities Regulatory Authority project

13.12 The Charities Act 2009 provided for the establishment of an independent national statutory regulator for charitable organisations. The Charities Regulator was established on 16 October 2014 in accordance with the Act.

13.13 The Department's ICT Division developed a system to provide for on-line registration and reporting by charities which went into operation upon the establishment of the Regulator. This system was further developed in September/October 2015 to provide a simplified form for charities which held 'charitable status' from the Revenue Commissioners and for annual reporting. In total, nine releases of this system have been delivered from 2014 until the final release in April 2017.

13.14 While a basic business case analysis for developing the system was prepared, there was no formal budget for the project.

1 The ICT Governance Group operates in the Department for ICT project governance and monitoring. The membership of the Group has been revised to include two members external to the Department with significant experience of ICT project management.

13.15 The Department stated that while the initial developments delivered a functional and operating system to meet the business demands, there were perceived gaps in the overall system functionality based on the experience gained from the start-up that was not foreseen as part of initial requirements.

13.16 It stated that, with the benefit of time and hindsight, the Regulator identified a possibility of procuring an established application that would address the revised business requirements in a more cost-effective way than continuing with in-house development. The system will be replaced by a new digital platform to include an on-line registration and reporting system procured by the Regulator.

13.17 The ICT Governance Group approved the Regulator going to market to ascertain if that was a feasible proposition. The procurement process was conducted in keeping with the Department's and public sector guidelines, and the business case was approved by the ICT Governance Group which also monitored the progress of the procurement process. The Department stated that robust project management processes were put in place for the procurement and will be further strengthened for the implementation process.

13.18 The Department further stated that the new digital platform has now been procured and the process for deploying the new system will begin in the third quarter of 2017. It stated that final full costs for the replacement system are not yet available. On previous experience, it is expected that the existing systems will need to be in operation for at least a further 12 months until the new platform is implemented.

The Private Security Authority licence renewal system

13.19 The Private Security Services Act 2004 provided for the establishment of the Private Security Authority as the statutory body with responsibility for licensing and regulating the private security industry in Ireland. The Authority was established on 28 October 2004.

13.20 The Authority commenced licensing security contractors in 2006 and security company employees in 2007. The licensing cycle is a two-year cycle — the majority of contractors fall due for renewal in the first year of the cycle and the majority of employees fall due for renewal in the second year. Licensing generated over €3 million in licence fee income in 2016. The objective was to develop an on-line system to process applications for licences and renewals.[1]

13.21 While a basic business case analysis for developing the system was prepared, there was no formal budget for the project, and no formal structure for overseeing the project.

13.22 The first release of the system for employee renewals was completed in June 2016, 12 months after the project commenced. In total, three releases of the system have been delivered since 2016. The phased release of the renewal system for contractors was postponed due to delays in user testing with the employee element, but this became operational from April 2017.

1 Applications for licences and renewals were originally submitted in manual form to the Authority. The project was initially envisaged as a requirement to automate and move on-line, versions of the manual forms. An on-line application form for individuals commenced in 2015.

13.23 The Department stated that following the release of the employee on-line renewal system most of the processes were automated. However, there were a series of scenarios which had not been highlighted that needed system workarounds which were no longer possible. A period of high manual maintenance followed by both Authority staff and the Department's ICT staff. It was decided to postpone the release of the contractors' on-line renewal element and focus on fixing these manual processes. All the issues were fully addressed and the contractor system was made available to the Authority in March 2017.

13.24 The Department stated that these issues did not impact the vast majority of the on-line users for whom the system functioned normally. It expects that the system can be used with appropriate updates for as long as the existing licensing case management system is in use.

13.25 The Department stated that a specific project board was not put in place as it was originally envisaged as a relatively small two to three month project of limited scope that should not need that level of governance. When difficulties regarding scope and requirements emerged, a business analyst/project manager was assigned to manage requirements and to conduct regular project meetings. These meetings were attended by appropriate levels of staff from the ICT Division and the Authority.

Conclusions and recommendations

13.26 The projects, which were different in scale, complexity and background, had a number of shortcomings in relation to planning and oversight as set out in Figure 13.3.

Figure 13.3 Project planning and oversight

Project	Insolvency Service of Ireland	Charities Regulatory Authority	Private Security Authority
Was a comprehensive project budget prepared?	✗	✗	✗
Was a business case prepared?	✗	✓	✓
Was a project board or similar oversight arrangement put in place?	✓	✓	✗
Did the project board meet regularly?	✓	✓	Not applicable

Source: Analysis by Office of the Comptroller and Auditor General

13.27 Formal business cases with agreement on what is to be developed, how it is to be developed and costings for each element are essential in informing project oversight as to whether a project should be approved for development or not. Basic business cases were prepared in two cases but not in the case of the Insolvency Service of Ireland's case management system.

Recommendation 13.1

All ICT projects should require a business case that is properly assessed and that has been agreed between the Department and the end user. The business case should set out the business requirements, the expected benefits, the project methodology, the proposed delivery approach, project costs and evaluation of options, as appropriate.

Accounting Officer's response

Agreed. The terms of reference of the ICT Governance Group have been strengthened and a new project business case approval workflow system introduced. All business cases going to the Governance Group now must follow this standard comprehensive template. A Technical Subgroup with appropriate expertise (and including an external member) meets on a monthly basis and performs a robust assessment and vetting of business cases for ICT expenditure prior to their consideration by the full Governance Group. Automated project tracking is in the process of being implemented to reduce the risk of deviation from approved cases without it being brought to the Governance Group for approval.

However, it is important to note in this context that the detailed requirements and design need to be clear and fully understood by all stakeholders. This was not the situation in the case of the Insolvency Service of Ireland developments as the legislation was in draft and the precise operating model of the business was not known at the early stages of this development.

13.28 Detailed and realistic budgets assist in the consideration as to whether projects should be approved for development in the first instance. They also enable the monitoring of actual costs, so that potential cost overruns are highlighted at an early stage and remediation actions are possible. The Department stated that the projected spend for the various phases of the projects were agreed between the Department's ICT Division and the individual agencies. Given the various phases and evolving requirements, it was not the practice at that time to devise a specific all-encompassing budget for these projects.

Recommendation 13.2

All ICT projects should have detailed budgets, with estimated costs for each stage of development. Regular comparisons of budgeted expenditure against actual spend should be undertaken and presented to the relevant project oversight group, together with clear explanations of material variances.

Accounting Officer's response

Agreed. The modified project approval and tracking systems recently developed encompass an improved project reporting capability and each project sponsor is responsible for updating their project status on the system on a monthly basis. These updates will flag any deviation from the approved business case in areas of cost or timescales and any projects showing an 'amber' or' red' status will be reviewed at each Governance Group meeting.

Only in very urgent and exceptional circumstances will a project be initiated without detailed budgetary planning where the priority of the system is deemed critical, as was the case with the Insolvency Service of Ireland project.

13.29 There were a number of shortcomings in relation to project governance with a lack of clarity in some cases regarding the project organisation including responsibilities of each party, expectations of various stakeholders and the approach to quality assurance and testing.

Recommendation 13.3

The Department should review its governance approach to planning and managing complex ICT development projects to ensure the system developed is fit for purpose and achieves value for money.

Accounting Officer's response

Agreed. As already set out above, the Department, through its ICT Governance Group, has updated its governance approach to planning and managing complex ICT projects.

The revised approach has been influenced by the lessons learned from previous projects including the Insolvency Service of Ireland and the Charities Regulatory Authority projects.

A greater emphasis will be placed on the management of individual projects once they are approved. Each project sponsor is accountable for the delivery of their project and project boards are required to oversee projects of significant scale. Each project manager is required to submit a monthly status report for review by the ICT Governance Group and projects exhibiting a status of 'amber' or 'red' are further investigated.

To address longer term project reviews, the ICT Governance Group has also established a post implementation review process, through which completed projects are required to attend at the Group meetings and present on project outcomes, achievement of deliverables and lessons learned.

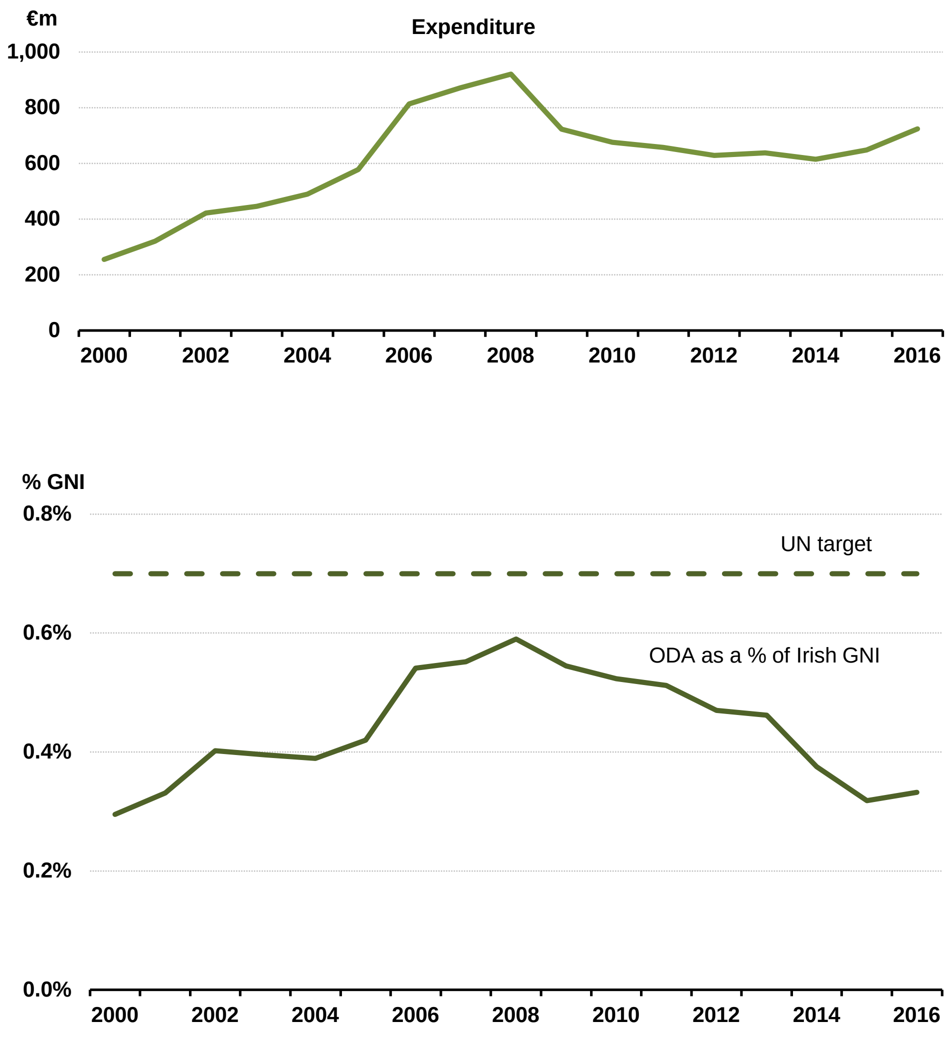
14 Control of Ireland's Bilateral Assistance Programme

14.1 Official development assistance (ODA) is the transfer by the State of funds for the promotion of economic development and welfare of developing countries.

14.2 Irish Aid is the Government's main programme for ODA, funded under Vote 27 International Co-operation. The programme is managed by the Development Co-operation Division (DCD) of the Department of Foreign Affairs and Trade (the Department).

14.3 Irish ODA totalled €724 million in 2016 (see Figure 14.1). While still lower than the peak level in 2008 (€921 million), Irish ODA in 2016 was up 12% year on year, and at its highest level since 2008.

Figure 14.1 Irish Official Development Assistance, 2000 to 2016



Source: Expenditure — Irish Aid Annual Reports. %GNI — the Organisation for Economic Co-operation and Development (OECD).

14.4 In 1970, the United Nations (UN) set a target for developed countries to contribute ODA equivalent to 0.7% of their Gross National Income (GNI) each year.[1] In 2005, the EU Council set a specific objective for member states to reach the UN target by 2015.[2] Ireland has not succeeded in meeting the EU objective to date but, in line with EU Council conclusions in 2015, has made a new commitment to meet the target of 0.7% of GNI by 2030.[3]

14.5 Ireland's ODA increased from 0.3% of GNI in 2000 to a high of 0.59% in 2008, before falling back to its current level of 0.33% (see Figure 14.1).[4] As a result, Ireland ranked number 13 (jointly with Spain) out of 35 OCED countries in terms of its pro rata contribution.[5]

14.6 Irish ODA funding is applied under two main categories of assistance (see Figure 14.2)

- **Multilateral assistance (€338 million/47%)** — this involves contributions to international agencies, institutions or organisations that pool contributions from their member countries and apply them for development purposes.
- **Bilateral assistance (€386 million/53%)** — this involves the provision of direct assistance to a developing country through a variety of channels, including governments of developing countries, non governmental organisations (NGOs), international agencies, and partnerships with private agencies and missionary societies.

1 UN General Assembly Resolution 2626 (XXV), 24 October 1970.

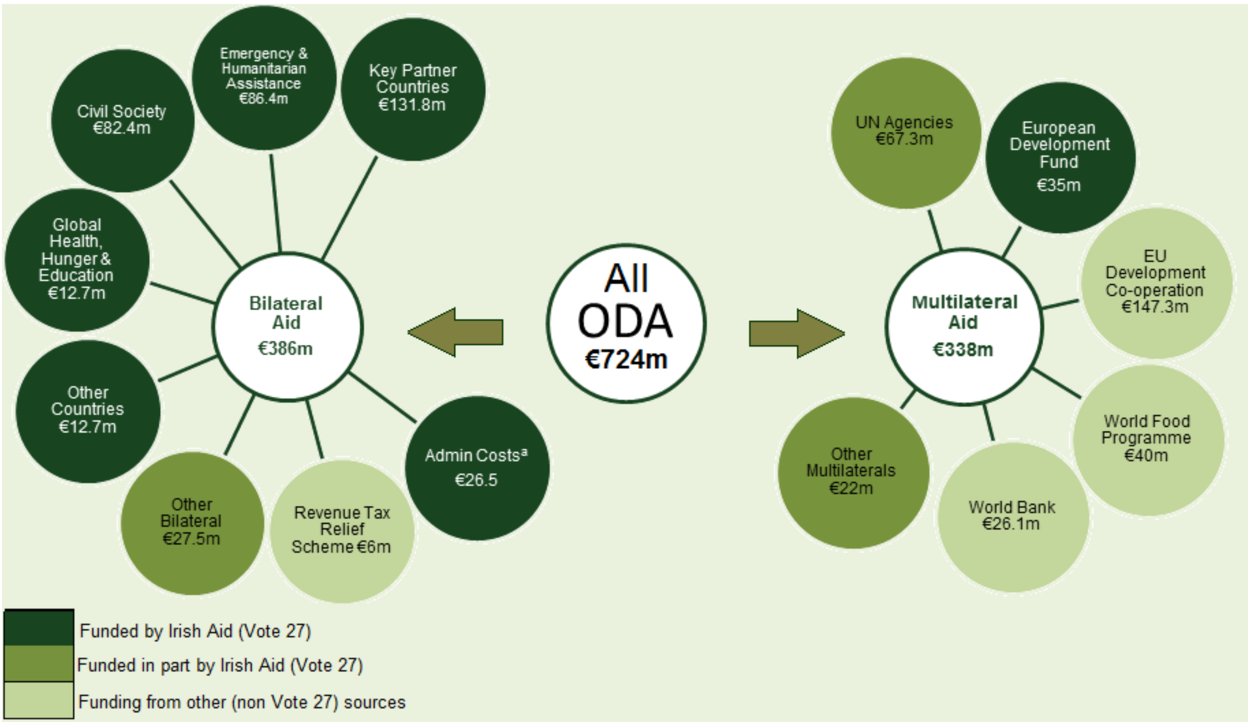
2 Council of European Union Meeting No. 2660, External Relations Council, Brussels, 24 May 2005.

3 *2030 Agenda and the Sustainable Development Goals* adopted by world leaders at the UN Summit in New York in September 2015.

4 Annex 14A shows ODA spending as a percentage of GNI by OECD donor countries in 2016.

5 UN summit for the adoption of post-2015 development agenda 2 August 2015.

Figure 14.2 Overview of Ireland's ODA in 2016



Source: Department of Foreign Affairs and Trade

Notes: a Vote 27 administration costs include salaries of staff at Irish Aid HQ and in key partner countries, consultancy fees to provide technical expertise and independent evaluation, travel cost and chancery/residence costs.

b Humanitarian interventions receive funding directly through emergency and humanitarian assistance budgets. An additional €90 million is channelled into humanitarian intervention via organisations funded under bilateral and multilateral budgets.

c Amounts paid from Vote 30 Agriculture, Food and the Marine to the World Food Programme in 2016 include a prepayment of €20 million for 2017.

14.7 About two thirds of Ireland's ODA in 2016 is accounted for through Vote 27. The remainder arises from

- Ireland's share of the EU development co-operation budget
- Ireland's contribution to the World Food Programme, the World Bank and other multilateral organisations
- payments to international bodies by other departments.[1]

2012 Uganda fraud

14.8 In October 2012, the Auditor General in Uganda reported on the misappropriation of €11.6 million of donor funding intended for the Northern Uganda Peace, Recovery and Development Plan.[2] A total of €7.25 million had been contributed by Irish Aid to the Government of Uganda in support of the Plan, of which €4 million had been misappropriated. The Irish Government announced a suspension of all Irish Aid funding channelled through the Government of Uganda following the Auditor General's report. In December 2012, €4 million was recouped from the Ugandan Government.

14.9 The Department's Evaluation and Audit Unit (Audit Unit) investigated the misappropriation of funds and carried out a complete review of the internal controls and risk management systems operated by the Department in relation to all of the key partner countries.[3] The Assessment of Internal Control and Risk Management Systems in Key Partner Countries Synthesis Report (Synthesis report) was published by the audit unit in February 2014.

14.10 This report considers

- the control systems in place in respect of bilateral assistance provided under Vote 27, and
- improvements in the Department's administrative procedures for bilateral assistance following the fraud in Uganda.

14.11 This examination included a site visit to the Irish embassy in Uganda. The examination looked at the implementation of new Departmental guidelines relating to the selection of projects and how they are monitored, audited and evaluated.

1 Contributions to ODA are made by the Department of Finance; the Department of Communications, Climate Action and Environment; the Department of Agriculture, Food and the Marine, among others, (accounted for on their respective votes); and repayments by the Revenue Commissioners in respect of the Tax Deductibility Scheme for donation to relevant charities.

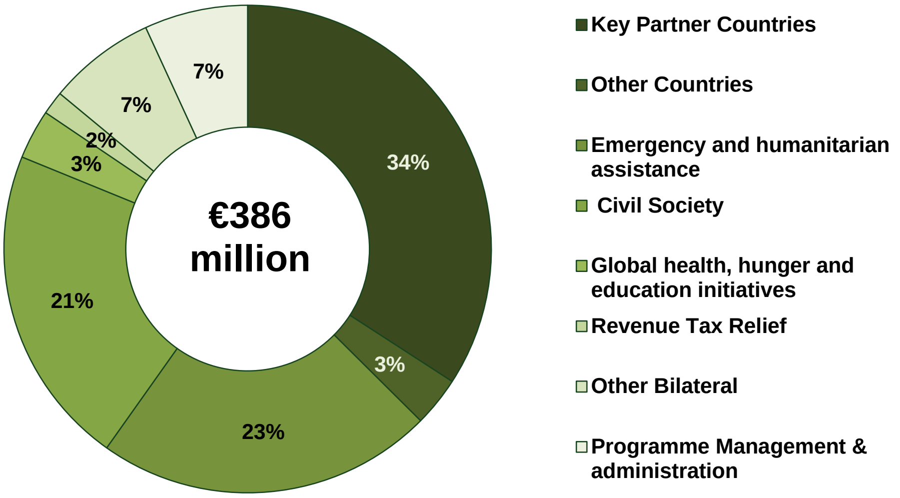
2 The *Peace, Recovery and Development Plan* is a development framework formulated by the Government of Uganda and implemented by the Office of the Prime Minister, as a strategy to eradicate poverty and improve the welfare of the people of Northern Uganda. It received donor funding from Ireland, Sweden, Denmark, and Norway.

3 Key partner countries are countries where Irish Aid have formal arrangements with the government for sustained long term development assistance.

Bilateral assistance

14.12 Figure 14.3 shows the breakdown of Ireland's bilateral assistance in 2016.

Figure 14.3 Overview of bilateral assistance 2016



Source: Department of Foreign Affairs and Trade

Note: a Other Countries are countries where Irish Aid provided support via the embassy without entering a formal partnership with the government of the country.

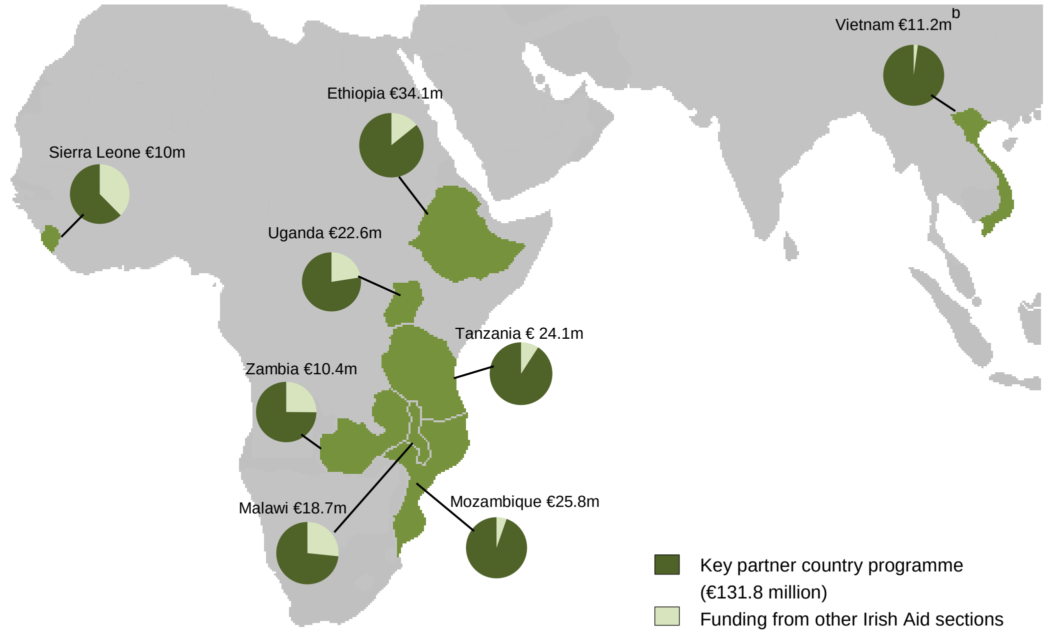
14.13 Irish Aid targets certain countries and programme priorities in allocating its bilateral assistance so as to concentrate its effectiveness. When deciding the appropriate channel through which to deliver assistance, factors considered include political environment and type of assistance required within the country.

Key partner countries

14.14 Ireland has long term strategic partnerships with the governments of eight selected key partner countries to help support them in development and poverty reduction programmes. Development assistance provided under these partnerships is managed primarily by the Irish embassies in the key partner countries in conjunction with Irish Aid headquarter units and is designed to align with the partner governments' national development plans. The embassies also work with and may fund civil society organisations, NGOs and multilateral agencies in the target countries by providing grants to deliver agreed programmes of work.

14.15 Funding may also be transferred to partner countries via Irish Aid funded civil society and humanitarian partners. Figure 14.4 shows the total bilateral assistance provided to each of Ireland's key partner countries in 2016 directed through the embassies (€131.8 million), and via Irish Aid funded civil society and humanitarian partners (€25.1 million).

Figure 14.4 Total bilateral assistance transferred to key partner countries in 2016[a]



Source: Department of Foreign Affairs and Trade

Note: a Figures are shown net of administration costs.

b Embassy in Vietnam managed funding for Vietnam, Cambodia and Laos (included in total).

Country strategy plan

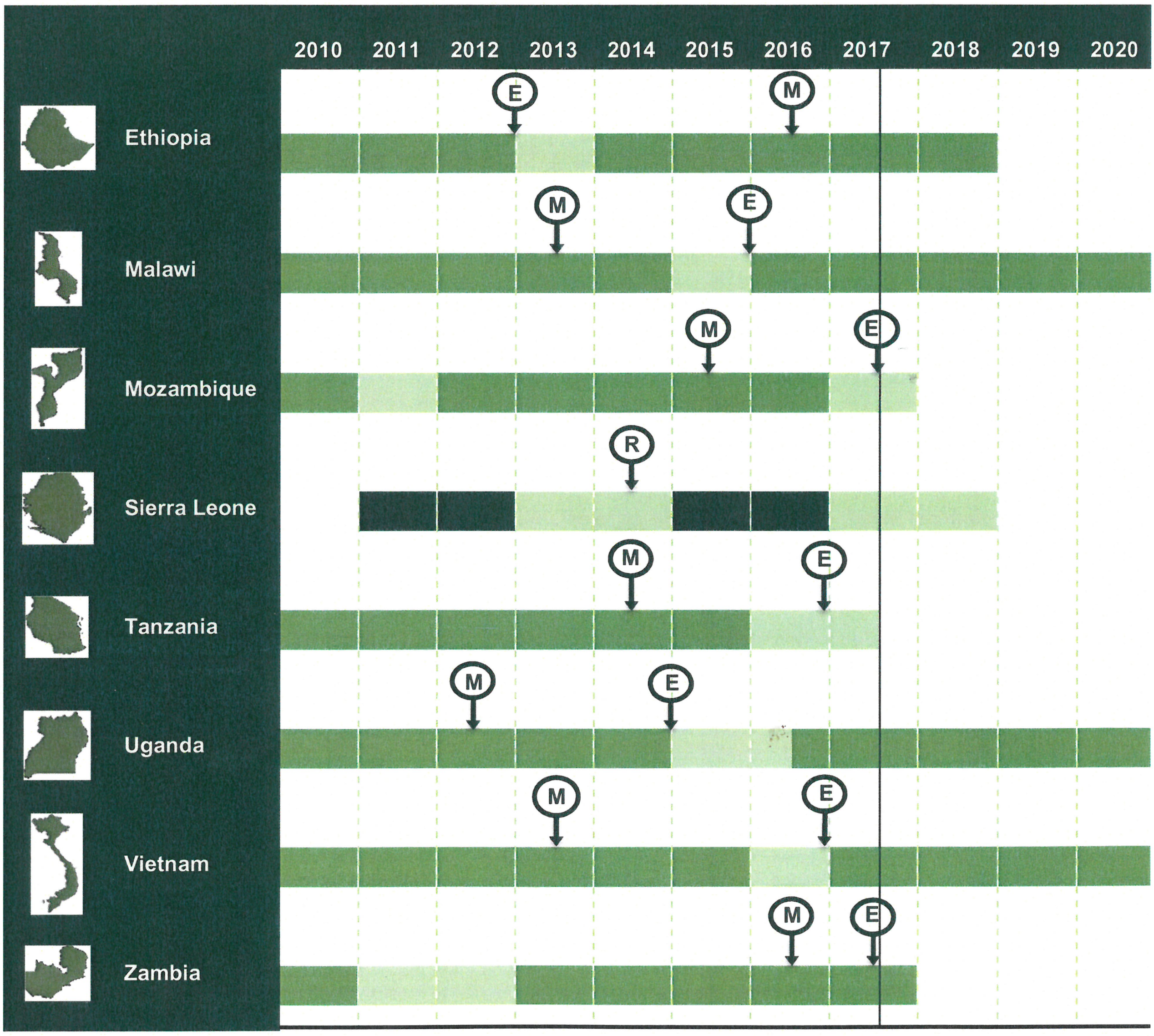
14.16 A five year country strategy plan is designed for each of the key partner countries.[1] This outlines a framework that proposes how an embassy in a partner country will accomplish a set of specific outcomes. The plan also includes provision for a mid-term review and end-of-strategy evaluation. The mid-term review is conducted by the embassy in coordination with the Department's Africa Unit. The end-of-strategy evaluation is organised and managed by the Audit Unit. In some cases the evaluations are carried out by external consultants, who are managed by the Audit Unit and in other cases they are carried out by the Audit Unit with support from external consultants.

14.17 A review of the country strategy plans for each of the eight key partner countries noted that five of the key partner countries strategies were in date as at June 2017. The Department had extended the current strategy in three countries, as a new strategy was not ready for implementation. Figure 14.5 summarises the position in respect of each key country strategy since 2010.

1 A transitional strategy operates for Sierra Leone as the country is transitioning from post conflict to development.

14.18 The Department has stated that given the environment that some of Ireland's partner countries operate in, circumstances can change radically during the planning processes for country strategy plans. Economic downturns, government elections and natural disasters can require adjustments to the Department's approach in a particular country. The Department has also stated that country strategy mid-term reviews can often recommend that approaches should change in response to local circumstances, which may lead to delays in finalising new plans.

Figure 14.5 Country strategy plans for key partner countries



	Country Strategy		Extension Period to Country Strategy		Transitional Strategy
M	Mid term review	E	End of strategy review conducted	R	Review conducted

Source: Department of Foreign Affairs and Trade

Developments following Uganda fraud

14.19 The Audit Unit’s Synthesis report set out nine recommendations in relation to the systems operated in key partner countries. An assessment of the progress made in relation to the recommendations of the report was made during this examination and is presented in Figure 14.6.

Figure 14.6 Implementation of the recommendations made in the Synthesis report as at June 2017

1	Formal management systems to be fully established in all partner countries.	●
2	Risk identification and reporting should be aligned with Department’s risk management system.	●
	Emphasis to be given to identifying ownership of risk and the internal controls in place.	●
3	A flow of funds for all grant partners should be prepared.	●
4	Contractual agreements with partners including memorandum of understanding to be standardised.	●
	Appropriate training for staff on the preparation and management of contractual agreements and memorandum of understanding should be provided.	●
5	Review of appropriate staffing complements should be carried out as part of the preparation of each Country Strategy Plan with clear identification of skills required.	●
	Key senior mission staff should have the skills needed to manage significant budgets and risks.	●
	Appropriate risk training to be provided to key senior mission staff.	●
6	Introduce policy to minimise the length of staff vacancies.	●
	Review salary levels policy for local staff.	●
7	Formal management training to be designed for staff designated for posting to key partner countries.	●
8	Roles and responsibilities relevant to management and implementation of aid programme to be clarified, with a particular emphasis on decision making.	●
9	Internal auditors work at country level to be reviewed and included in the audit unit work programme.	●
	Reporting structures to be clarified.	●

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

Key: ● Significant progress made
● Some progress made

Grant management procedure

14.20 One of the areas of concern raised in the Synthesis report was a lack of consistency in grant management procedures between the different sections and missions of Irish Aid. In order to address this, a new common procedure for grant management was developed.[1] The procedure document sets out the required and recommended actions to be taken, the information and documentation that must be available to identify, design, appraise, approve, pay and monitor, and close a grant award. The procedure prompts managers and decision makers to consider all potential projects, partners, and funding decisions from the perspective of risk, results, and financial accountability. The main elements of the new procedures are set out in Figure 14.7.[2]

1 *Standard Approach to Grant Management,* Department of Foreign Affairs and Trade, January 2016.

2 Appendix 14B shows a timeline of all changes implemented by the Department following the 2012 Ugandan fraud.

Figure 14.7 Key elements of the grant management procedure

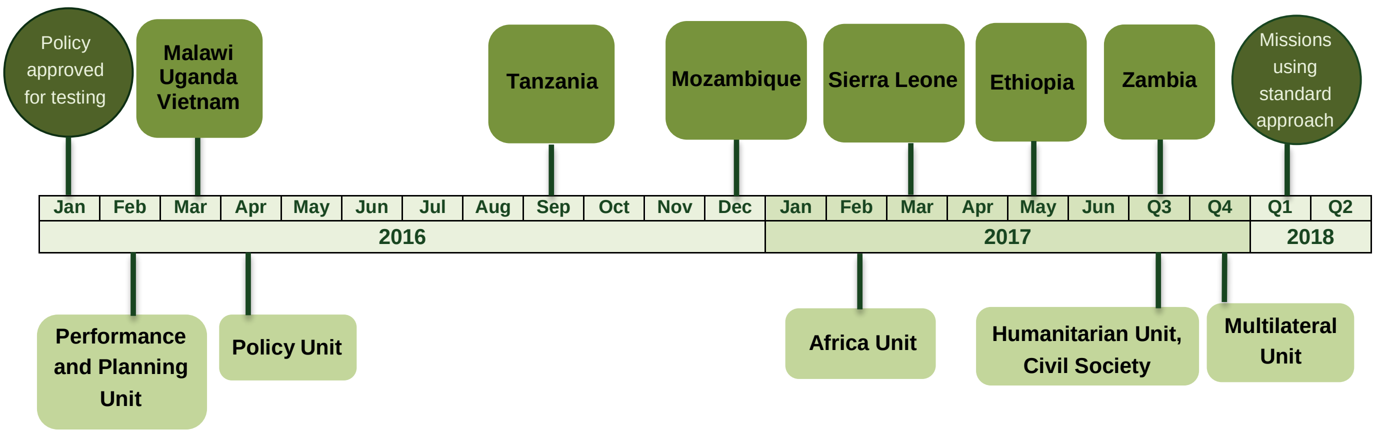
The procedure sets out a standard approach to grant management. It provides guidance on the required actions to be taken at all stages and includes supporting templates. Managers are required to consider risk, results, and financial accountability when undertaking actions in respect of

- identification of programme/project/partnerships with new or existing partners
- design and development — gathering information relating to project and partner
- appraisal — of the project and budget, the partner and risk
- approval — of the grant award by the appropriate authority
- implementation — exchange of agreements with partners, payment processing, monitoring of performance and learning
- closure — the provision of a final account of expenditure and results achieved.

Source: Department of Foreign Affairs and Trade

14.21 The Department commenced the roll out of the grant management procedure in 2016 (see Figure 14.8). The expected time-line for the conclusion of the testing and roll out is quarter one 2018. As part of the roll-out and testing process, a series of meetings, training and support trips have been undertaken. The purpose of these is to help mission teams identify the changes needed to various elements of their current procedures to align with the new grant management procedure.

Figure 14.8 Overview of grant management procedures roll out



Source: Department of Foreign Affairs and Trade

14.22 Embassies in key partner countries work with partner organisations to deliver assistance in programme countries. Potential partners are appraised to assess their ability to deliver the required assistance. Following a positive appraisal and approval of the decision to award a grant, the embassy signs an agreement with the partner which sets out the terms associated with the funding provided and includes key performance indicators which assist with monitoring and evaluation of the project. Any risks identified are included in the project’s risk register.

14.23 The grant management procedure requires that a potential partner's organisational capacity is considered alongside the quality of the project itself. Where the proposed implementing partner is a central government ministry or office, information is drawn from the public financial management assessment undertaken as part of the mission strategy planning process.

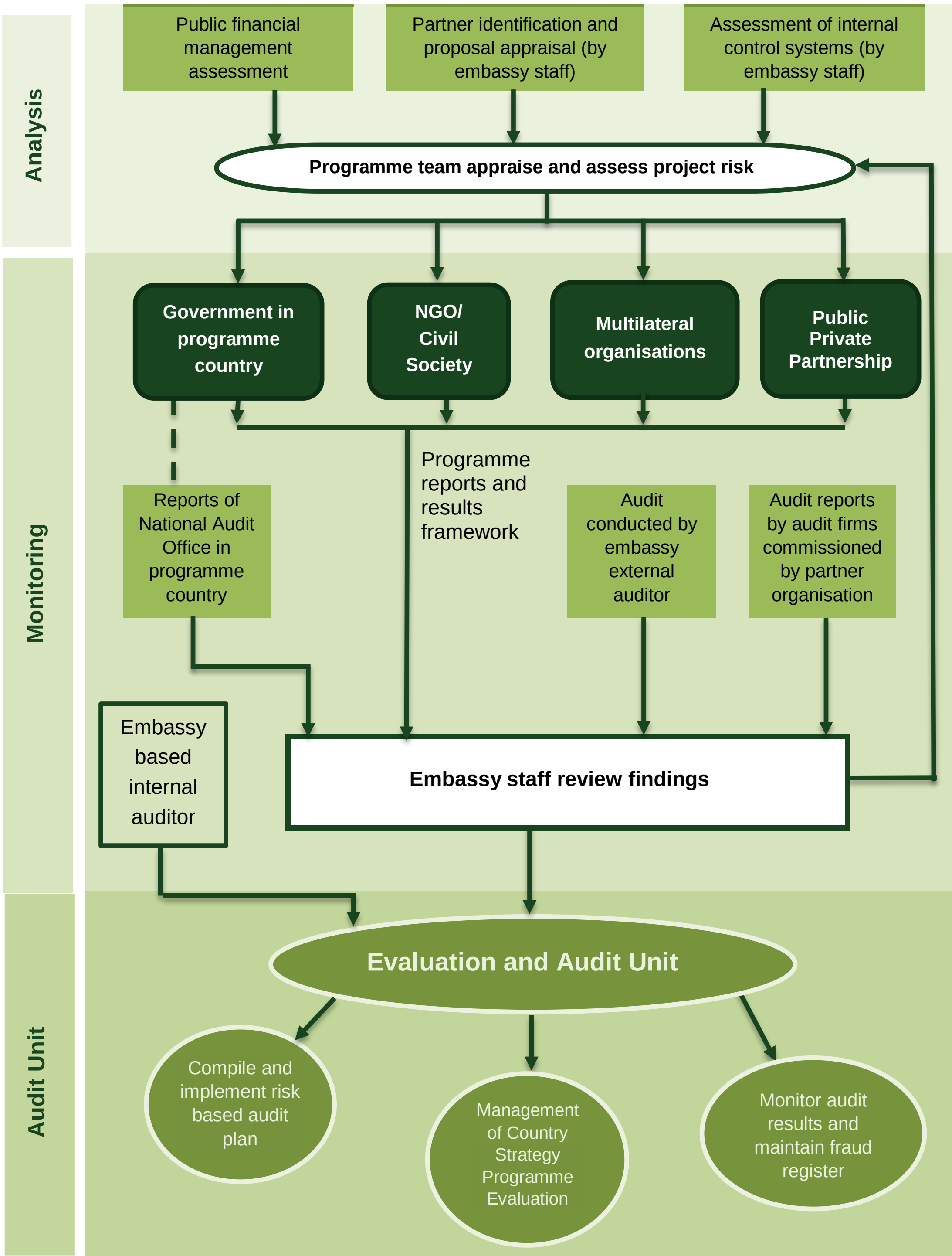
Controls and assurance structures

14.24 Figure 14.9 sets out the control and assurance regime in place in respect of funding provided to key partner countries.

14.25 Analysis undertaken prior to funding includes consideration of the organisation's structure and performance with a view to determining its capacity to deliver results, manage and account for monies received, and manage risk. Information on the organisation performance and capacity is drawn from various sources. Performance monitoring is based on a series of actions and instruments, including partner submitted financial and narrative reports, audit reports, and site visits conducted by Irish Aid staff.

14.26 The Department has revised its assurance process for the Irish Aid programme since the Ugandan fraud in 2012. The Audit Unit is moving to a new risk-based audit programme, with an increased emphasis on internal control to manage key risks and compliance with the Department’s approved policies. Under the revised process there is more emphasis on the prefunding assessment, the approach to monitoring and evaluating projects and the systematic review of external audit findings. The work of the internal auditors in key partner countries is included in the overall risk based audit plan and they now report directly to the Audit Unit.

Figure 14.9 Irish Aid key partner country controls model



Source: Office of the Comptroller and Auditor General

Visit to Uganda

14.27 The examination team conducted an inspection of the control systems in place in the embassy in Uganda. The embassy was selected for review because a new country strategy programme for Uganda was implemented in 2016, and the embassy is an early adopter of the new grant management procedure. Uganda has also received increased humanitarian assistance through both the key partner country programme and through civil society NGOs as a result of the influx of refugees from South Sudan.[1] The site visit to Uganda included a visit to the Parlorinya refugee settlement in Moyo in Northern Uganda. Irish Aid provides assistance funding for the settlement through the Irish embassy in Uganda and through humanitarian partners.

14.28 The embassy in Uganda provides assistance in six sectors — education, humanitarian assistance, combatting domestic violence, combatting HIV and AIDS, social protection and improving governance. Five projects selected from across the sectors were reviewed by the examination team to establish how the project partners were selected, and how the projects are monitored, audited and evaluated. Figure 14.10 highlights the key findings of the review.

14.29 In all cases, assessments of potential project partners had been carried out. One aspect of the assessment is to highlight weaknesses in the partner organisation and identify potential areas of risk. In all of the projects reviewed as part of the examination, weaknesses or risks were identified as part of the initial assessment. While risk registers were developed for all partners and mitigating strategies were developed, there was no evidence that mitigating actions were required in the memorandum of understanding and annual agreements exchanged with the chosen partners.

14.30 In response to the findings of the Ugandan Auditor General's report in 2012, Irish Aid suspended funding channelled through the Government of Uganda. The Department indicated that government financial systems in the main would not be used to deliver Irish Aid. However, the new country strategy programme for Uganda notes that government financial systems can be utilised to support accountability institutions which will be evaluated during the assessment phase. The examination team noted that in one of the five projects reviewed, funding was provided to government agencies through funding partner organisations. The Department has indicated that in such cases, the partner organisation is responsible for providing assurance and monitoring the grant. Prior to the mid term review, a public financial management assessment will be conducted to decide if there will be a phased return to using government systems.

1 Karamoja in Northern Uganda receives the majority of Irish Aid funding. A permanent Irish Aid office and members of staff are based in the region to allow for increased monitoring of funding.

Figure 14.10 Key findings of reviews

Name of project	The Karamoja primary education programme	Strengthen capacity and increase social protection beneficiaries	Gender based violence joint programme in Busoga	Prevention of HIV and AIDS in the communities of Karamoja	Addressing democracy and governance deficits
Value of assistance committed	€13 million (4 years)	€15 million (5 years)	€1 million (2 years)	€8.9 million (5 years)	€2.7 million (1.5 years)
Project included under country strategy	2010 to 2014	2016 to 2020	2010 to 2014	2016 to 2020	2016 to 2020
MOU and annual contract are in place	✓	✓	✓	✓	✓
Annual contract includes schedule of payments, corporate governance requirements, KPIs and details of project manager	✓	✓	✓	✓	✓
Weaknesses highlighted in pre-funding assessment were incorporated into MOU or contract	**X**	**X**	**X**	**X**	**X**
All payments are made in line with the Department's financial control procedures	✓	✓	✓	✓	✓
Funds distributed to government agencies through Irish Aid partner organisations	**No**[a]	**No**[b]	**No**[a]	**No**	**Yes**
Evidence that external audits for all projects had been reviewed and issues arising had been monitored	✓	✓	✓	✓	✓
Regular reports received from partner on progress of project	✓	✓	✓	✓	✓
Any reported misappropriation of funds	**No**	**Yes**	**No**	**Yes**	**Yes**
Tender competitions were conducted and evidence was available of results	✓	✓	**n/a**	**n/a**	**n/a**
Assessment of project was conducted by lead donor (not Irish Aid) and evidence of review by embassy staff was on file.	**n/a**	**n/a**	**n/a**	**n/a**	**Yes**
Third parties conducted the assessments of partner organisation	**n/a**	**n/a**	**Yes**	**n/a**	**n/a**

✓ **Findings agree with statement** **X Findings did not agree with statement** **n/a Not applicable**

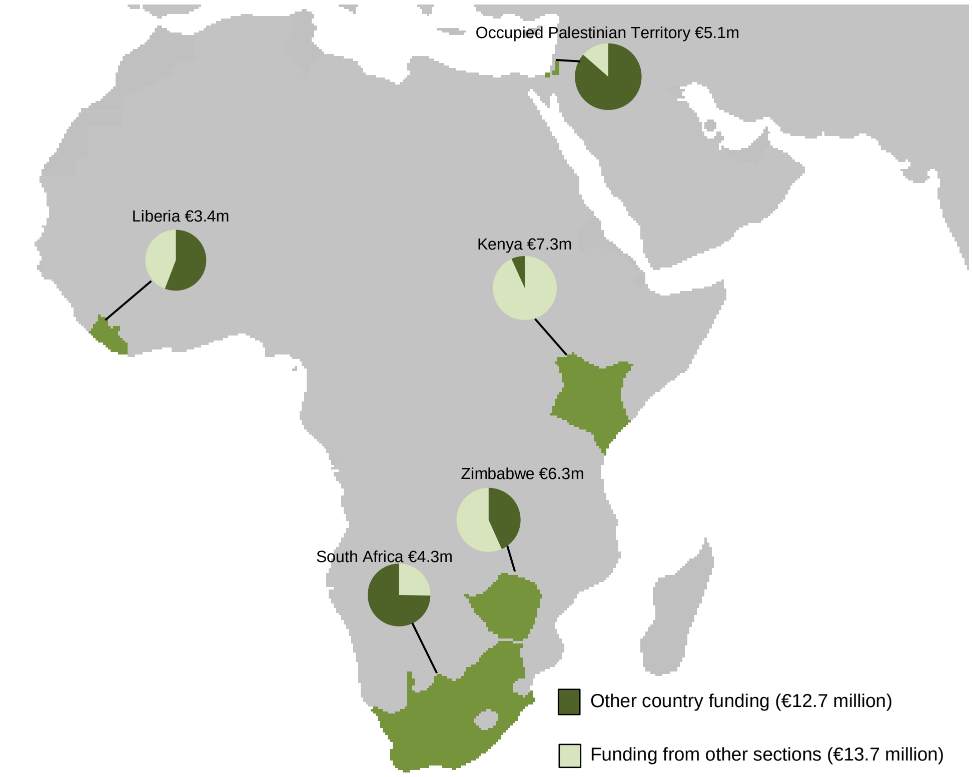
Source: Analysis by the Office of the Comptroller and Auditor General

Notes:
a Reimbursable expenses are paid to government agencies by partner organisations.
b Pension payments are made using a government owned agency.

Other countries

14.31 Assistance was provided in the form of project funding to a small number of other countries in 2016. Those countries receive programme grant support without being designated key partner countries. Other country funding of €12.7 million was administered by Irish Aid's Africa Unit, through the embassies. Similar to key partner countries, additional funding was provided through civil society NGOs.[1] Figure 14.11 shows the total bilateral assistance of €26.4 million provided to other countries in 2016 through the Embassy or Africa Unit (€12.7 million) and Civil Society and Development Education Unit (€12.9 million) and other HQ units (€0.8 million).

Figure 14.11 Other countries that receive programme grant assistance [a]



Source: Department of Foreign Affairs and Trade

Note: a Figures are shown net of administration costs.

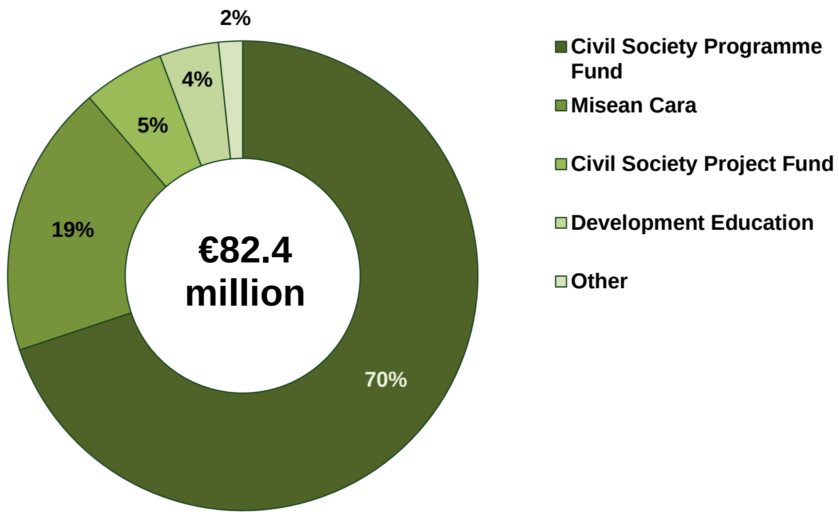
1 Assistance for Zimbabwe is administered by the embassy in Pretoria, South Africa. Assistance for Liberia is administered by the embassy in Freetown, Sierra Leone. Assistance for the Occupied Palestinian Territory is administered by HQ with assistance from the Department's representative office in Ramallah.

Civil society

14.32 The civil society budget, administered by the Civil Society and Development Education Unit of the Department, provides NGOs, missionary groups and other partners with funding for development intervention. Expenditure of €82.4 million was incurred in relation to payments to civil society bodies in 2016. The principal channels of expenditure are set out in Figure 14.12.

14.33 The majority of the funding (70% or €57.5 million in 2016) is channelled through the Civil Society Programme Fund, which operates on a five year cycle and provides support through a number of Irish NGOs to implement programmes aimed at long term sustainable socio-economic change.[1] The remainder of the funding is applied to fund individual projects based on annual applications, development education and the activities of a group of missionary organisations under an umbrella arrangement called Misean Cara.[2] Support is also provided for volunteer related initiatives, election monitoring and through Ireland's diplomatic missions for small scale development projects in countries with no bilateral Irish Aid programme. Programmes are distinguished from projects by their scale and sustainable nature and their impact at local, regional and national level.[3]

Figure 14.12 Civil Society Funding 2016



Source: The Department of Foreign Affairs and Trade

Note: a Other includes Volunteer Related Programmes, In Country Micro Project and Election Monitoring.

Controls and assurances

14.34 Assurance in respect of civil society funding is obtained through monitoring and evaluation by staff in Irish Aid. Partner NGOs are required to submit annual reports, financial plans and audits conducted by external auditors at the end of each year. These documents are reviewed and compared to the original plan proposed. Monitoring visits are conducted throughout the duration of the project. Where significant issues of concern arise, funding may be suspended.

1 The current plan relates to the period 2017 to 2021, and is planned to provide support to 13 NGOs.

2 In 2016, Misean Cara funded 89 missionary organisations in 57 countries for service delivery.

3 Civil Society Programme grant funding ranges from €500,000 to €20.5 million. Civil Society Project Fund grants currently range from €10,000 to €180,000.

14.35 The Civil Society Programme Fund 2012 – 2016 underwent an end of cycle evaluation in 2016. An evaluation was conducted by an external reviewer of all participants to assess how the programme was implemented. The recommendations were taken forward in the development of the second phase of the programme grant 2017 – 2021.

14.36 In December 2016, thirteen Civil Society Programme NGO partners, including one new partner, were approved for funding under the 2017 to 2021 plan, as was the level of funding to be provided. Three NGOs that had been partners under the 2012 – 2016 programme did not meet the new requirements and consequently did not receive funding under the new programme.

Fraud reporting

14.37 Irish Aid provides funding to some of the least developed countries in the world. These are vulnerable states where governance and controls may be weak, resulting in an increased risk of fraud and corruption.[1]

14.38 Irish Aid has stated that it operates a zero fraud policy. The Department's Audit Unit has been assigned responsibility for investigating suspected frauds and maintaining a fraud register. A fraud investigation is completed with the support of staff from head office and missions who seek cooperation of the partner to ensure a thorough investigation has been conducted. The Audit Unit is regularly updated on the progress of the investigation.

14.39 The Department does not report publicly on suspected frauds or on the percentage of ODA that is lost to fraud. A review of the Department's fraud register was conducted as part of this examination.[2] In 2016, twelve instances of suspected frauds were reported in Irish Aid funded partner organisations, amounting to potential loses of €312,262. This is equivalent to 0.043% of ODA funding provided in 2016. When recovered amounts are accounted for, the potential loss is equivalent to 0.026% of ODA provided in 2016.

14.40 Figure 14.13 provides details of the suspected frauds recorded by the Department in the fraud register during 2016.

Figure 14.13 Suspected frauds recorded in Irish Aid fraud register during 2016

Section	No of frauds	Misappropriated amount	Recovered amount	Unrecovered amount
Malawi	3	€34,289	—	€34,289
Sierra Leone	2	€73,683	€23,683	€50,000
Uganda	2	€7,464	€4,064	€3,400
South Africa	1	€98,559	€98,559	—
Zambia	1	€65,000	—	€65,000
Tanzania	1	€28,000	—	€28,000
Liberia	1	€5,267	—	€5,267
Syria	1	—	—	—
Total	**12**	**€312, 262**	**€126,306**	**€185,956**

Source: Department of Foreign Affairs and Trade fraud register

1 Frauds may include the misappropriation of funds, deception, false representation, bribery, forgery, corruption, collusion, theft, embezzlement or falsification of accounts.

2 In March 2017 the fraud register is exploring 20 potential frauds dating back to May 2014 totalling €367,207.

14.41 This level of detected fraud is consistent with levels reported by government aid agencies in other jurisdictions (see Figure 14.14).

Figure 14.14 Frauds as a % of ODA in international agencies

Organisation	% of ODA
DFID[a]	0.03%[b]
USAID	0.0055%[c]
AusAID	0.026%[d.e]
UN Agencies	0.03%[f]

Source: Various (see notes)

Notes:
a Department for International Development, UK.
b UK National Audit Office, Investigation into Department for International Development Approach to tackling fraud.
c US Aid Annual Report, 2015.
d Fraud Control and Anti-Corruption with Department of Foreign Affairs and Trade Australia, including Australian Aid program.
e AusAID calculates fraud as a % of ODA in international agencies, net of amounts recouped.
f Fraud Prevention, Detection and Response in the United Nations.

Conclusions and recommendations

14.42 Irish ODA has been increasing since 2014, totalling €724 million in 2016. Given the level of expenditure involved, and the needs of developing countries, robust control and assurance procedures are key to ensuring that funds are used for the purposes intended.

Country strategy plans

14.43 Irish Aid develops multi-annual country strategy plans for each key partner country, to provide a framework to assist embassies in partner countries to achieve specific outcomes. Plans usually cover five year periods but the Department extends expiring strategies in cases where a new country strategy has not been prepared or has yet to be finalised. At the end of May 2017, this was the case in three of the eight partner countries.

Recommendation 14.1

The Department should ensure that new country strategy plans for key partner countries are completed in a timely manner, reducing the requirement for plan extensions. Preparations to devise new strategy plans should be made in advance of the end of a previous plan, to ensure that embassies have a clear framework in place to help achieve their targets.

Accounting Officer's response

Agreed. The Department has an updated planning process in place for the development of multi-annual strategies for all key partner countries. These strategies are usually developed for a five-year period, depending on the context. A review of performance and learning is undertaken which informs the planning process for subsequent strategies. This commences during the second half of an ongoing strategy, triggered by the findings of its mid-term review.

The Department's objective is to have new strategies completed and approved in time to coincide with expiring strategies. Where a mid-term review suggests that a strategy is worth continuing for a longer period than originally planned or, where significant changes occur in the national or regional context which demands further analysis and planning, documentation is prepared to extend the existing strategy. These extension documents are reviewed and approved by senior management.

Enhancement of control and assurance procedures

14.44 The risk of fraud and corruption associated with the provision of development assistance are features that must be addressed by all donor countries.

14.45 In response to a significant fraud in Uganda in 2012, the Department's Audit Unit conducted a review of the internal controls and risk management systems being operated by the Department in key partner countries. The final Synthesis report was issued in February 2014 and made nine recommendations.

14.46 The Department has recognised the importance of implementing the recommendations of the Synthesis report. The Department commenced the roll out of the grant management procedure in 2016, two years after the Synthesis report was issued. However, the new grant management procedure has not yet been adopted for all of the Department's missions and units. The Department expects that all the relevant sections will be using the new procedure by quarter one 2018.

14.47 The Synthesis report recommended that standardised contractual documents — including memorandums of understanding (MOUs) and annual contracts — be put in place with all programme partners. The Department's legal section was tasked with creating standardised documents that include a more robust fraud framework and with updating guidance to staff on the new documents. The Department has advised that this process should be completed before the year end.

Implementation of enhanced procedures

14.48 As part of this examination, a review of a sample of five projects managed by the embassy in Uganda was conducted. The embassy was an early adopter of the new grant management procedure and improvements were noted in relation to the use of the organisational assessment capacity tool, the monitoring of projects throughout the year and the use of evaluation indicators in annual contracts.

14.49 Assessments evaluate potential project partners. One aspect of the assessment is to highlight weaknesses in the partner organisation and identify potential areas of risk. In five of the projects reviewed as part of the examination, weaknesses or risks were identified as part of the initial assessment. While risk registers were developed for all partners and mitigating strategies were developed, there was no evidence that mitigating actions were required in the MOU and annual agreements exchanged with the partners.

Recommendation 14.2

Where areas of weakness or risks are identified in a proposed partner organisation as part of the initial assessment, the Department should consider how these should be addressed in the MOU or annual contract. Such risks should be assessed regularly as part of the monitoring process.

Accounting Officer's response

Agreed. Risks and weaknesses identified with grant partners are actively managed by the relevant staff. In advance of grants being awarded, the capacity of the proposed implementing partner is assessed. Where risks or weaknesses are identified, mitigating strategies are developed with the partner. Risks and mitigation measures are included in the risk registers completed for each grant. These risk registers and mitigation measures are monitored on an on-going basis.

The Department agrees to formally include — in the MOUs and the annual agreements exchanged with partners — measures necessary for the management of more significant risks. The Department will update the standard approach to grant management to reflect this recommendation.

Fraud reporting

14.50 The role of investigating frauds has been assigned to the Audit Unit with support from staff at head office and the missions. Suspected frauds are reported by the relevant section to the Audit Unit, who investigate and also have responsibility for maintaining a fraud register.

14.51 The total value of suspected frauds recorded in the fraud register during 2016 was approximately €312,000. Of this amount, approximately €126,000 was subsequently recovered. Unlike other donor agencies in countries such as Australia, United States and the United Kingdom, Irish Aid does not publish the value of funding that has been subject to a suspected fraud or the value of suspected frauds as a percentage of ODA.

Recommendation 14.3

In line with good practice amongst other donor countries, the Department should consider estimating and publishing on an annual basis, the value of suspected frauds, both in euro terms and as a percentage of ODA.

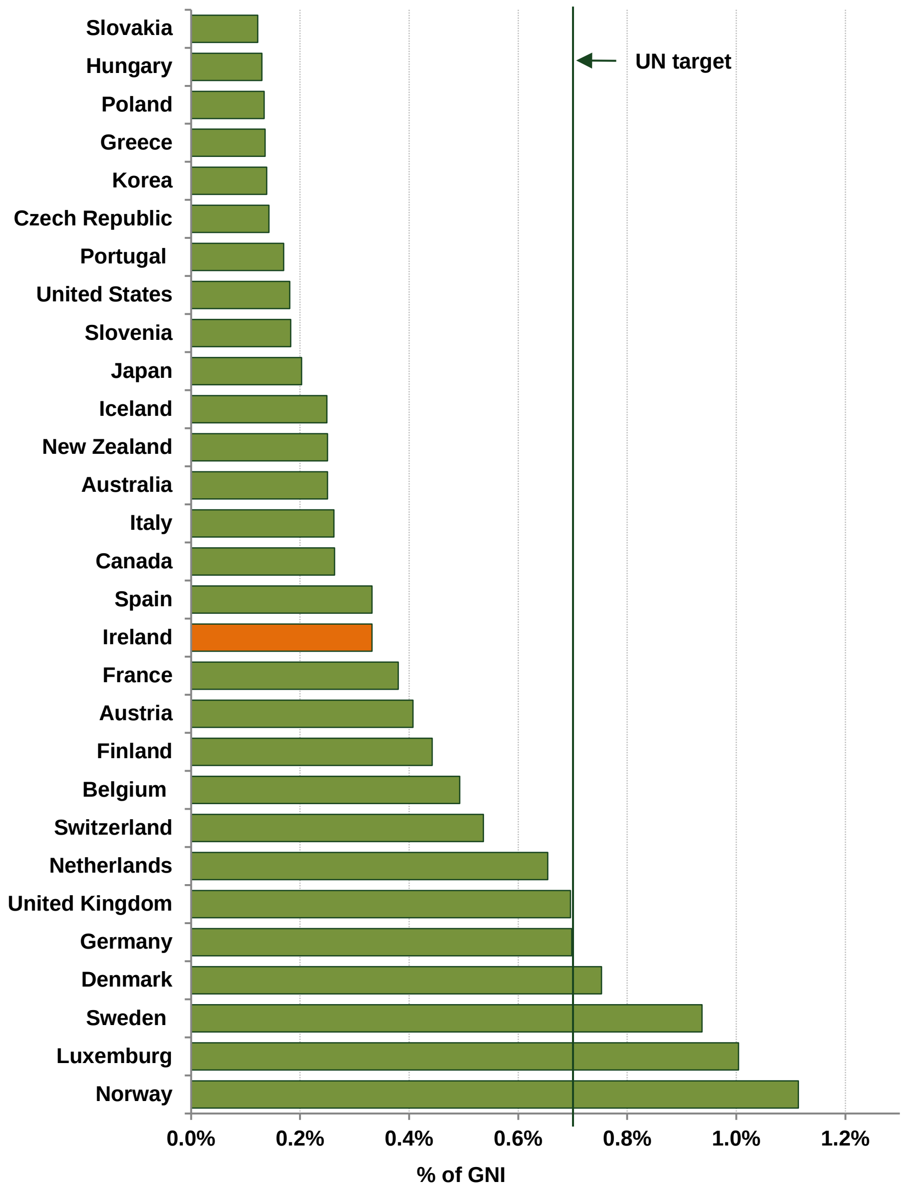
Accounting Officer's response

Agreed. The Department's Evaluation and Audit unit is responsible for reviewing and investigating all reports of fraud. The Department adopts a zero tolerance approach on fraud. Reports of fraud are reviewed by senior management and by the Department's Audit Committee on a regular basis.

The Department will develop a methodology in relation to the publication of information in respect of frauds/alleged frauds affecting Irish Aid funds awarded to partner organisations, probably through the Irish Aid Annual Report.

Annex 14A Net ODA as a percentage of GNI

Figure 14A.1 Net ODA as a percentage of GNI – Development Assistance Committee Donors, 2016



Source: Irish Aid annual reports; Department of Foreign Affairs and Trade

Note: In 1970, the UN set a target for developed countries to contribute ODA equivalent to 0.7% of their Gross National Income (GNI) each year. Only six countries reached the target in 2016.

Annex 14B

Figure 14B.1 Timeline for implementation of changes following 2012 Uganda fraud

2012	**October** ▪ Fraud identified in Uganda in the Office of the Prime Minister, of which €4 million was contributed by Irish Aid. ▪ Irish Aid suspended funding through Uganda Government. **November** ▪ Audit Unit investigated the fraud in Uganda. Outline of the findings and associated recommendations issued.	**November (cont'd)** ▪ Accounting Officer requested head of missions in all key partner countries to review internal controls, risk management systems and reporting procedures. ▪ Chief Risk Officer appointed. **December** €4 million recovered from Uganda Government.
2013	**January** Irish Aid provides financial support for the Office of the Auditor General in Uganda. **February** Accounting Officer discussed common themes arising from internal review exercise with heads of missions.	**March** Audit Unit visited key partner countries to assess the adequacy of controls in each country and identified common weakness that existed.
2014	**February** ▪ Audit Unit Synthesis report issued. ▪ Chief Financial Officer appointed. **May** Cross divisional task team established to oversee the development of robust management standards and systems for Irish Aid units and missions.	**July** Risk management policy finalised. Guidance issued on rating and management of risk.
2015	Annual budgeting aligned with business plan. Deadlines merged.	
2016	**January** Grant management procedure approved. This includes a flow of funds guidance, evaluation and monitoring and risk based assessments. **February** ▪ Revised internal audit charter issued. ▪ Grant management procedure rolled out in the Performance & Planning Unit. **March** ▪ Organisation restructuring undertaken. Unit organigrams outlining roles and responsibilities to be maintained. ▪ Grant management procedure rolled out in Malawi, Uganda and Vietnam.	**April** Cross divisional task team final report issued. Grant management procedure rolled out to Policy Unit. **June** ▪ Procedure for engagement and reporting between HQ and key partner countries audit staff issued. ▪ Training needs assessed and pre-posting training plan issued. ▪ Pre-posting training commenced. **September** Grant management procedure rolled out in Tanzania. **December** Grant management procedure rolled out in Mozambique.
2017	**February** Grant management procedure rolled out in the Africa Unit. **March** ▪ New results based management approach to country strategy completed. ▪ Grant management procedure rolled out in Sierra Leone.	**May** Grant management procedure rolled out to Ethiopia.
	Quarter 3 and Quarter 4 Grant management procedure to be rolled out to remaining key partner countries and Department units.	

Source: Department of Foreign Affairs and Trade

15 Grant Funding of Galway's Art House Cinema

15.1 The Department of Culture, Heritage and the Gaeltacht (the Department) launched the second Arts and Cultural Capital Enhancement Support Scheme (ACCESS II) in 2006. The scheme was established to provide organisations with funding to build new or to redevelop existing cultural infrastructure.

15.2 A private company, Solas-Galway Picture Palace Teoranta (Solas), applied for funding under the ACCESS II scheme in 2006 with the objective to establish a specialist art house cinema in Galway city.[1] The planned cinema complex outlined in the funding proposal was to include three screens with a total of 276 seats, a bar/restaurant and a book shop. It was planned for the project to commence in spring 2007 and to be completed in two years. Despite provision of financial assistance from public funds totalling €8.4 million, the cinema is not yet available to the public.

15.3 This report examines the

- administration and management of the project
- funding and payments made by the Department and other public bodies related to the new cinema.

15.4 A timeline of the main project events is set out in Annex 15A.

Business case for the project

15.5 Solas made the application for funding in November 2006. The grant application process required that the application be made in a prescribed manner, with projected cash flows and other supporting documentation which together formed the business case for the development of the art house cinema, and for the proposed State grant funding. The business case included a statement of the purpose of the project, project location, legal status of the promotor, the project management team and other parties involved in the project. The total grant requested from the Department was €4 million.

15.6 The business case stated that the total projected costs to design, build and fit-out the building would be €4 million. This projection was based on a pre-tender estimate using planned architect designs, costed by quantity surveyors engaged by Solas. It estimated that another €2 million would be required for the purchase of a site, giving an overall project cost of €6 million.

15.7 The business case also outlined proposals for how the project would be funded. This indicated that, in addition to a proposed €4 million grant from the Department, Solas had funding commitments from the Cultural Cinema Consortium (CCC)[2] for €750,000 and a further €600,000 from Galway City Council. As a result, the total projected public funding amounted to €5.35 million. The proposal indicated that the balance was to be acquired from a €400,000 commercial bank loan and private fundraising of €250,000.

1 Solas is a company limited by guarantee with charitable status. Its members are representatives of the arts and film organisations in Galway City (Galway Film Society, Galway Film Fleadh, and Galway Arts Centre). The company went into liquidation on 3 July 2017.

2 The Cultural Cinema Consortium was a strategic partnership between the Irish Film Board (IFB) and the Arts Council. Its activities were carried out between 2001 and 2010. The aim of the consortium was to enhance and expand the range of cinema in Ireland; to ensure audiences had access to a quality cultural experience with regard to world cinema, indigenous film-making and classic films; and to foster an attractive investment environment for art house film infrastructure.

15.8 The business case estimated annual cinema admissions of 64,100.[1] The projection was based on the 2006 census figures for Galway City, rural areas and satellite towns within the catchment area and a report —*Developing cultural cinema in Ireland* – published by the Arts Council. There is no evidence that sensitivity analysis of the project economics with respect to attendance rates was undertaken as part of the business case.

15.9 The cash flow projections for the project extended only to five years. In year zero, the projected capital costs were assumed to be matched by the various funding bodies and private equity. Trading income was expected to commence in year one and the project was projected to move into positive cash flows by year three.

Evaluation of grant application

15.10 The assessment of the applications under the ACCESS II scheme was carried out by an independent selection committee of four members which included a senior Department staff member, an Arts Council representative, a retired OPW architect and a retired Dublin City Council manager. The assessment methodology and terms of reference were determined by the selection committee.

15.11 The Solas application was initially assessed and recommended to proceed to a final evaluation. The final evaluation assigned specific marks in the following categories

- **local impact** — impact on other similar facilities in the relevant catchment area
- **finance** — be in a position to achieve self-financing status into the future
- **strategic compatibility** — be compatible with the national spatial strategy, or with objectives of other government policies, including the Arts Council's strategy, *Partnership for the Arts*
- **need** — address a gap in provision, or address a proven need, within the relevant area
- **design** — adhere to high standards in building design.

15.12 Following completion of the evaluation in March 2007, the selection committee recommended the project to the Department, proposing a grant allocation of €2.25 million. However, no evaluation was undertaken of the sufficiency of the funding requirements proposal.

15.13 The Department made a grant offer of €2 million, which was accepted by Solas in May 2007. As a condition of the grant, the Department required documentary proof to be submitted of both the full project costs and the availability of funds to meet those costs, before agreement was given to proceed to contract stage.

15.14 In addition to the Department's grant of €2 million, the CCC and the Irish Film Board (IFB) made funding commitments of €1.25 million and €400,000 respectively. Solas also secured a loan of €650,000 from the Western Development Commission (WDC).[2] By late 2007, the total committed and projected public investment in the cinema amounted to €6.3 million, including the purchase of a site by Galway City Council.

1 Assumed scheduled weekly maximum capacity of 5,028 patrons for 51 weeks per annum, with utilisation (tickets sold) of 25%.

2 The Western Development Commission was established on a statutory basis in 1999 to develop the western economy base (Donegal, Leitrim, Sligo, Mayo, Roscommon, Galway and Clare).

Site acquisition

15.15 Solas identified a site at Lower Merchants Road in the city centre as being suitable for development of the cinema. The company approached the property owner who, after negotiation, sold the property to Galway City Council in May 2008 for €1.8 million. Stamp duty amounted to €162,000, bringing the cost to €1.96 million. The City Council agreed to make it available for use by Solas under a 99 year lease.

15.16 Solas applied for and received planning permission from Galway City Council for a 360 seat cinema complex in 2008. This represented a 30% increase in capacity relative to the original proposal.

15.17 A new business plan was prepared by Solas in September 2008. This indicated the expected project costs increasing from the initial €6 million to €7.7 million. Additional financial support was sought from the Department.

First construction contract

15.18 In July 2009, following a tender competition, Solas awarded a contract to the lowest-cost tenderer to construct the cinema complex at a cost of €2.8 million. A contract guarantee bond for 25% of the contract sum (i.e. €696,000) was entered into by Solas with an insurance company.

15.19 Construction work, including a site survey, started on the site in October 2009. However, the project experienced significant difficulties over the next 17 months including

- initial severe weather conditions
- unforeseen ground conditions, such as water ingress during excavation and unexpected granite bedrock
- structural instability of adjacent property
- insufficient project management in relation to the challenging site constraints.[1]

15.20 Solas commissioned a second, more detailed ground survey, which identified more extensive challenges than the original site survey. By June 2010, it became evident that an adjoining property was unsafe and work ceased immediately. Following negotiations, Solas agreed to demolish and rebuild the adjoining property in October 2010.

15.21 The Department has stated that it understood two site surveys had been carried out on behalf of Solas in advance of the first tender competition in 2009.

1 The issues were set out in a report in September 2012 by an architect engaged by the Department to represent its interests in the project.

Termination of construction contract

15.22 In March 2011, the Department received notification from Solas stating that the building contractor for the project was terminating the contract citing

- poor ground conditions
- design inadequacies and
- delays due to suspension of works while the builder was on site.

15.23 Solas submitted a claim under the bond arrangement in 2011. The bond became subject to a protracted legal dispute between the insurance company and Solas. In June 2017, Solas withdrew its claim in the Court of Appeal. In July 2017, Solas entered liquidation.

Second construction contract

15.24 Between 2011 and 2015, the development was marked by further delays and inactivity.

- A second construction contract was awarded by Solas in March 2012 for the remaining works. The Department has stated that this was done without its knowledge or consent. The Department received legal advice that it had no liability to release any further grant funds for the project.
- Under the second contract, the planned cost of construction increased from the first contract's €2.8 million to €4.1 million. This included demolition and reconstruction of the adjoining property at a cost of €213,000.
- The second contract was originally agreed as a single phase of building work. However, prior to commencement, Solas agreed with the builder to split the work into two separate phases. An analysis of the project budget by Solas in April 2012 had shown a shortfall in projected funding of over €1 million. Consequently, the company was in a position to fund only the initial phase of the work.

15.25 The first phase of work finished in early 2014. By July 2016, the project had not restarted and additional costs were identified relating to changes in specification, inflation and reopening of the site which had been closed for over two years. A private investor took over the management, completion and operation of the project and all Solas rights and liabilities transferred to it. The private investor was registered as the legal owner of a leasehold interest in the property in February 2017. Terms of the original lease were amended from 99 years to 30 years.

15.26 The new expected completion date is January 2018.

Company corporate governance

15.27 Over the period 2011 to 2014, the audited accounts of Solas indicated that the company was trading at a loss and its 2014 accounts reported an accumulated deficit of over €540,000.

15.28 The auditors of Solas resigned in October 2016 due to concerns regarding corporate governance in the company. Solas went into liquidation in July 2017.

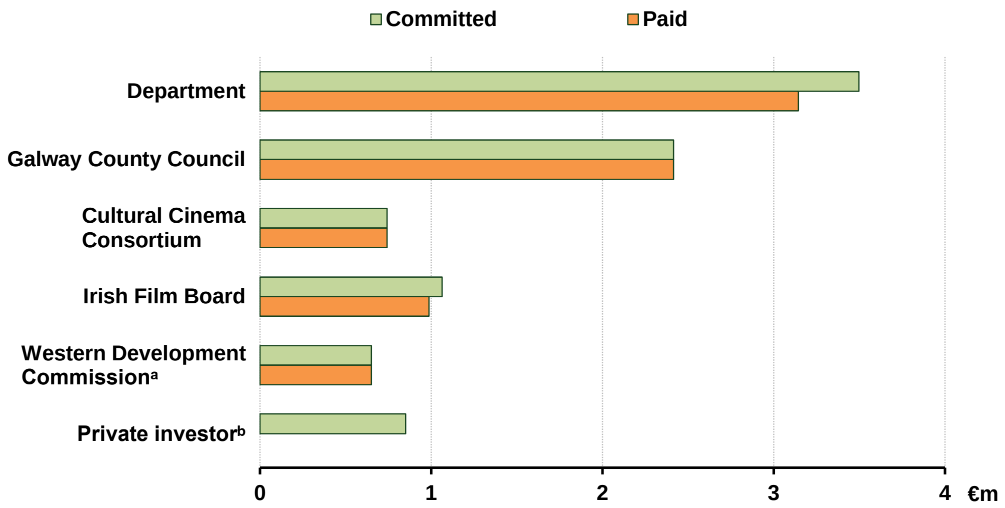
15.29 The Department has stated that it was not notified of the auditors' concerns. It stated that it no longer has a funding relationship with Solas as the new investor has taken over all aspects of the project. It also stated that there is no incurred or potential loss of public funds as a result of the liquidation of Solas.

15.30 The Department had a legal charge on the property in the Minister's name since 2009. WDC and CCC/IFB registered charges on the property in 2009 and 2010 respectively in respect of their provision of funding. In late 2016, the Department revised its charge for the full amount of the grant already paid and the amount allocated and yet to be paid.

Additional funding commitments

15.31 The total financial commitments from public funds to the project have increased by €2.1 million since the initial funding allocations of €6.3 million in 2007. Figure 15.1 summarises the commitments.

Figure 15.1 Commitments and payments to Solas, 2007 to 2017



Source: Department of Culture, Heritage and the Gaeltacht

Notes: a Liability for the loan of €650,000 from the WDC transferred from Solas to the private investor in 2016.

b Details are not available on the amounts paid by the private investor.

15.32 In 2010, the Department took over CCC's remaining commitment of €507,500 arising from consolidation of capital funding within the Department and the Arts Council. The Department subsequently allocated additional funding of €990,000, comprising commitments of

- €735,000 in 2015, on condition that Galway City Council took over responsibility for managing the project to completion
- €255,000 in 2016 to meet extra project costs.

15.33 The Irish Film Board increased its commitment from an initial €400,000 to over €1 million, comprising

- an additional €400,000 committed in 2013, in return for which Solas agreed to raise €500,000 in fundraising[1] and to secure €750,000 from a private investor [2]
- additional funding of €263,000 in 2016 to meet extra project costs.

15.34 Galway City Council committed funding of €442,000 over the period 2013 to 2016.

15.35 The private investor committed €850,000 to the project. In addition, liability for the loan of €650,000 from the WDC transferred from Solas to the private investor in 2016. The loan is at a fixed rate of 1.45% for 20 years. WDC confirmed that the term loan was novated to the private investor and remains repayable on the same terms.

15.36 At August 2017, the Department has made payments totalling €3.14 million to the project and has remaining commitments to the project of €0.35 million. It stated that all payments are made on foot of invoices from the contractor in respect of work completed and are accompanied by a certificate from an auditor stating that the relevant work is actually completed and that the funds to pay for the work are not being recouped from any other public body.

Views of the Accounting Officer

15.37 The Department stated that it has at all times sought to ensure compliance with the terms and conditions of the grant scheme under which funding was awarded, and with public financial procedures generally. It stated that its involvement with Solas related to a capital grant for the construction of an art house cinema and it sought to ensure at each juncture that sufficient funds were in place to bring a completed cinema into public use. It stated that it had obtained documentary evidence for each strand of that funding and that there was ongoing monitoring of the continued availability of each strand of the funding.

15.38 The Department stated that when the project encountered significant difficulties in 2010 and 2011, it considered all possible options, including termination of the project. The decision to proceed was formally approved and involved serious consideration including risk analysis of the best approach most likely to deliver value for money for the taxpayer. The primary concern was the protection of the State's existing investment. In terms of providing funds, the Department's risk assessment was to continue supporting the project, or to cease support after the developer abandoned the project. The choice was between allowing the project to fail, whereupon the lease would revert to Galway City Council; or to facilitate an operator to enter negotiations with Solas to take over as project manager, leaseholder and operator. A further consideration was that the success of the project increased the likelihood of the repayment of the WDC loan as there was almost no prospect of its recoupment if the project was abandoned.

1 Solas subsequently informed the Department that it was not in a position to raise the funds of €500,000.

2 The private investment, which was secured in December 2013, was conditional on the granting to the investor of a long term lease to operate the cinema once complete.

15.39 The Department stated that it reviewed all possible options again in 2015 and 2016 and decided to continue funding the project.

Conclusions and recommendations

15.40 The Galway Art House Cinema project experienced significant delays and cost overruns since it was originally proposed in 2006. It was initially envisaged that the project would commence in 2007 and be completed in two years. The current expected completion date is January 2018.

15.41 The amount of public funds committed to the project increased by €2.1 million from the initial expected outlay of €6.3 million. The project has relied substantially on public investment to complete the development and to fund the increased project costs.

15.42 While the project was sponsored by a private entity with grant assistance from public funds, the State bore the financial risks which crystallised when the project ran into difficulties. A private investor took over the management, completion and operation of the cinema and has a 30 year lease on the property. Steps were taken through Galway City Council taking over responsibility for the project and the registering of charges on the property to safeguard the State's investment. There was no overall oversight arrangement in place for this project at the outset despite the involvement of a variety of public agencies.

Recommendation 15.1

The Department should review its approach to the projects which are being grant aided, in particular where the key project risks are carried by the State. Where projects do not progress as expected or serious shortcomings are identified with the project sponsor, early action needs to be taken, including formal reviews of the project viability, in line with the Department of Public Expenditure and Reform's *Public Spending Code* requirements.

Accounting Officer response

Agreed. The Department is fully committed to the ongoing management of projects in accordance with the *Public Spending Code* and relevant grant circulars. Measures are in place to ensure that staff are appropriately trained and supported in the appraisal and oversight of grant-aided projects as part of the Department's annual quality assurance process. The Department intends to hold further training sessions, accompanied by guidance material, prior to the end of 2017.

Recommendation 15.2

Particular care should be exercised by lead funders to ensure adequate formal oversight mechanisms are in place and operated where a variety of funding agencies are involved.

Accounting Officer response

Agreed. The Department will ensure that particular care is exercised in relation to the appraisal and oversight of projects in accordance with the provisions of the *Public Spending Code*. This will include further staff training on the early establishment of performance metrics to be used as a signal for action during the implementation phase, the need for regular management reports to be provided and reviewed, and dealing with project challenges.

Annex 15A Summary of events

Year	Events
2006	• Solas funding application in November 2006.
2007	• Solas application was assessed and approved by an independent selection committee. A grant offer was made by the Department and accepted by Solas in May 2007. The offer outlines the funding arrangement.
2008	• Solas received planning permission for the proposed development in May 2008.
2009	• In January 2009, the Solas board approved the architectural drawings for the final tender designs. These drawings provided for a 360 seat cinema complex. • A tender competition for a builder was launched by Solas in April 2009. Following evaluation of tenders received, a contract was signed by Solas and the builder in July 2009. • Construction started in October 2009. However, due to severe weather conditions, the project was initially delayed. • Ground excavation works caused structural problems for an adjoining property. Solas commissioned a second ground condition survey, which identified more extensive challenges than the original survey indicated.
2010	• Solas decides to cease work as the adjoining property was unsafe. • In October 2010, a plan to demolish and rebuild the adjoining property was developed and agreed by all parties.
2011	• In March 2011, the Department received notification from Solas stating the building contractor was terminating the contract citing: poor ground conditions, design inadequacies and suspension of works while on site. • Planning permission for the required demolition and rebuild of the adjoining building was obtained in April 2011.
2012	• A second tender to complete the project was undertaken and completed by Solas in March 2012. This was without the required knowledge or consent of the Department. • In early 2012, the Department was provided with legal advice that they had no liability to release any further funds to Solas to continue with the project. • The second contract was originally prepared as one phase. However, prior to commencement of works in early 2012, an agreement was reached between Solas and the new builder to split the works into two separate phases. The first phase was to complete the shell and the second phase involving the fitting out of the building.
2013	• In August 2013, Solas appointed an advisory group to engage in a consultative process to establish potential private funding options. • In December 2013, the Solas board presented their business plan to the Department and subsequently approved the heads of agreement with a private investor.
2014	• By early 2014, phase one of the works were substantially complete with the exception of some works which were omitted to facilitate phase two. However, due to insufficient funding, the second phase of the project did not proceed.
2015	• Galway City Council (Council) wrote to the Department confirming the Council was prepared to take over the project management and to make a further investment. However, this was subject to additional financial support from the Department. Despite the offer of significant additional funding, construction did not restart during 2015, due to ongoing difficulties between Solas and the second builder.
2016	• During 2016, the private investor took a more central role. Under this new agreement, all Solas rights and liabilities were assigned to the private investor. In parallel, the private investor engaged with the builder regarding the various obstacles to complete phase two i.e. fitting out the building. • In October 2016, the auditor of Solas resigned due to concerns regarding corporate governance in the company.
2017	• In July 2017, Solas went into liquidation. • Work on the cinema continues and the Department indicated an expected completion date of January 2018.

Source: Department of Culture, Heritage and the Gaeltacht

16 Regularity of Social Welfare Payments

16.1 The Department of Employment Affairs and 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 Payments in excess of entitlements under the terms of the welfare schemes are irregular. Such excess payments can arise in a number of ways, including

- ***claimant fraud*** — where a claimant for welfare payments intentionally provides incomplete or inaccurate information in relation to a claim, or deliberately fails to inform the Department of relevant changes in circumstances (such as an increase in means or a change in medical condition) affecting a claim in payment
- ***claimant error*** — which arises when the claimant has provided inaccurate or incomplete information, or failed to report a relevant change in circumstances, but there is no clear fraudulent intent on the claimant's part
- ***departmental error*** — where benefits are paid incorrectly due to inaction, delay or mistakes made by the Department's staff.[1]

16.3 The Department has a well established programme to undertake 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 random samples of 500 to 1,000 claims in payment to establish if the recipients are entitled to the payments they are currently receiving and if so, whether the correct amounts are being paid. The surveys assist the Department in identifying scheme risks and the need for any changes to the control measures in place. Higher value schemes are surveyed more frequently than low value schemes. Annex 16A outlines the past surveys, and those planned for 2018 and 2019.

16.4 Medical eligibility is a key qualifying criterion for payment under certain welfare schemes. For example

- recipients of disability allowance must have an injury, disease or physical or mental disability that has continued or may be expected to continue for at least one year and as a result of that disability, be substantially restricted in undertaking work that would otherwise be suitable for a person of their age, experience and qualifications
- recipients 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 GP and a final medical certificate must be provided to the Department before they return to work, at which point payment ceases
- recipients 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.

1 In some cases, claimant and departmental error can also result in claimants receiving less than they are entitled to.

16.5 When the Department carries out a fraud and error survey of a scheme which has medical eligibility payment criteria, medical reviews of a subset of cases are undertaken. This may result in cases being identified whose medical condition is considered to no longer meet the specified criteria. Where this occurs, welfare payments may be stopped, or the amount payable may be reduced.

16.6 Because the medical condition of a welfare recipient may improve over time, the Department does not consider a review finding that a welfare recipient is currently 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, any change found on medical review does not reflect a payment error by the Department or the welfare recipient because both were acting in good faith, supported by medical evidence up to this point.

16.7 Because improvements in medical condition can result in a recipient 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 at the time of the review, which should be included in the estimation of excess payment levels.

16.8 A recipient of welfare payments who is found not (or no longer) to be entitled to a payment under a particular scheme may be entitled to a payment under a different scheme operated by the Department.[1] In that event, the detected excess payment on the scheme may be offset (fully or in part) by additional payments on the other scheme. In some cases, a recipient whose payments are altered, may be restored (or part restored) to payment as a result of an appeal. This gives rise to a distinction between gross excess payments and net excess payments. Both have implications for the regularity of scheme and aggregate expenditure recorded in the appropriation account of Vote 37 Social Protection and in the accounts of the Social Insurance Fund (SIF).

16.9 Figure 16.1shows the expenditure in 2016 on Vote and SIF schemes in respect of which fraud and error surveys have been undertaken (at least once) since 2012.[2,3] It also shows the estimated levels of excess payment for each scheme found during the surveys due to fraud, error or medical ineligibility.

1 The Department may also pay welfare in respect of persons whose payment is stopped and who are dependents of another welfare recipient.

2 Non-contributory State pension is included in the table because of the level of scheme expenditure, although the most recent fraud and error survey for that scheme was in 2008. A new survey of the scheme is planned in 2018.

3 The Household Benefits survey in 2016 is not included as only 7% of those in receipt of the benefits package were surveyed.

Figure 16.1 Estimated level of excess payments in surveyed schemes

Account and scheme	Scheme cost 2016	Estimated level of excess payments	
	€ million	Gross	Net
Vote funded schemes			
Jobseeker's Allowance	2,452	4.6%	3.1%
Child Benefit	2,078	0.5%	0.5%
Disability Allowance[a]	1,358	18.4%	4.1%
State Pension (non-contributory)	982	1.9%	n/a
One-Parent Family Payment	501	7.1%	2.7%
Family Income Supplement	415	1.9%	0.5%
Rent Supplement	275	6.0%	5.0%
Farm Assist	79	10.6%	10.4%
Total Vote schemes	**8,140**		
Social Insurance Fund funded schemes			
State Pension (contributory/transition)	4,662	2.0%	2.0%
Widow's/Widower's/Surviving Civil Partner's Contributory Pension	1,437	0.8%	0.7%
Invalidity Pension[a]	645	2.8%	1.5%
Illness Benefit[a]	597	13.4%	6.0%
Jobseeker's Benefit	356	2.5%	1.6%
Total Social Insurance Fund schemes	**7,697**		

Source: Office of the Comptroller and Auditor General
Note: a Figures for Disability Allowance, Invalidity Pension and Illness Benefit include the results of cases medically reviewed.

16.10 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 cases of the family income supplement and non-contributory State pension to 18.4% for Disability Allowance (including medical ineligibility).

16.11 There is also variation in the level of excess payment in the SIF funded schemes surveyed. Estimates of excess payments on the SIF funded schemes range from 0.8% for widows'/widowers'/surviving civil partners' contributory pension to 13.4% for Illness Benefit (including medical ineligibility).

16.12 In aggregate, the schemes included in Figure 16.1 accounted in 2016 for 76% (€8.1 billion) of Voted expenditure, and 91% (€7.7 billion) of SIF expenditure.

Conclusions and recommendations

16.13 I consider that excess payments due to fraud, error or medical ineligibility are irregular. The level of excess payments found by the Department's fraud and error surveys is material both at a scheme/gross level, and at a net/departmental level. Accordingly, I have referred in my audit reports on the 2016 Appropriation Account for Vote 37 Social Protection and the 2016 Account of the Social Insurance Fund to the material level of irregularity of scheme payments.

Annex 16A

Figure 16A.1 Schedule of fraud and error surveys published 2004 to 2017 and planned to 2019

Account and scheme	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Vote funded schemes																
Jobseeker's Allowance	Published						Published				Published					
Back to Work Enterprise Allowance															Planned	
Carer's Allowance														Underway		
Child Benefit		Published								Published						
Disability Allowance			Published						Published							Planned
State Pension (non-contributory)					Published										Planned	
One-Parent Family Payment	Published				Published				Published							Planned
Family Income Supplement			Published										Published			
Rent Supplement			Published								Published					
Supplementary Welfare Allowance														Underway		
Household Benefits Package													Published			
Farm Assist													Published			
Social Insurance Fund funded schemes																
State Pension (contributory/transition)							Published							Published		
Widow's/Widower's/Surviving Civil Partner's Contributory Pension											Published					
Invalidity Pension												Published				
Illness Benefit				Published								Published				
Jobseeker's Benefit	Published								Published							
Household Benefits Package													Published			

Source: Department of Employment Affairs and Social Protection

Key:
- Planned
- Underway
- Published

17 Management of Social Welfare Overpayments

17.1 The Department of Employment Affairs and Social Protection (the Department) makes income support payments to about 1.6 million people each week. Its overall expenditure in 2016 was €19.2 billion.[1]

17.2 The Department provides support to individuals and families through a variety of schemes that 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, usually based on means tests. SIF funded schemes are based on social insurance, where eligibility is dependent on the level of the claimants' recorded PRSI contributions.[2]

17.3 An overpayment of income support arises where the Department finds evidence that a claimant has received a payment to which they were not entitled or the level of payment they have received exceeds their entitlement. An overpayment may come to light where

- a claimant provides new information voluntarily
- a third party provides relevant information (e.g. an informant, or data matching)
- as a result of control activity by the Department.[3]

17.4 When an overpayment is identified, the payment is terminated or reduced to the correct level. A legally enforceable debt is recorded. One of the objectives of the Department's *Compliance and Anti-Fraud Strategy 2014-2018* is to actively pursue such debts until fully recovered.

17.5 In the period 2013 to 2016, the Department recorded overpayments of between €100 million and €120 million annually. Over the same period, the level of overpayment debt outstanding at year end increased from €420 million to €482 million (See Figure 17.1). During this period, welfare expenditure decreased by 8.7%.

17.6 This report is based on the results of the audit of overpayments carried out as part of the audit of social welfare schemes. It also examines

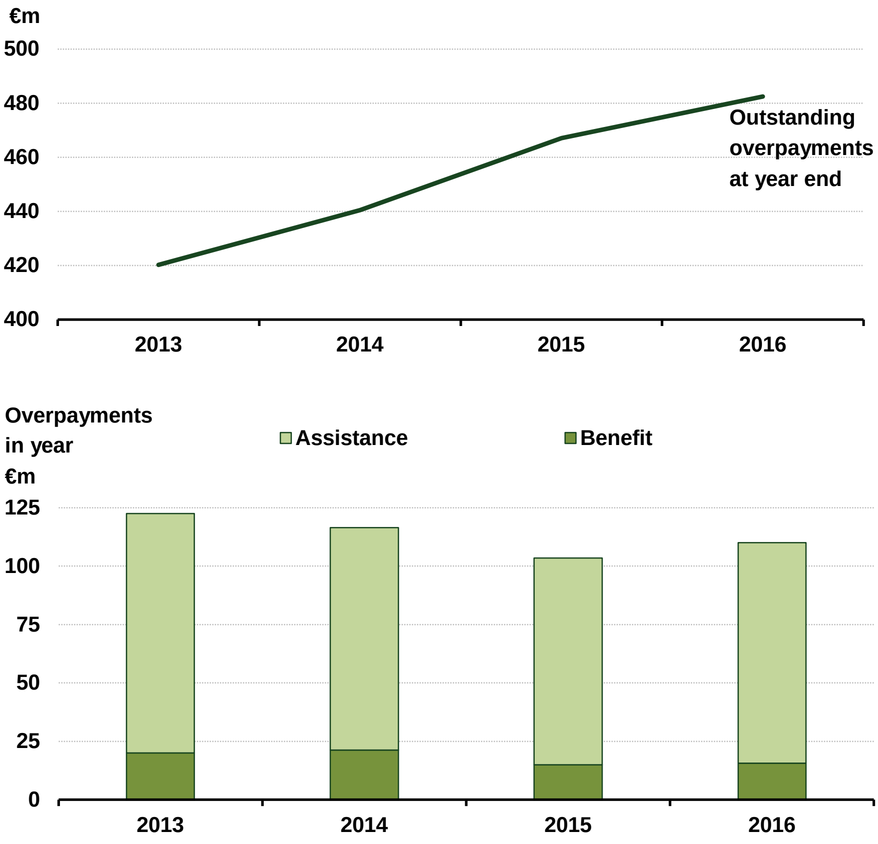
- the Department's procedures for managing overpayment debt
- the causes of overpayments
- how successful the Department has been in recovery of recorded overpayments
- enforcement action taken by the Department.

1 Overall scheme expenditure in 2016 comprised €10.7 billion from the Social Protection Vote and €8.5 billion from the Social Insurance Fund.

2 Other eligibility may also apply.

3 The Department's control activity includes control reviews, fraud and error surveys, internal audit, special investigation unit and predictive analysis modelling.

Figure 17.1 Overpayments identified, 2013 to 2016



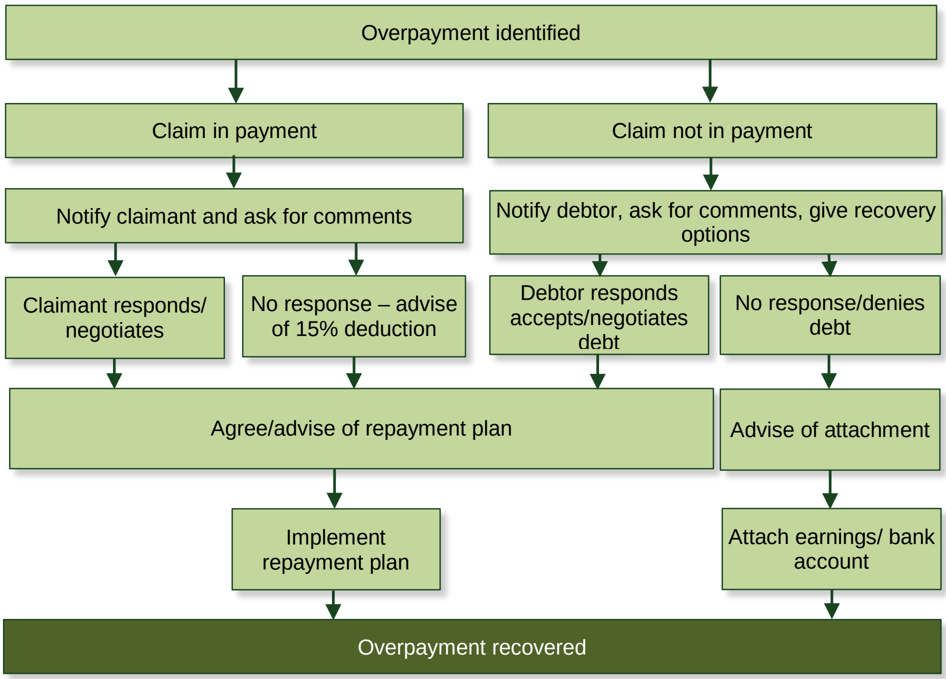
Source: Department of Employment Affairs and Social Protection

Recovery procedures

17.7 The Department implemented a new Debt and Receipts Accounting System (DRAS) in November 2014 to manage debt and cash receipting. The system involves an increased level of automation in recovery and communications with debtors. It is designed to ensure that correspondence in respect of debts issues promptly and that periodic statements of outstanding debts issues to debtors.

17.8 Figure 17.2 summarises the overpayment recovery process following the introduction of DRAS. This distinguishes between cases where the debtor is still a claimant of income support, from cases where the debtor is no longer in receipt of payments.

Figure 17.2 Overpayment recovery process



Source: Department of Employment Affairs and Social Protection

Reasons for overpayments

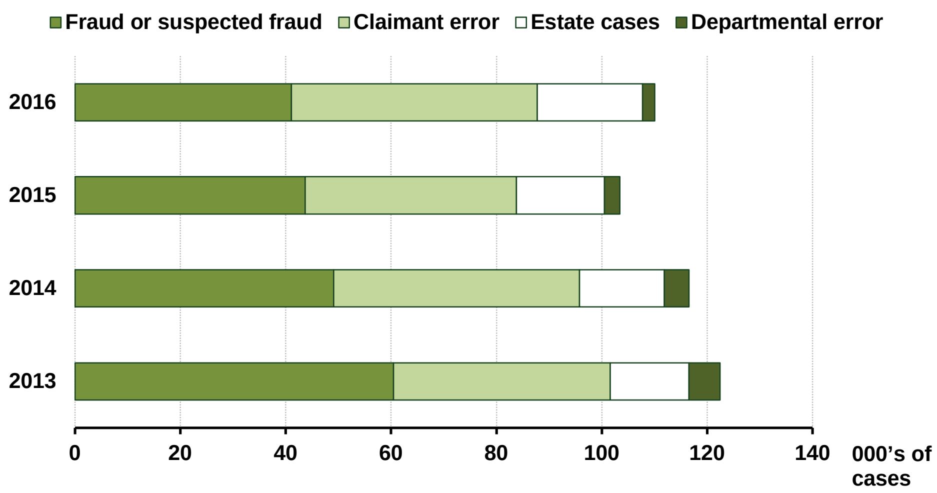
17.9 The Department categorises overpayments as follows

- **fraud and suspected fraud** — where it appears that the claimant knowingly gave false or misleading information or wilfully concealed relevant information
- **claimant error** — due to inadvertent claimant error in providing or not providing information
- **departmental error** — mainly arises where information held by the Department is not acted upon correctly
- **estate cases** — arise where subsequent to the death of a person in receipt of social assistance it comes to light that not all of the deceased's means had been disclosed.

17.10 There was some change in the recorded reasons for overpayments between 2013 and 2016, as indicated in Figure 17.3.

- 49% of the value of overpayments identified in 2013 was attributed to fraud or suspected fraud. This had fallen to 37% in 2016.
- The proportion of overpayments categorised as departmental error fell from 4.8% to 2.1%.
- There were increases in the level of overpayments attributed to claimant error (up from 34% to 42%) and estate cases (up from 12% to 18%) over the period.

Figure 17.3 Reasons for overpayments recorded, 2013 to 2016



Source: Department of Employment Affairs and Social Protection

Recovery of overpayments

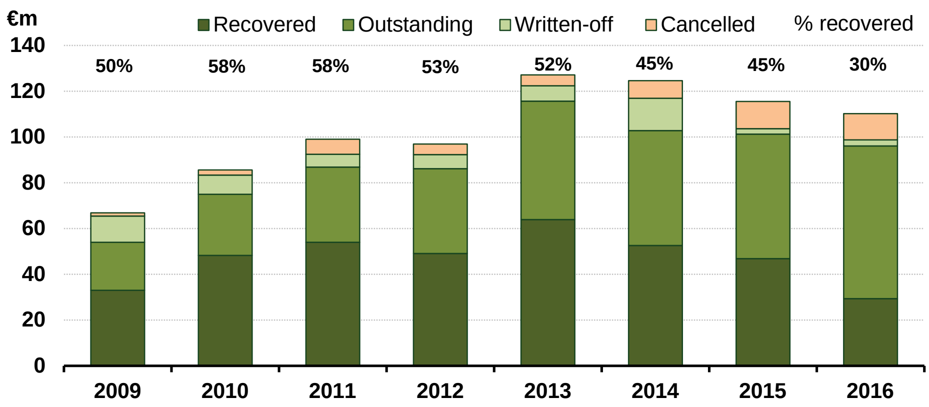
17.11 The Department recovers overpayments in two ways

- direct payments (lump sum or instalments) by claimants or their estates (cash)
- withholding some or all of welfare entitlements (deductions).

17.12 Figure 17.4 analyses the status of debt recorded each year from 2009 to 2016, and indicates the status of that debt at the end of 2016. This indicates that some debts recorded each year are subsequently cancelled.

17.13 Based on the performance up to end 2016, the rate of recovery of recorded debt (i.e. after cancellations) is around 30% in the year the overpayment is identified. The rate of recovery increases over time, to a level of between 50% and 60% after three or four years.

Figure 17.4 Status of debt recorded 2009 to 2016 as at 31 December 2016



Source: Analysis by Office of the Comptroller and Auditor General

Note: Pre-2009 debt of €141.6 million outstanding at 31 December 2016 is not included. Information prior to 2009 is not available in respect of the original value of the overpayment recorded, amounts written off or recovered.

17.14 The Department has stated that a number of factors need to be taken into account when considering the recovery of overpayment debt including

- temporal factors and dimensions, such as elapse of time since the debt was recorded, recovery actions commenced or similar factors
- the impacts of debt management actions such as write-offs or write-downs in the value of the debt
- opportunities and methods available to the Department to pursue recovery, particularly in the period prior to the introduction of new statutory powers to support recovery actions.

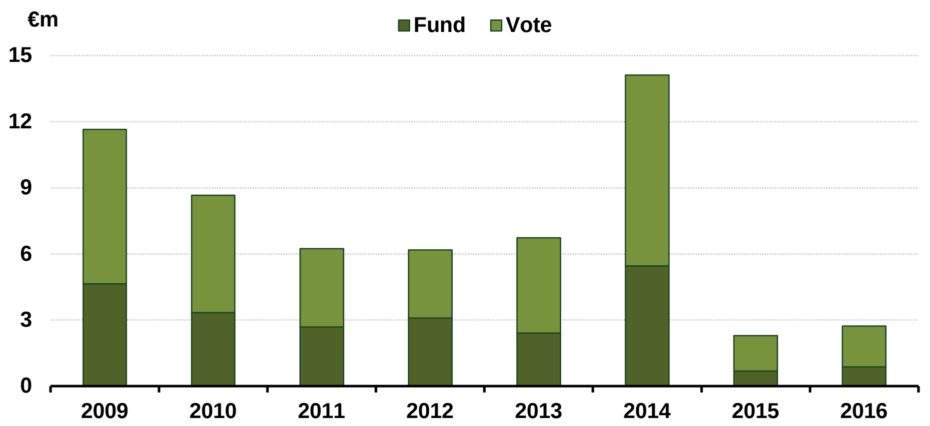
Write-off of overpayments

17.15 Overpayments can be written off where it is deemed that there is no realistic prospect of repayment. For example, this could occur where

- a debtor has died and insufficient funds remain in their estate to repay the debt
- where the Department failed to act within a reasonable time frame on information regarding a change of circumstances provided by the recipient
- where the debt arose due to departmental error and the person could not reasonably be expected to know that the error had occurred
- where there is insufficient evidence of an older debt.

17.16 Only authorised officers may write off debts. The write-off is carried out on the DRAS system. The reason for the write-off must be clearly recorded by way of a case note outlining the circumstances. Figure 17.5 shows the level of overpayments written-off from 2009 to 2016.

Figure 17.5 Overpayments written-off 2009 to 2016



Source: Office of the Comptroller and Auditor General

17.17 The level of write-off of overpayments spiked in 2014, when a total of €14.1 million was written off. The spike was as a result of a review of overpayments by the Department on the introduction of DRAS. As part of the migration of data, the Department wrote off

- debts with an individual outstanding value of less than €100 each and with no recovery activity in a period of 24 months prior to November 2014 — total value €1.3 million in 29,065 cases
- debts of persons who were deceased and where no estate recovery activity was pending — total value €7.4 million and 4,222 cases.

17.18 A total of €2.7 million was written off in 2016. Figure 17.6 shows the reasons recorded for these write-offs.

Figure 17.6 Reasons recorded for write-off of overpayments in 2016

Reason	€	Number	Average debt €
Agreed settlement[a]	874,841	202	4,331
Debtor deceased	578,512	1,912	302
Extenuating circumstances[b]	510,675	573	891
Central Debt Management Policy[c]	366,912	4,755	77
Department failed to act within reasonable time[d]	149,407	162	922
No prospect of recovery	259,774	376	691
Other	12,578	48	262
Written back[e]	(24,726)	10	2,473
	2,727,973	**8,038**	**339**

Source: Office of the Comptroller and Auditor General

Notes:
a Formal settlements are usually in estate cases or for very large value overpayments.
b Cases where the Department took a decision to write-off debts in order to avoid imposing undue economic hardship on debtors, where this is found to be warranted given the particular circumstances of the individual cases.
c Small value or residual debt cases considered to be irrecoverable and written off by the Central Debt Unit.
d The Department having received information in relation to individual cases had not acted on it by way of adjusting payments or seeking recovery within a reasonable length of time.
e Cases previously written off which were written back in 2016.

Recoverability of debt

17.19 The principal factors affecting the recoverability of social welfare debt include

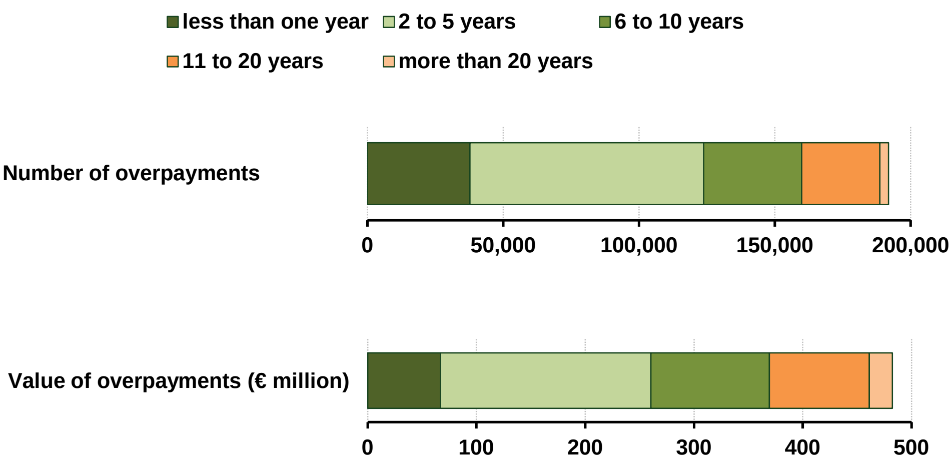
- age of the debt
- size of the debt
- status of the debt.

Age of the debt

17.20 Good practice[1] for debt recovery indicates there should be early engagement with debtors because as debt ages, it typically becomes more difficult to recover. Figure 17.7 shows the age of overpayment debt outstanding at 31 December 2016.

1 The Department of Public Expenditure and Reform issued a good practice guide for collection of debt by public bodies in January 2017.

Figure 17.7 Age of overpayment debt at end 2016, by number and value



Source: Analysis by Office of the Comptroller and Auditor General

17.21 Less than 14% of the overpayment debt outstanding at 31 December 2016 was recorded in 2016. Over 46% of overpayments (by value) are more than five years old, and almost a quarter are more than ten years old.

Size of debt

17.22 Some very small debts remain inactive on the system — a combination of small amounts originally recorded and residual balances of overpayments on which repayment activity has ceased. Where the debt is large, the debtor may not have the resources to repay e.g. if the debtor is in receipt of a welfare payment, the amount recoverable by way of deduction may not materially impact a large amount outstanding.

17.23 Figure 17.8 shows the debt outstanding at 31 December 2016, stratified by value and showing the number of debtors and the total value in each band.

Figure 17.8 Size of debt — number and value

Value of individual debts	Number and value of debts in this category	Total
€0-100	36,211 individuals	€1.6 million
€101-500	68,574 individuals	€17.4 million
€501 to 1,000	26,642 individuals	€19 million
€1,001 to 5,000	39,964 individuals	€89 million
€5,001 to 10,000	9,473 individuals	€66.5 million
€10,001 to 50,000	9,814 individuals	€198.3 million
Over €50,000	1,156 individuals	€90.7 million
Total	191,834 individuals	€482.5 million

Source: Analysis by Office of the Comptroller and Auditor General

17.24 Just under 11,000 debtors (5.7% of the total) accounted for debts of €289 million (60%) outstanding at the end of 2016.

17.25 The Department's Central Debt Unit (CDU) manages 1,156 debtor cases involving debts of €50,000 or more (average debt €78,500). In these cases CDU substantiate the overpayment and

- for a debtor in receipt of a current welfare payment, an appropriate recovery plan is notified to the debtor and deductions from on-going social welfare payments are implemented
- for debtors not receiving an ongoing social welfare payment, CDU writes directly to the debtor seeking recovery of the sum overpaid. If there is no engagement by the debtor; CDU initiate the process to make an attachment order.

17.26 The examination reviewed the largest cases of overpayments on hand at end 2016 — six cases where the overpayment amount calculated by the Department was in excess of €200,000 each (See Figure 17.9).

Figure 17.9 Debts over €200,000 — number and value

Details of overpayments (with date determined)[a]	Balance outstanding at 31 December 2016 as % of original debt	Outcome of Department investigations	Recovery status
Fraudulent claim(s) due to impersonation (August 2013)	€ 333,463 100%	Claimant was convicted and received a 5 year custodial sentence.	Person in custody. Recovery where person is on temporary release.
Suspected fraudulent claim(s) due to impersonation (April 2016)	€332,632 100%	Case under investigation by An Garda Síochána.	Recovery actions pending.
Suspected fraudulent jobseekers assistance claim 1995 to 2012 (February 2015)	€ 258,419 100%	Case under investigation by An Garda Síochána.	Deductions (€90 per week) in place on welfare payments since February 2017.
Suspected fraudulent one parent family claim(s) 1992 to 2014 (January 2015)	€ 214,292 99%	Prosecution considered but determined not to be appropriate.	Deductions (€15 per week) in place on welfare payments.
Suspected fraudulent jobseekers assistance claim(s) 2002 to 2013. (November 2014)	€213,814 92%	Prosecution considered but determined not to be appropriate.	Deductions (€80 per week) in place on welfare payments.
Suspected fraudulent one parent family claim(s) 1990 to 2013. (September 2014)	€ 206,082 100%	Prosecution considered but determined not to be appropriate.	No personal welfare payment. Attachment order under consideration.

Source: Department of Employment Affairs and Social Protection

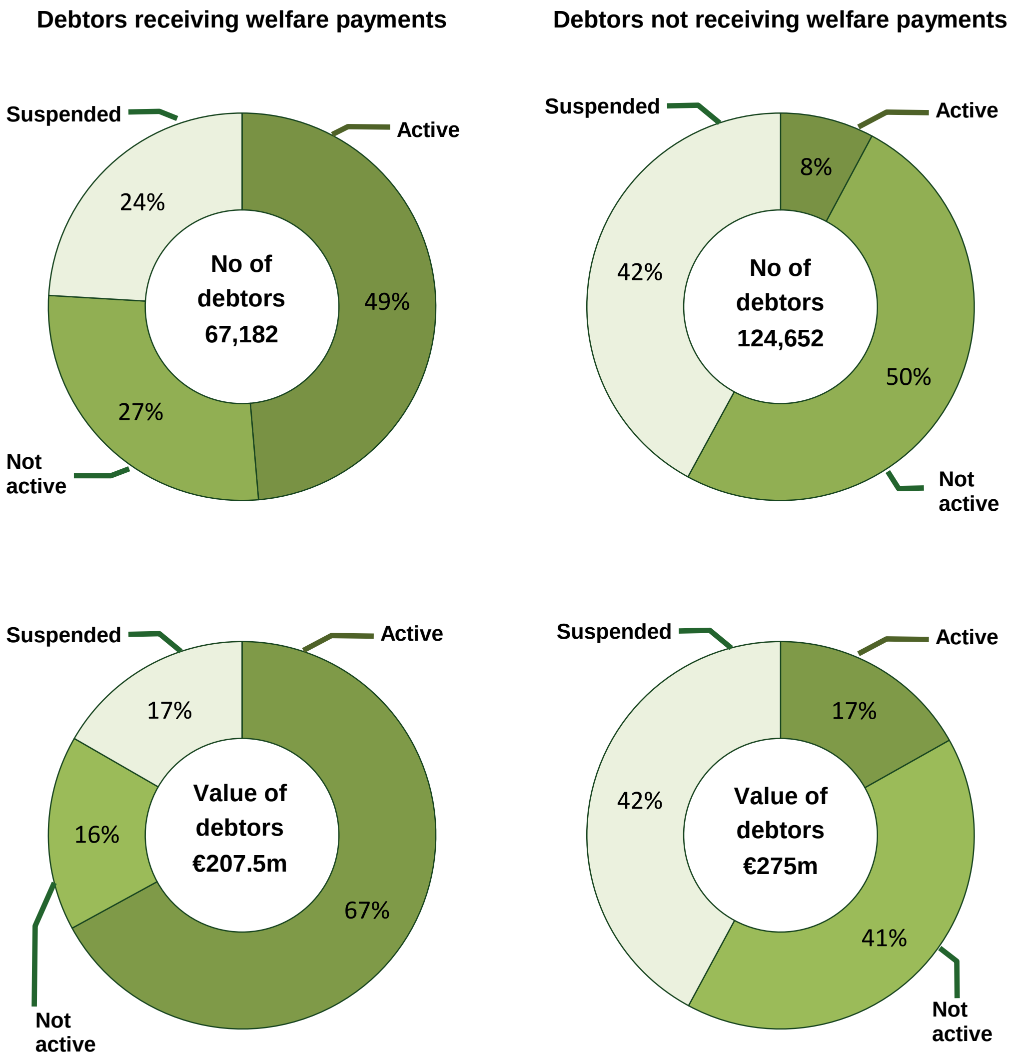
Note: a An overpayment exists from the date a deciding officer determines the matter under the social welfare acts and records the overpayment on DRAS.

Status of debt

17.27 The Department assigns a marker to each debt record which indicates the current status of the debt. Figure 17.10 shows the status of outstanding debts at 31 December 2016. The indicators used are

- Active — repaying: a payment has been received from the debtor in the past five weeks
- Active — not repaying: the debtor has not made a repayment in the previous five weeks or the debtor is repaying an older debt
- Suspended — no recovery actions in place.

Figure 17.10 Status of debt at end 2016



Source: Analysis by Office of the Comptroller and Auditor General

17.28 Where a claimant is currently in receipt of a welfare payment from the Department, legislation provides for the recovery of overpayments by way of deduction at a rate of up to 15% of the personal rate after engagement with the claimant. However, overpayments relating to other welfare schemes cannot be recovered from child benefit payments.

17.29 A total of 67,182 overpayments are in respect of individuals currently in receipt of a welfare payment. Some 34,412 debts to the value of €68.4 million were held by individuals in receipt of a welfare payment but who were not repaying any of the amounts owed.

17.30 A total of 68,562 debts are shown as suspended meaning that no recovery is currently in place.

17.31 The amounts shown include overpayments relating to debtors who are deceased. A total of 9,275 debts representing €31 million of the overpayments outstanding at 31 December 2016 relate to deceased individuals.

17.32 Of those debtors who are no longer in receipt of a welfare payment, less than 8% of the overpayments, representing €46.3 million (17% of the value of such debts), are being actively repaid.

Legal enforcement

17.33 Legal action by the Department may entail criminal prosecutions in relation to significant cases of welfare abuse and/or civil proceedings to facilitate the recovery of welfare overpayments or the collection of PRSI arrears.

Criminal prosecution cases

17.34 The Department seeks to prosecute the more serious cases where there is strong evidence of fraud. In considering cases for prosecution, the Department uses criteria such as the duration and amount of the fraud and the previous history of the case. Weightings are then applied to each of the criteria to assess cases suitable for prosecution.

17.35 The number of overpayments on social welfare schemes in 2016 attributed to fraud was 16,225. A total of 1,305 of these fraud overpayments had values above €5,000. In 2016, a total of 222 cases were considered by the Department's Central Prosecution Unit for criminal proceedings.

17.36 Figure 17.11 shows the number of cases sent forward for prosecution from 2013 to 2016.

Figure 17.11 Number of cases sent forward for prosecution, 2013 to 2016

	2013	2014	2015	2016
Social Welfare Act[a]	198	201	202	181
Criminal Justice Act[b]	68	115	151	160
Total	**266**	**316**	**353**	**341**

Source: Department of Employment Affairs and Social Protection

Notes: a These types of cases include where claimants fail to notify a change in circumstances; knowingly make false declarations or conceal material facts; obstruct a social welfare inspector; or fail to remit insurance contributions deemed to be due.

b Under the Criminal Justice Acts, prosecutions are taken against persons who defraud the social welfare payments system and employers who fail to carry out their statutory obligations. The types of cases include impersonation; misuse of a public service number; living outside the State while claiming benefits or assistance only available to residents; fraud; making materially false statements; using false documentation to gain a welfare payment; misuse or unlawful destruction of documents; repeat offending; deliberate concealment, deception conspiracy or corruption.

17.37 In cases such as impersonation, identity fraud and where offences can be classified as theft and/or fraud, the offence is considered to be more suited to prosecution under the Criminal Justice (Theft and Fraud Offences) Act 2001 given the seriousness of the alleged offence.

17.38 The number of cases sent forward for criminal proceedings in 2016 was 341, of which 181 cases were referred to the Chief State Solicitor and local State solicitors, and 160 were referred to An Garda Síochána under the Criminal Justice (Theft and Fraud Offences) Act 2001.

Outcome of prosecution cases

17.39 Figure 17.12 shows the outcome of cases prosecuted under the Social Welfare Act from 2013 to 2016. Data are not currently available in respect of cases referred to An Garda Síochána.

Figure 17.12 Outcome of Social Welfare Act prosecution cases[a], 2013 to 2016

	2013	2014	2015	2016
Fine imposed	121	162	129	104
Probation Act	32	31	41	36
Suspended sentence	21	31	16	17
Struck out	6	13	15	11
Withdrawn	5	3	9	6
Prison sentence	2	7	2	4
Dismissed	1	5	0	4
Community service	2	5	13	4
Other	2	7	6	2
Total	**192**	**264**	**231**	**188**

Source: Department of Employment Affairs and Social Protection

Note: a Refers to claimant overpayment cases only. The number of referrals differs from the number of hearings completed due to time lags in the process.

17.40 In addition to proceedings against welfare recipients, six employer-related cases were finalised in 2016. Fines were imposed in two of these cases averaging €600. One received the Probation Act and three were withdrawn.

17.41 At the end of 2016, 565 cases were on hand with State solicitors and were at various stages of the prosecution process.

Civil debt enforcement proceedings

17.42 In civil cases, the person's ability to repay the debt is examined. The Department stated that proceedings are not taken in circumstances where the debt is being repaid, or the debtor is not in a position to repay or does not have any assets. Civil proceedings in such cases would be pointless and would result in significant costs to the Department.

17.43 The Department pursues civil proceedings to recover debts only where there is a reasonable expectation that the debtor has sufficient means to discharge the debt. The Department has stated that it has made limited use of civil proceedings to recover debts due to the costs involved in prosecutions and having considered the facts of the individual cases and the circumstances of the debtor.

17.44 Between 2013 and 2016, the Department finalised 36 civil proceedings.

- Positive outcomes were achieved in 16 cases. These 16 cases consist of eleven instalment arrangements and five court judgements in favour of the Department
- The remaining 20 cases were terminated due to changes in the circumstances of the debtor (eight cases) or because the case had become statute barred (twelve cases). The usual source of delay leading to a case becoming statute barred is in assembling sufficient evidence to support the case.

17.45 At the end of 2016, the Department had 16 civil cases that had yet to be finalised. The equivalent figure at the end of 2015 was also 16.

Attachment orders

17.46 The Social Welfare (Consolidation) Act 2005 (as amended) gives the Department the power of attachment.[1] The Department may attach amounts held in financial institutions or owed by an employer to a person who has a debt to the Department. This is done by serving a notice of attachment on the financial institution or employer.

17.47 The notice of attachment will contain instructions for the amount to be taken from a bank account held by the debtor or deducted from each wage or salary payment due to the debtor over a stated period of time and paid to the Department until the specified amount is paid.

17.48 Up to June 2017, 31 cases with an original value of €952,000 had an attachment order executed, and €369,000 had been recovered. In 88 cases, with a combined value of €507,000 either full repayment was made or recoveries had commenced after the threat of attachment proceedings was made or before the order could be executed. The amount repaid in these cases at the end of June 2017 was €453,000.

Collection of debt — best practice

17.49 The Department of Public Expenditure and Reform (DPER) issued a *Best Practice Guide for Collection of Debt by Public Bodies* in January 2017. The guide is based on a review that identified key success factors for debt management. Figure 17.13 shows the results of using these principles as a base to evaluate the current procedures in place in the Department.

Figure 17.13 Assessment of procedures against best practice key success factors

Key success factor	Adherence to best practice
Debt collection procedures	
Documented debt management policies and procedures	◍
Special purpose debt management system	●
'Single customer view' of customers	●
Tailored collection (or 'chase') paths	◍
Specialist debt management training and support	◍
Appropriate 3rd party collection usage	○
Customer Interaction	
Early client contact	●
Early and accurate billing	●
Strong enforcement, clearly communicated	◍
Range of payment options; easy to pay	○
Performance management information	
Accurate data collection and maintenance	○

Source: *Collection of Debt by Public Service Bodies — Best Practice Guide*, Department of Public Expenditure and Reform (2017). Assessment by Office of the Comptroller and Auditor General.

● good: fully or substantially complies with the principle
◍ adequate: addresses most aspect of the principle with some limitations
○ limited: only partially met the principle, or significant limitation existed, or did not apply.

1 Attachment is a process by which a creditor may request specific property owned by a debtor to be transferred to the creditor. Property owned by a debtor includes money held in accounts by the debtor and also covers salary or earnings due by an employer to the debtor

Debt collection procedures

17.50 The Department's policies and procedures set out its approach to the recording and recovery of overpayments and are published on its website. The Department has stated that it is currently engaged in a process of updating its policies and procedures to ensure they align with DPER best practice guidelines. The revisions will take on board concerns raised by the Ombudsman's Office and the Office of the Comptroller and Auditor General with respect to the management of debt and recoveries.

17.51 The Department's systems provide a single view of each customer where all details relating to an individual's claims and interactions with the welfare system can be seen. A programme is in place to manage the larger debts (those greater than €50,000 each). The Department has profiled all debts to determine the appropriate strategy for recovery.

17.52 Training has been provided by the Central Debt Unit to scheme section and Intreo office staff on the operation of DRAS. However, additional training on specific debt management skills is yet to be provided.

17.53 The Department has not undertaken any formal consideration of the use of third-party debt recovery agents. The Department considers that use of third-party recovery services could only be undertaken when the expansion of the use of attachment orders has taken place and the recoverability of older/legacy debt has been determined.

Customer interaction

17.54 In March 2017, the Department commenced issuing annual statements in respect of overpayments raised in 2016, on the anniversary of when they were recorded on DRAS. The Department has stated that the issuing of statements is being progressively expanded on a scheduled basis to include all debt for prior years.

17.55 The range of payment options available to individuals to repay their debt are limited to deduction from existing welfare payment or by cash lump sum or on-going cash payment. Options to pay online or by card are currently not available.

Performance management information

17.56 The examination noted that the department publishes details relating to the value of overpayments raised, recovered and the age of outstanding debt in its annual report on the implementation of its *Compliance and Anti-Fraud Strategy 2014 – 2018.* (The 2016 annual report was published in June 2017). Data in respect of debt and recoveries is also published as part of the financial statements of the Vote and the SIF. Documentation in relation to some older recorded debt may be incomplete and could hinder efforts to recover the debt or to show that the debt actually exists.

Review of overpayments

17.57 Over 76,000 overpayments were recorded by the Department on DRAS during 2016. Overall, a sample of 253 overpayment cases were examined across nine locations and seven welfare schemes throughout the country. The results of the examination of those cases are shown in Figure 17.14.

Figure 17.14 Results of examination of sample of overpayments

Issue	Number of instances	% of cases reviewed	Number of locations
Calculation errors	13	5%	7
No recovery plan in place	27	11%	4
Communications did not issue	6	2%	4
Non-compliance with guidance on review level	25	10%	1
Cancellation without supervisor approval	9	4%	2
Debt written-off instead of being cancelled	5	2%	3

Source: Department of Employment Affairs and Social Protection

17.58 The review of overpayments found that the Department's own guidelines are not always being adhered to. Calculation errors had been made in 5% of the sample examined and had not been corrected. In 27 cases in four locations, plans had not been put in place for the recovery of the outstanding debt. Communication in relation to the overpayment did not issue to a total of six debtors. In one location, the prescribed level of review of overpayment cases was not performed, affecting 10% of the sample cases. Nine overpayments (4% of the sample) were cancelled without the approval of the supervisor, five debts were recorded as written-off instead of being cancelled.

Conclusions

Overpayment debts outstanding

17.59 The Department recorded detections of overpayments for recovery of between €100 million and €120 million per year between 2013 and 2016. The value of cases attributed to fraud, suspected fraud and departmental error decreased over that period but these decreases were offset at least in part, by increases in claimant error and estate cases.

Recommendation 17.1

The Department should review the underlying causes for the relative increase in overpayments arising due to claimant error and estate cases so that it can review and amend control processes, as required.

Accounting Officer response

Agreed. The Department notes, in particular, the welcome reduction in the value of overpayments attributable to fraud, suspected fraud and departmental error in the last four years and considers that a review of claimant error and estate cases would be beneficial.

With regard to claimant error, more intensive training and development has been provided to Deciding Officers under the OneDSP initiative and the guidance provided by the Department's Decisions Advisory Office, designed to underpin improvements in the decision-making process across all scheme areas. It is likely that the relative change noted arises from a combination of improved decision-making, the introduction of DRAS, and in part from changing claimant behaviour. Claimant awareness of the need to report a change in a person's circumstances should be heightened, by recent increased publicity around the Department's anti-fraud measures.

The majority of overpayments arising from estate cases arise in State Pension schemes. It should be noted that the Department will be commencing a fraud and error survey of the State Pension Non-Contributory (SPNC) Scheme in late September 2017. Any control weaknesses identified in that scheme will be rectified as quickly as possible with a view to strengthening its overall control policy and reducing the incidence of estate cases into the future. The Department also intends to expand its risk analytics work in 2018 and will be considering SPNC as one of the next batch of schemes to be modelled. Following a recent fraud and error survey of the State Pension Contributory Scheme, the Department will also be updating its control policy for that scheme, based on risk assessment and risk categorisation of all recipients.

The data-matching work that the Department undertakes with the Revenue Commissioners is also relevant in this context particularly in terms of undisclosed monies held in financial institutions.

More generally, it should be noted that the Department has begun a project to enhance the categorisation of overpayments and associated management actions – such as reasons for write-offs, suspension of recovery actions and cancellations. Additionally, the Department is introducing improved guidance, validation and oversight processes, as part of revised debt management procedures, which will provide greater assurance around the validity of the actions undertaken to record and manage overpayments.

Recovery of overpayments

17.60 Analysis of the rate of debt recovery suggests that almost one-third of debt recorded is recovered quickly. Thereafter, recovery is slower, and three to four years after detection, between 50% and 60% is recovered. There is some writing off of debts deemed irrecoverable. The long term impact on recovery rates of changes implemented as part of the DRAS system has not yet been established.

17.61 At end 2016

- 46% of the value of debts outstanding was more than five years old. Almost a quarter of the value of debt outstanding was more than ten years old.
- Almost one in five debtors owed €100 or less. Less than 1% of debtors owed €91 million or 19% of the value of debt outstanding. The Department has targeted debt recovery arrangements in place to deal with the largest debtors.

17.62 Active recovery plans are in place for over half of the debtors currently in receipt of a welfare payment. Of the debtors that are no longer in receipt of a welfare payment, less than 8% are actively repaying the amounts owed.

Recommendation 17.2

The Department should review the outstanding debts with regard to

- their size and whether they are economical to pursue
- recoverability of debt, and especially older debt.

The Department should also review the focus of their debt recovery process.

Accounting Officer response

Agreed. In recent months, a comprehensive analysis of the stock of debt has been undertaken, taking account of the various issues highlighted in the recommendation. This work has identified overpayments raised before 2011 as being particularly problematic to pursue and/or recover for a number of reasons. These include the quality of supporting documentation which has been found to be poor/inadequate, the lack of claimant knowledge of the existence of the debt and the reasons as to why it was raised and the length of time since the debt was raised.

Due to the statutory framework that was in place until 2013, the recovery measures which could be pursued for such overpayments were also very limited. Up to then, the normal weekly deduction towards the recovery of a debt was of the order of €2 per week which significantly limited the Department's ability to recover overpayments in any kind of meaningful way.

Legal enforcement

17.63 In addition to effective recovery of debts, a key deterrent for fraudulent behaviour is robust enforcement. The Department seeks to prosecute the more serious cases.

17.64 Of the cases attributed to fraud in 2016, 1,305 had overpayment values in excess of €5,000 each. A total of 222 were considered by the Department for criminal proceedings in 2016.

17.65 The majority of attachment order cases finalised to June 2017, have resulted in full payment or the commencement of a repayment plan by the debtor prior to the attachment order being executed.

Recommendation 17.3

The Department should consider expanding its use of attachment orders for debtors no longer in receipt of a welfare payment and currently not making a repayment.

Accounting Officer response

Agreed. The Department has initiated the process of making attachment orders in 119 cases with debts of €1.46 million. Up to end of June 2017, 31 cases with a debt valued at €952,000 had an attachment order executed: €369,000 had been recovered on these cases. In the remaining 88 cases, the debt was settled or recoveries arrangements were agreed. The debt value was €507,000; the amount repaid at the end of June 2017 was €453,000. Attachment orders are increasingly being used to pursue debtors who are no longer receiving a payment from the Department. The statutory process to execute such orders is resource intensive and can take up to 60 days to complete.

Management of overpayments

17.66 Overpayments can be written-off in a range of circumstances e.g. where it is deemed there is no realistic prospect of repayment, as a result of agreed settlement discounts, debtor deceased, or extenuating circumstances. In addition, 162 debts with a value of €149,000 were recorded as being written-off because the department failed to act within a reasonable time on information received which would have avoided an overpayment being raised or reduced the value of the overpayment raised.

Recommendation 17.4

The Department should review the reasons recorded for write-off of debt and establish whether practices and procedures need to be revised to improve recovery and thus minimise the level of write-offs in future.

Accounting Officer response

Agreed. It is not possible to recover all sums overpaid and accordingly, for accounting and administrative purposes, amounts considered to be irrecoverable will require to be periodically written-off as uncollectable. However, the Department can write-back and pursue recovery of an overpayment where a debtor's circumstances change.

The Department is currently engaged in an upgrade of DRAS to improve the overall classification of debts, including cancellations and write-offs. In addition, the existing debt management guidance and training for staff will be updated to support the planned changes. The current annual value of write-offs is considered to be relatively low.

Collection of debt — best practice

17.67 The Department is in compliance with DPER's best practice key success factors for management and recovery of debt in four areas but further progress is required in other areas.

Recommendation 17.5

The Department should ensure that its management of overpayment debt is fully in accordance with best practice.

Accounting Officer response

Agreed. The Department has examined its current practices against the best practice guidelines published by DPER in January 2017.

- The Department is currently engaged in a process of updating its policies and procedures to ensure they align with DPER best practice guidelines and to reflect improvements planned in DRAS functionality. These revisions will take on board concerns raised by the Ombudsman's Office and the Office of the Comptroller and Auditor General with respect to the management of debt and recoveries.
- A targeted approach to outstanding debt is already in place prioritising larger value overpayments and debts raised since the introduction of DRAS.
- All staff in the debt management area have significant skills. Specialist training will be provided to develop and maintain these skill levels.
- A programme to issue annual statements to all debt holders is being rolled out and, by end 2017, we will have commenced issuing annual debt statements for all debts raised in 2014, 2015 and 2016. The programme will be extended in 2018 to cover debts outstanding from earlier years.
- Extending the range of payment options available to debtors is currently under consideration, in the context of procuring future banking services for the Department.
- A comprehensive review of older debts is currently underway with a view of setting out options for improved future management of overpayments.

Audit of overpayments

17.68 The audit of the management of a sample of overpayment cases by scheme units and Intreo offices found areas of non-compliance with departmental guidelines.

Recommendation 17.6

The Department should review the application of internal guidelines to ensure they are being fully adhered to.

Accounting Officer response

Agreed. Planned improvements in DRAS functionality, revisions to departmental guidelines and the provision of associated training to staff are expected to have a positive impact on the quality of how overpayments are recorded, managed, and pursued. Improved systems and processes will address

- reliance on the manual calculation of overpayments
- the absence of recovery plans for recently created debts
- failure to adequately communicate with claimants (although this will remain a significant issue with pre-2015 overpayment cases)
- improved validation, verification and oversight processes for recording overpayments, cancelations and write-off of cases and categorisation of actions recorded on DRAS.

18 Department Reviews of Welfare Schemes

18.1 The Department of Employment Affairs and Social Protection (the Department) conducts post-claim approval reviews referred to as 'control reviews' to ensure

- continued compliance with all conditions for receipt of payment
- continued entitlement to all elements of the payment such as dependent relative.

18.2 Reviews can be by home visit, interview, or desk assessment based on review of the relevant file or papers. It also includes mailshot reviews and medical reviews. Costs vary depending on the method of review undertaken. The frequency of review required should generally be based on

- the level of risk inherent in the scheme
- the risk attaching to the claimant based on their claim profile.

18.3 This report examines the Department's performance in implementing planned control reviews. Based on the reported outcomes of reviews undertaken, it also assesses the effectiveness of controls in three schemes — family income supplement, invalidity pension and domiciliary care allowance.

Risk rating by the Department

18.4 In general, schemes that are means or income based are more susceptible to fraud and error, while medically based schemes are susceptible to non-conformity with eligibility criteria. In order to assess the level of risk inherent in schemes, the Department carries out fraud and error surveys.[1] The Department uses the survey results to determine the adequacy of its scheme control strategy and whether any revision is required to its review policy.

18.5 The Department may also assign risk ratings to individual claims for some schemes. For example, in the case of the invalidity pension scheme, a medical review status is assigned to all new claims indicating when the claim should be next medically assessed. Examples include 'review in one year' and 'do not refer again'.

18.6 The Department set a target to carry out one million control reviews in 2016 and has reported that it achieved 95% of this target. Figure 18.1 provides an analysis of where the control review resources were deployed. Where a fraud and error survey has been carried out, the estimated level of excess payments associated with the schemes reviewed is shown for comparison purposes.

1 See also Chapter 16 *Regularity of Social Welfare Payments.*

Figure 18.1 Overview of Department control reviews in 2016

Scheme	Recipient numbers[a]	Spend 2016 €m	Estimated level of excess payments[b]	Target reviews	Reviews undertaken
Child benefit	1,195,000	2,078	0.5%	317,500	322,421
Jobseekers		2,808		240,000	246,741
- *Allowance*	218,000		*3.1%*		
- *Benefit*	38,000		*1.6%*		
Illness and disability		2,733		107,700	106,865
- *Disability allowance*	126,000		*4.1%*[c]		
- *Illness benefit*	54,000		*6.0%*[c]		
- *Invalidity pension*	56,000		*1.5%*[c]		
- *Domiciliary care allowance*	35,000		—		
Supplementary welfare allowance (SWA)		371		170,000	88,626
- *Basic SWA*	18,000		—		
- *Rent supplement*	48,000		5.0%		
- *Mortgage interest supplement*	2,000		—		
One parent family	40,000	501	2.7%	53,000	64,349[d]
Survivor's (contributory) pension[e]	121,000	1,437	0.7%	6,000	8,076
Family income supplement	58,000	415	0.5%	42,300	50,585
State pensions (including household benefits)		5,874		42,000	44,030
- *State pension (contributory)*	377,000		*2.0%*		
- *State pension (non-contributory)*	95,000		*1.9%*[f]		
Carer's payment	73,000	686	None	8,500	3,828
PRSI[g]	N/A	9,566[h] *(receipts)*	None	13,000	12,695
Total				**1,000,000**	**948,216**

Source: Department of Employment Affairs and Social Protection

Notes:
a The recipient numbers stated refer to 31 December 2016.
b The net loss to the welfare system, taking account of cases where claims disallowed on a scheme are succeeded by valid claims/dependent payments on other schemes or are restored after appeal.
c Figures for disability allowance, invalidity pension and illness benefit include the results of cases medically reviewed.
d Includes 2,812 reviews of maintenance recovery payments (liable relative assessments).
e Widow's/widower's/surviving civil partner's (contributory) pension.
f The gross level of excess payment on the scheme is stated. The net loss to the welfare system was not measured when this survey was carried out in 2008.
g PRSI reviews include enquiries and inspections by staff of the Department.
h Also includes health contribution and national training fund levy.

18.7 Examination of the Department's review statistics found that

- While there was an overall target of carrying out reviews of 107,700 illness related payments, there was no target set for the number of control reviews for each scheme to be carried out by the medical review assessment section. Expenditure in 2016 on medically-based schemes (excluding carer's payments) was approximately €2.7 billion with in excess of 270,000 recipients at the end of December 2016.
- Of the 106,865 reviews completed of medically-based schemes in 2016, over 70,000 (65%) were as part of initial claim decisions, decision reviews on claims (e.g. where a claimant submits further medical evidence in support of a claim) and reviews following appeals. This means that just 35% (36,865) of medically-based scheme reviews carried out were to verify a claimant's continuing eligibility, including medical eligibility.
- Less than 1% of reviews undertaken in 2016 were in relation to the carer schemes (carer's allowance and carer's benefit) where €686 million was spent. The Department achieved less than half of its review target for these schemes. A fraud and error survey of the carer's allowance scheme is currently underway — this is the first survey of this scheme.

18.8 The allocation of review resources to schemes assessed as posing the highest control risks is an area that the Department monitors on an on-going basis. In this context, it is important to note that the Department's claim reviews consist of a number of different elements

- desk-based examinations and assessments of information available to a deciding officer and from direct enquiries (usually postal-based) with claimants
- face-to-face engagements and interviews by staff members with claimants
- on site, office-based and desk-based assessment of means and related material by social welfare inspectors and community welfare service staff and
- investigations conducted by the Department's Special Investigation Unit (SIU).

18.9 The Department stated that the nature of the review activity undertaken relates to the inherent risk assigned by the Department to the particular scheme. For example, a sample of at least 5% of child benefit claims is reviewed annually by postal enquiry. A similar level of enquiry is undertaken by post of contributory State pension claims. Higher risk schemes, such as jobseekers allowance and disability allowance, will involve an element of postal enquiry (mainly related to updating means data), desk-assessment and face-to-face engagement with the claimant, and medical assessment, as relevant.

18.10 The Department stated that it is now using predictive analytics modelling for its three main working age payments categories — jobseekers, one-parent family and disability allowance. As a result, risk-based reviews are now in place for these schemes aimed at identifying potential cases which have a higher risk of wrongful or fraudulent claiming. Each month, the models identify cases for investigation/review and this allows the Department to target investigative resources at the cases likely to have the highest return/yield in terms of control and anti-fraud savings. The Department intends to expand the use of predictive analytics to other schemes in 2018.

Scheme reviews

18.11 The control review process operated by the Department was examined for three schemes

- Family Income Supplement
- Invalidity Pension
- Domiciliary Care Allowance.

Together, the schemes accounted for approximately €1.2 billion of expenditure in 2016 as set out in Figure 18.2.

Figure 18.2 Scheme profiles 2016

Scheme	Expenditure 2016 €000	Recipient numbers[a]	Number of reviews
Family Income Supplement	415,437	58,000	50,585
Invalidity Pension	644,950	56,000	588
Domiciliary Care Allowance	133,075	35,000	71[b]

Source: Department of Employment Affairs and Social Protection

Notes: a The recipient numbers stated refer to 31 December 2016.

b Medical eligibility reviews of domiciliary care allowance claims were suspended in 2012 and remain suspended. However, 71 claims were reviewed for other reasons.

Family Income Supplement

18.12 Family Income Supplement (FIS) is a weekly tax-free payment which provides extra financial support to people on low pay and who have children. To qualify, the applicant's average weekly family income must be below a certain amount for the family size. FIS is payable at 60% of the difference between the individual's average weekly family income and the income limit set by the Department with respect to the family circumstances.

18.13 FIS is payable for a 52 week period as long as the claimant and their spouse, civil partner or cohabitant continue to meet the eligibility criteria. To continue to receive a FIS payment after the 52 weeks, a new claim must be submitted and the applicant must continue to meet the qualifying conditions.

18.14 In the course of the examination, it was found that some claims had been automatically renewed in the years 2014 and 2015 without being subject to the normal annual checking procedures. It was noted by the examination that in one particular case, the FIS payment calculation had incorrectly included a child dependent. The child was over 18 years of age and no longer qualified to be considered for the purposes of the FIS calculation. Had the claim been subject to the normal annual checking procedures, this error may not have arisen.

18.15 Data provided by the Department indicated that, due to resource issues, 8,925 claims had been automatically renewed by the FIS Section of the Department for the period May to October 2014 and 1,710 cases had been automatically renewed in respect of a two week period in 2015. The Department indicated that the 8,925 cases selected for automatic renewal in 2014 were selected on the basis that they had been in payment for the previous three years and the variation in means over that time period was €20 or less and that the situation was therefore likely to be unchanged. The 1,710 recipients selected for automatic renewal in 2015 were selected on the basis that they had already completed and returned a renewal application form. These recipients had their FIS claim automatically renewed at the then existing rate of payment. The Department advised that all recipients automatically renewed had been written to advising them of the basis of the renewal and requesting that they notify the Department if their circumstances had changed.

Invalidity Pension

18.16 Invalidity Pension is payable to those who are permanently incapable of work because of a disability or illness and who have sufficient social insurance contributions. To qualify for invalidity pension, an applicant must have been incapable of work for at least 12 months, and be likely to be incapable of work for at least another 12 months or have an incapacity such that they are likely to be incapable of work for life.

18.17 Once a claim has been put in payment, the main change in eligibility conditions that can occur is where a recipient becomes capable of work again, and for those in receipt of a qualifying dependant allowance, there is a change in the dependent circumstances. In December 2016, over 7,000 invalidity pension claims were in receipt of an adult dependant element with almost 14,000 in receipt of a child dependant element.

18.18 The Department's procedures require that when a claim is approved for payment, a medical review status is assigned indicating whether the claim should be reviewed in the future and if so, when the review should take place e.g. review in one, two or three years or a 'do not refer' status may be assigned.

18.19 A previous examination[1] noted that 11% of invalidity pension cases randomly reviewed by the Department had been found to be no longer eligible. In response to a report recommendation, the Department accepted that all cases without any review status should be medically reviewed as soon as possible and acknowledged the need to increase its capacity to carry out medical control reviews.

18.20 In November 2015, following the completion of a fraud and error survey of the scheme, the Department revised its review policy for the invalidity pension scheme. The estimated level of excess payment (including medical ineligibility) identified by that survey was 1.5%.

1 Chapter 20, *Report on the Accounts of the Public Services 2012*.

18.21 The revised review policy for invalidity pension gives priority to undertaking medical reviews, on the basis that customer circumstances in relation to meeting the medical criteria are more likely to change than other circumstances. It identifies the following allocations for medical review

- cases with a short review referral date i.e. one and two years (to account for 35% of review cases)
- cases where the claimant is under 40 years old and cases referred by the Scheme Section (40% of reviews)
- claimants in payment for more than two years who have never previously been reviewed (20% of reviews)
- 5% of reviews to be drawn from the 'do not refer again' (DNRA) review status category and claims with a duration greater than nine years.

18.22 The examination team noted the following matters with regard to invalidity pension scheme reviews undertaken by the Department in 2016

- The Department exceeded its target proportion of priority cases for review in two risk categories — cases with a short review referral date and cases where the claim is in payment for more than two years and not previously reviewed. The Department did not achieve its target in the other two categories.
- 588 claims were reviewed — a review rate of 1%. This represents a reduction of over 40% compared to 2012, while claim numbers have increased by 10% since then.
- 257 of the 588 reviews were carried out by medical assessors. Of those cases, 43% were initially deemed medically ineligible. According to the Department, as at September 2017
  - 8 (3% of the medically reviewed cases) are no longer in receipt of invalidity pension
  - 7 (3%) were found eligible by an appeals officer
  - 38 (15%) have been found eligible by a deciding officer, following the submission of further medical evidence[1]
  - 57 (22%) have submitted further medical evidence which has been referred to the medical assessors for an opinion.
- Also, one out of 16 cases drawn from the DNRA review status category was deemed medically ineligible.
- At the end of December 2016, over 9,000 cases had a medical review status requiring medical review in one or two years.

18.23 The previous examination noted that around 12% of cases in payment did not have any medical review status recorded. In response to the finding, the Department stated that since August 2010, a medical review status had been assigned to all new claimants and to any cases that had been medically reviewed.

1 Social welfare legislation provides that, where a medical assessor provides an opinion in respect of a person's entitlement, the deciding officer (or an appeals officer) shall have regard to that opinion. Where a question arises as to a person's continuing eligibility for a payment, that payment remains in place while any further medical evidence is examined.

18.24 The Department provided data relating to 55,532 cases in payment at end-December 2016. The examination examined the last review date associated with the cases and the review status indicator given to each case at the date of that review. The analysis indicated that

- 6,805 cases had been reviewed within the time frame and another 26,957 were classified as not for review.
- Approximately 2,900 cases were reviewed within one year of the review date indicator assigned to them.
- In total, 4,395 out of 55,532 (8%) cases had no future review date recorded against the claim on the Department's databases.
  - 2,729 cases had no medical review status when they were migrated/ transferred from a legacy control database to the Department's medical review system.
  - 1,513 were given a review status of 'normal' or 'standard' but no review date indicator.
  - 153 cases were given a 'null' review status with no review date indicator.
- The records indicate that approximately 4,000 of 30,262 cases registered since 2011 (13%) had no medical review status assigned. These cases had been assessed initially as medically ineligible but had been granted invalidity pension as a result of an appeal or claim review.
- 4,081 cases were last reviewed 3 to 5 years ago but had review indicators of 2 years or less assigned to the claims.
- 3,594 cases were last reviewed 6 to 10 years ago but had review indicators of 3 years or less assigned to the claims.
- 6,656 cases were last reviewed 11 to 20 years ago but had review indicators of 3 years or less.
- 73 cases were last reviewed over 20 years ago, but had review indicators of 2 years or less.

18.25 The examination noted that there were approximately 220 claim category/medical condition codes. The Department does not use the codes in targeting reviews at medical conditions which are deemed to pose a greater risk.

Domiciliary Care Allowance

18.26 Domiciliary Care Allowance (DCA) is payable to carers of children under 16 that have a severe disability that requires constant care and attention substantially in excess of that required by another child of the same age. Recipients of DCA are also automatically entitled to the annual carer's support grant and may also, subject to satisfying the qualifying conditions, be entitled to carer's allowance. Since June 2017, recipients of DCA can register their child for a medical card with the Health Service Executive (HSE).[1]

1 There may also be other entitlements available to recipients of DCA e.g. entitlements from the Department of Education and Skills such as special needs assistants in schools.

18.27 The rate of DCA is €309.50 per month and the scheme is not means tested. At year end 2016, there were 31,960 families in receipt of DCA relating to 34,627 children. Expenditure in 2016 was €133 million — 10% higher than the level in 2015. Both expenditure levels and recipient numbers have grown by approximately 30% since 2012.

18.28 Until June 2012, the Department's review policy for DCA claims in payment involved reviewing each case on a date recommended by the medical assessor. In some cases, the medical assessor recommended that the case did not require referrral again (DNRA cases). The Department confirmed that the average DNRA rate between 2011 and August 2017 was 16%.

18.29 A claim review involved the completion of a report by the parent/guardian explaining the current care being provided as well as an up to date medical report from the child's general practitioner. A departmental medical assessor reviewed the information returned and provided an opinion on the child's continued eligibility. That opinion and a review of the other qualifying conditions were considered by a deciding officer to establish if a revised decision was warranted.

18.30 The Department took over responsibility for the scheme from the HSE in 2009. In case reviews carried out in 2010 and 2011, the Department found that a large proportion of claimants were no longer entitled to the allowance. A review in February 2012 of a small sample of cases that transferred over from the HSE found that 45% of the sample were ineligible. However, the Department points out that there were factors contributing to the high rate of non-eligibility found, including

- Department staff carrying out the reviews were unfamiliar with the scheme
- inadequate time had been allowed for parents to comply with the review process
- the results did not take account of potential outcomes of further reviews or appeals.

18.31 Following the 2012 review, the Minister for Employment Affairs and Social Protection established an inter-departmental review group to examine the policy objectives and the administrative, medical assessment and appeals processes for the scheme. As part of its work, the group was to research best practice in other countries and get a medical expert to review the medical guidelines. The review group comprised representatives from the Department, other relevant departments, and parent/advocacy groups, as well as relevant experts.

18.32 The Department's medical review of DCA cases was suspended in June 2012, pending the outcome of the review group's work. No action was taken with regard to 41 cases that transferred from the HSE in 2009 that were considered ineligible. Further action with regard to those cases was postponed until a review process was put in place for all cases transferred from the HSE.

18.33 The recommendations of the review group were brought to Government in April 2013 and it was agreed that the Department should implement the administrative changes recommended, with the policy recommendations to be considered in the context of the 2014 Budget.

18.34 Some of the key recommendations in relation to reviews of entitlement under the DCA scheme were

- a review policy is an appropriate and necessary part of the management of the scheme
- most claims will have review dates set for a three or five year interval but it is acknowledged that it may be appropriate to review some claims in a shorter/longer time frame
- some claims will continue to be classified as DNRA due to the severity of the child's condition and its expected duration
- improvements implemented in relation to notice of review dates and advance notice of review should continue to operate
- parents/guardians should receive an additional communication with 21 days' notice from the deciding officer to give them an opportunity to provide additional information before the review decision is made in cases where the deciding officer is considering terminating payment.

18.35 A Domiciliary Care Allowance Implementation Group was established to oversee implementation of the recommendations of the report. It has a similar composition to the review group.

18.36 Despite the recommendation that reviews should continue, medical reviews have still not recommenced for this scheme.

18.37 The delay has been attributed by the Department to a decision to await the outcome of its appeal of a High Court decision in which the Department was held to have adopted a fixed policy position in a case where the medical assessor's opinion was unthinkingly and unquestioningly endorsed by the deciding officer when refusing to grant a domiciliary care allowance application.[1] The Court of Appeal decision delivered in April 2016 reversed the earlier decision of the High Court. The finding was that while the deciding officer was found to have routinely followed the opinion of the medical assessor (an opinion to which they were statutorily required to have regard) in every (or at least almost every case), this did not mean they were adopting a fixed policy decision.

18.38 The Department put together a proposal for recommencing reviews in August 2016. This is being worked on by the Department in conjunction with the Implementation Group before giving final approval to proceed.

1 B v Minister for Social Protection [2014] IEHC186.

Conclusions and recommendations

18.39 The Department had a target to review 107,700 illness and disability claims in payment in 2016. While just under 107,000 reviews were reported, almost two-thirds of those were related to new claims, fresh information provided to the Department or claimant appeals. Significantly fewer medical reviews than planned are being carried out.

Recommendation 18.1

The number of cases being medically reviewed each year needs to be increased due to the assessed risk associated with medically-based schemes.

Accounting Officer's response

Agreed. The Department accepts the need to increase the number of cases being medically reviewed and has invested significantly in this area. The Department has successfully appointed new medical practitioners as medical assessors and currently has 30.5 full-time equivalents, including the Acting Chief Medical Officer. In addition, a recruitment process is currently underway to ensure a panel is available to fill any vacancies arising in 2017 in order to maintain these numbers.

Medical assessor resources in 2016 were concentrated on the processing of new applications for illness, disability and caring-related schemes, against a backdrop of increased claim levels across these schemes.

Over the past six months, the Department has focussed on developing efficiencies within the Medical Review and Assessment Service, including changes to information technology. As a consequence, the number of people awaiting a medical opinion at claim stage for the Department's long-term schemes has fallen from over 10,000 at the end of April 2016 to less than 2,000 at September 2017. This has facilitated the Department to allocate additional medical assessors to complete control reviews.

18.40 4,395 (8%) of invalidity pension cases at the end of 2016 had no medical review status/ future review date assigned to them. The Department uses medical review status for risk categorising claims. In the absence of a medical review status, those cases may potentially never be selected for review. Even when a review status was assigned, it was evident that cases were not reviewed within the planned time. Significant delays were noted, such as around 10,000 cases due for review within three years that had not been reviewed for at least five years and in many cases, for ten years.

Recommendation 18.2

All files should have a medical review status (including 'do not refer again', if appropriate) and a process should be started to update the files. The Department should consider whether greater use could be made of the medical condition codes (of which there are 220 recorded in the system) to target reviews of claimants with medical conditions that are subject to change.

Accounting Officer's response

Agreed. The Department accepts that the absence of medical review data should not result in the exclusion of any cases from the Department's control activities and undertakes to profile both the 2,729 cases which were migrated from the legacy PENLIVE system and the 1,666 cases on MRCM with no review date, who do not have a DNRA review type recorded, to ensure they are not excluded from the Department's control activities. This profiling exercise will be completed by the end of 2017, with sample cases liable for review from then onwards.

While the examination has highlighted the absence of review dates in respect of certain invalidity pension cases, the absence of these dates does not necessarily mean that these cases would have been excluded from the Department's control activities. The criteria used to identify cases for medical review require 35% of medical review cases to be selected by review referral dates, the reminder are selected by reference to, variously, the age of the claimant and the duration of claim.

As part of the project to move illness benefit from the legacy IT system (ISTS) to the Department's BOMi platform (due for completion by April 2018), the Department's medical assessors have amalgamated the current incapacity codes and mapped them to ICD-10 codes[1] with a view to optimising the use of medical information to target reviews as quickly as possible.

The Department has continued its regular engagement (via individual and group practice visits and presentations at medical events) with medical practitioners and has provided guidelines, education and a GP-specific booklet about the Department's schemes and their conditionality. The Department has also engaged with the Irish College of General Practitioners and the Irish Medical Organisation around the introduction of diagnosis coding and closed certification and it is expected that the more accurate coding of diagnoses on medical certificates will facilitate more targeted reviews of claims in payment.

18.41 Due to resourcing issues in the Department, over 10,000 FIS claims were automatically renewed in 2014/2015 without being subject to the usual checking procedures. There is a risk that some claimants may have received a benefit to which they were not entitled because of the automatic renewal.

Recommendation 18.3

Where normal controls are bypassed and claims are automatically renewed, the Department should take additional steps to reduce the risk of erroneous payments occurring.

Accounting Officer's response

Agreed. The improvement in FIS claim processing times since 2015 means that a recurrence of the circumstances which resulted in the decision to automatically renew some FIS cases are unlikely to arise again. All FIS payments are now fully reviewed on a yearly basis.

1 International Statistical Classification of Diseases and Related Health Problems 10th Revision – World Health Organisation.

18.42 With the exception of new claims which are medically assessed at the outset, no medical reviews of domiciliary care allowance cases have taken place since mid-2012. In general, the only cases to have left the scheme in this period are cases where the child reaches age 16. At 31 December 2016, 31,960 families were in receipt of domiciliary care allowance for 34,627 children (9.5% increase from prior year).

18.43 Although a 2013 working group recommended an appropriate control policy and procedures be developed for the domiciliary care allowance scheme, this has not been completed.

19 Management and Oversight of Grants to Health Agencies

19.1 A primary function of the HSE is to manage and deliver health and personal social services. It can either do this itself or enter an arrangement with a service provider to deliver the service. The legal framework available to the HSE for funding such service providers is set in sections 38 and 39 of the Health Act 2004.

- Under Section 38, the HSE may enter into an arrangement with a body or person for the provision of health and personal social services on behalf of the HSE; the employees of such a body are public servants.
- Under Section 39, the HSE may give assistance to any person or body that provide services similar or ancillary to those provided by the HSE; the employees of such bodies are not public servants.

19.2 The HSE's current system of grant based funding has evolved over time from a long-standing model of service provision whereby the State relies substantially on the voluntary sector to provide certain health services. These arrangements are put in place in most cases by negotiation rather than competitive procurement. The majority of the arrangements are with voluntary agencies, but the HSE also has a number of arrangements with commercial for-profit organisations.[1]

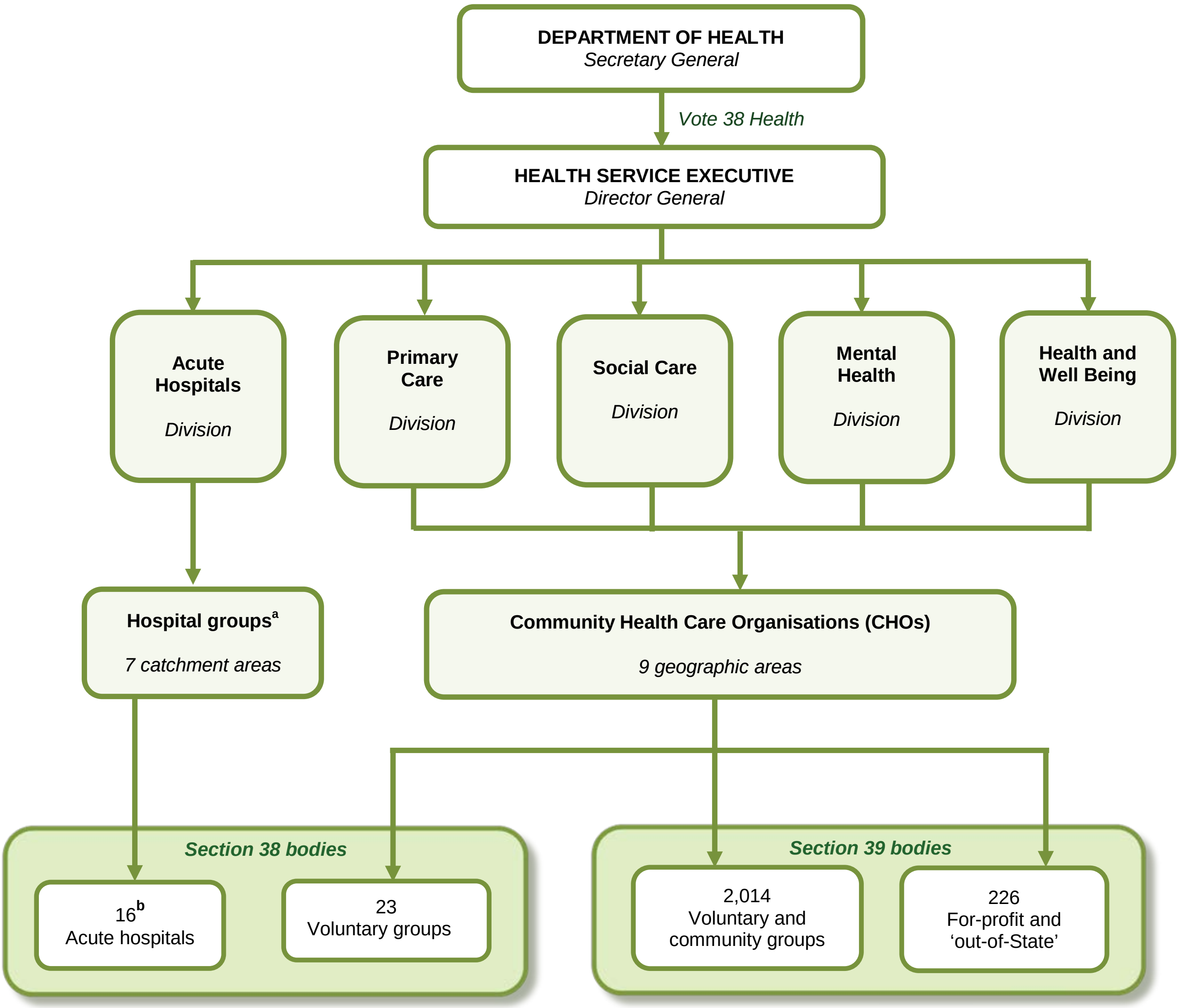
19.3 Health agencies funded by the HSE in this manner vary in scale and complexity, ranging from large acute hospitals to local community-based organisations providing personal social care services. The Department of Health allocated Exchequer funding of €13.92 billion to the HSE in 2016 — €13.51 billion towards revenue expenditure and €0.41 billion towards capital expenditure.

19.4 The HSE approved grants of around €3.876 billion to almost 2,300 health agencies during 2016 for the delivery of a range of services. In all cases, grant funding is disbursed in advance of service delivery with the agreement of the Department of Public Expenditure and Reform (DPER).

19.5 Some of the service providers have access to other funding streams such as patient charges, fundraising, other government departments and State agencies. However, many rely substantially on the Exchequer funding they receive from the HSE to fund the services they provide. Figure 19.1 provides an overview of the flow of funds to Section 38 and Section 39 bodies.

1 Includes a small number of 'out-of-State' providers. Where a specialised service is not available in Ireland, but is available in another jurisdiction, the HSE may enter into an arrangement with an 'out-of-State' agency for the provision of the service.

Figure 19.1 Flow of funds to health agencies



Source: Office of the Comptroller and Auditor General

Notes:

a One hospital group comprising HSE statutory hospitals only does not fund Section 38 bodies.

b For historic reasons, four voluntary hospitals that are Section 38 bodies are subject to audit by the Comptroller and Auditor General: St James's Hospital, Beaumont Hospital, Leopardstown Park Hospital and Dublin Dental Hospital. All other Section 38 and Section 39 service providers appoint their own auditors.

Responsibility for oversight arrangements

19.6 The services provided on behalf of the HSE by grant funded agencies normally fall under one of the following categories — acute hospital services, disability, older persons, mental health, social inclusion, palliative care, primary care, health and wellbeing services. The HSE has two types of contractual agreements with these agencies that are in the main tailored to reflect the level of funding

- **service arrangement** — health agencies in receipt of funding in excess of €250,000 and for-profit and 'out-of-State' agencies
- **grant aid agreement** – health agencies in receipt of funding less than €250,000.

19.7 Grants to health agencies are administered through nine Community Health Care Organisations (CHOs) located around the country and through six hospital groups. They are responsible for the negotiation of service arrangements and grant aid agreements, payment of grants to the agencies and monitoring and oversight of the terms and conditions of the agreements. An analysis of grant funding provided in 2016 by contract type and type of funding is set out in Figure 19.2.

Figure 19.2 Service arrangements and grant aid agreements, 2016

	Number of Agencies	Grant allocation			Average revenue grant
		Revenue	Capital	Total[a]	
Funding level		€m	€m	€m	€m
Service arrangements					
— large grant (€250,000+)	343	3,716.62	93.84	3,810.46	10.84
— other[a]	226	33.44	—	33.44	0.15
Grant aid agreements					
— < €250,000	1,710	32.07	—	32.07	0.02
Total	**2,279**	**3,782.13**	**93.84**	**3,875.97**	

Source: Health Service Executive

Note: a For-profit and 'out-of-State' agencies who regardless of the level of funding are subject to a service arrangement.

Focus of the examination

19.8 The HSE's financial statements for year end 31 December 2016 were certified on 16 May 2017. The audit report drew attention to the statement on internal financial control which disclosed instances of inadequate monitoring and oversight by the HSE of grants to outside agencies during 2016. Similar disclosures were made by the HSE in previous years.

19.9 This report draws on the results of examination of the HSE's monitoring and oversight arrangements carried out as part of the audit of the financial statements of the HSE. It deals primarily with agencies managed by way of service arrangements which account for the majority of the funding provided.

19.10 As part of the 2016 audit, the HSE's process for management and oversight of revenue grants to 49 Section 39 health agencies in two Community Health Care Organisations were also reviewed. This comprised

- 25 health agencies managed under service arrangements that were provided with funding of €52.84 million (an average of €2.1 million each)
- 24 health agencies managed under a grant aid agreement that were provided with funding of €1.74 million (an average of €72,500 each) in 2016.

19.11 As part of the audit of the HSE's annual financial statements, the audit team also visit a small number of Section 38 and Section 39 agencies. For the financial years 2013 to 2016, a total of nine agencies have been visited. Any issues identified during these visits are communicated to the HSE.

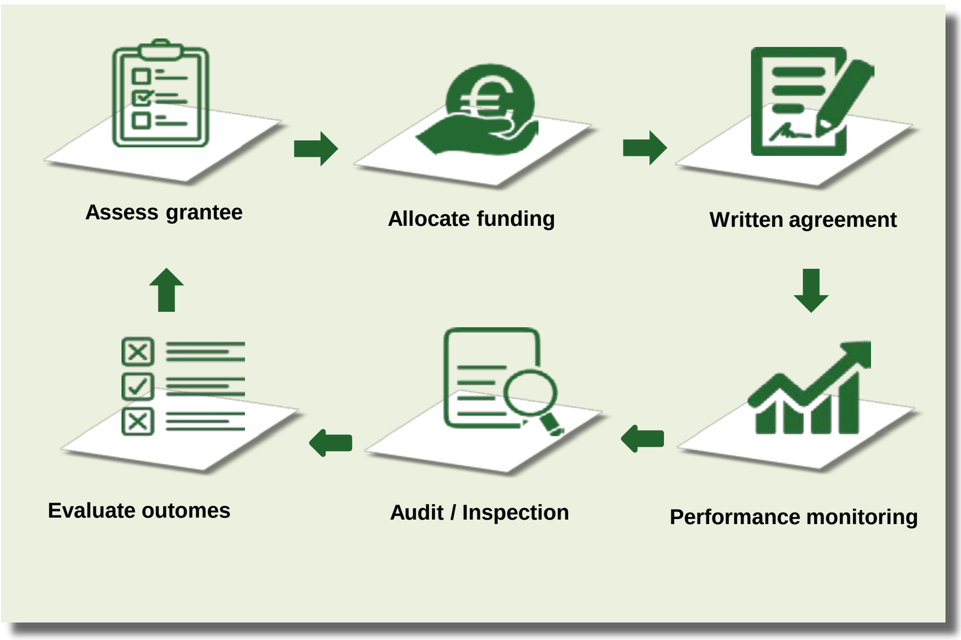
19.12 Capital grants to health agencies in 2016 amounted to €94 million. This examination does not comment on the HSE's control over those grants.

Framework of oversight and monitoring

19.13 Figure 19.3 sets out the main components of an effective system of internal control over recurrent grant payments. The nature and extent of controls operated would depend on

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

Figure 19.3 Framework of assurance over grant payments



Source: Office of the Comptroller and Auditor General

Service arrangements

19.14 The HSE's service arrangements comprise two parts.

- Part 1 — contains around 37 clauses and sets out the contractual obligations of both parties to the arrangement. It covers the roles and responsibilities of both parties and matters such as complaints, dispute resolution and termination of the arrangement. This part is negotiated and signed on a multi annual basis and covers periods of up to four years.
- Part 2 — is agreed and signed on an annual basis. It comprises ten schedules and specifies the quality and quantum of service to be provided; performance monitoring arrangements; information requirements; and the funding allocation.

19.15 While each service provider has a single part 1 arrangement with the HSE, the number of part 2 arrangements depends on whether the agency is based in multiple locations and/or receives different categories of funding from the HSE. Consequently, one agency may have several part 2 arrangements with a number of CHOs. An example of this is shown in Figure 19.4 in relation to Enable Ireland, a Section 39 agency that received a total revenue grant allocation in 2016 of €36.9 million. This was administered across eight of the nine CHOs and was managed under 17 part 2 arrangements.

19.16 Because funding can be provided through a number of CHOs, a single agency with multiple locations could be subject to monitoring by up to nine CHOs. The HSE noted that the preferred system would be to designate a lead CHO — the CHO providing the largest funding by value with that CHO having lead responsibility for co-ordination of the monitoring arrangements. The HSE acknowledges certain work needs to be done to achieve this. It further noted that the management teams in the CHOs have only been appointed in the recent past and they will be central to the implementation of this approach.

19.17 The HSE stated that, in line with health service reform, each CHO is responsible, and therefore accountable, for the delivery of all social care services within its prescribed boundary. Enable Ireland is a 'specialist' service provider that delivers a range of services from residential support to therapeutic interventions, specialised seating/assistive technology and augmentative communciation aids. Services or support requirements can change according to need and in respect of emergency responses therefore leading to multiple funding streams linked to the appropriate HSE divisions.

19.18 The HSE also stated that it is working towards streamlining the number of part 2 arrangements. The aim is to ultimately have one part 2 arrangement per CHO for each divisional category/requirement.

19.19 For the 25 agencies examined, the audit reviewed 29 part 2 service arrangements in the two CHOs visited. The audit findings presented hereafter are in the context of those 29 arrangements.

Figure 19.4 Enable Ireland part 2 service arrangements, 2016

Community Health Organisation	Area	Category of service	Grant allocation €
CHO 1	Cavan/Monaghan	Disability	1,372,238
CHO 2	Galway	Disability	1,882,081
	Galway	Disability	4,000
	Mayo	Disability	888,123
CHO 3	Clare	Disability	2,139,907
	Clare	Primary care	167,051
	Limerick	Disability	2,760,676
	North Tipperary/ East Limerick	Disability	1,577,543
	North Tipperary/ East Limerick	Disability	2,035,318
	North Tipperary/ East Limerick	Primary care	417,270
CHO 4	Cork/Kerry	Disability	5,943,297
CHO 5	Carlow/ Kilkenny	Disability	1,046,168
CHO 6	Wicklow	Disability	12,557,988
CHO 7	Dublin South West	Disability	201,489
	Dublin South West	Disability	874,555
	Kildare/ West Wicklow	Disability	83,734
CHO 8	Meath	Disability	3,007,618
CHO 9			—
Total			**36,959,056**[a]

Source: Health Service Executive

Note: a The grant allocation figure for Enable Ireland of €36.96 million was extracted from the HSE's service provider grants system. The HSE's annual financial statements for year-end 31 December 2016 disclose total funding to Enable Ireland of €38.75 million. The reason for the difference is due to timing and certain elements of funding not being recorded on the service provider grants system.

Assessment of grantees

19.20 Assessing the appropriateness of potential grantees is important in order to identify any potential weaknesses and risks prior to the allocation of funding. Any assessment should include confirmation that the agency has adequate safeguards and accountability arrangements in place in respect of the grant funding being provided, including assessment of the following.

- Appropriateness of structures to deliver the required service — this would include a review of the legal status of the agency and, where appropriate, whether the agency is registered with the Charities Regulator and the Health Information and Quality Authority.[1,2] It should also include a review of the organisational structure including composition of the service provider's executive.
- Adequacy of governance arrangements — consideration of whether the agency has a code of governance setting out the principles, policies, procedures and guidelines by which the agency directs and controls its functions and manages its business.
- Effectiveness of service providers strategic planning processes — this would include an assessment of the grantee's statement of strategy and business plans.

19.21 For the 29 arrangements, the examination sought to establish the extent to which the HSE had reviewed the governance arrangements in these agencies (see Figure 19.5).

Figure 19.5 Evidence of governance arrangements in sample of cases reviewed

	Evidence of compliance[a]	
Governance documents	**Yes**	**No**
Memorandum and articles of association or other constitutional documents	79%	21%
Structure/organisation chart	100%	—
Code of governance/corporate and clinical governance policy	55%	45%
Business plan	41%	59%

Source: Office of the Comptroller and Auditor General

Note: a Cases were deemed compliant where the relevant governance documents were on the HSE files.

1 The Charities Regulator was established in October 2014 under the Charities Act 2009 to establish and maintain a public register of charitable organisations operating in Ireland and to ensure their compliance with the Charities Acts.

2 The Health Information and Quality Authority (HIQA) was established in May 2007 under the Health Act 2007, to drive high-quality and safe care of people using health and social care services in Ireland. HIQA's mandate extends across a range of public, private and voluntary sector services.

19.22 The audit also identified a number of issues with governance arrangements and systems of internal control in the nine Section 38 and Section 39 health agencies visited as part of the audit of the HSE's financial statements for the financial years 2013 to 2016. A summary of these issues is set out in Figure 19.6.

Figure 19.6 Summary of issues, 2013 to 2016

Area	Issues	Number of agencies
Procurement	▪ Instances of non compliant procurement	7
Propriety	▪ No hospitality policy	6
	▪ No credit card policy	2
Governance	▪ No internal audit	2
System of internal control	▪ No statement on internal financial control	2
	▪ Significant overdraft at year end	2
	▪ No fixed asset register	2
Remuneration	▪ Chief Officer remuneration not disclosed in financial statements	2

Source: Office of the Comptroller and Auditor General

Allocation of funding

19.23 The HSE provides funding to health agencies in advance of expenditure being incurred, on the basis that a significant amount of the funding is in respect of pay and staffing costs, where advance funding is required to meet contractual obligations. This gives rise to a risk of under utilisation of grant where a health agency does not operate to full capacity in the year.

Acute hospital services

19.24 Sixteen hospitals in the acute sector were provided with a revenue grant allocation of around €1.99 billion for 2016. Historically the HSE funded hospitals in the acute sector by way of a block grant. This method allocated funding to hospitals based on their budget for the previous years with some adjustments for factors such as inflation, expected service levels, reconfiguration and the available budget for the acute sector.

19.25 In January 2016, the HSE introduced activity-based funding in the acute hospital sector. Under activity-based funding, grant allocations are provided to hospitals based on national agreed prices and the number and mix of patients that they treat using diagnosis-related groups to classify inpatient and day patient cases.[1]

19.26 Activity-based funding is being introduced to the acute sector on a phased basis. It currently covers inpatient and day case activity which the HSE has estimated accounts for around 70% of total funding to the acute sector. The remaining 30% continues to be funded by way of a block grant.

1 A diagnosis-related group (DRG) is a statistical system of classifying hospital activity into categories for the purposes of payment. The DRG classification system divides possible diagnoses into more than 20 major body systems and subdivides them into almost 500 groups.

19.27 The change in the funding method is being supported by transition adjustments to allow hospitals time to address any cost or efficiency issues before they are exposed to the full impact of activity-based funding. Under the transition adjustments, individual hospitals receive a proportion of the difference between its budget calculated using activity-based funding and the traditional block grant. It is anticipated that transition adjustments will be phased out over a number of years. The anticipated benefits of activity-based funding include

- setting of target levels of activity
- better alignment of hospital funding with the number of patients treated and the complexity of treatments provided
- enhanced performance monitoring of hospitals.

Voluntary and community services

19.28 Revenue grants of around €1.79 billion provided to the voluntary and community agencies in 2016 were on the basis of budgets compiled by the service provider setting out the outputs it can deliver along with the associated staffing arrangements and costs. The HSE is currently examining approaches to classifying and costing community services in order to extend activity based funding to that sector.

19.29 The HSE stated that it is establishing a strategic community costing programme to determine unit costs of services so that providers can understand where their costs might be out of line with peers for similar service offerings, and to help to discern the most productive use of resources. The HSE noted that in common with international experience, the nature of social care services in Ireland makes a service provider comparison on costs per output difficult, as there are regional, service provider and individual service user variables which need to be considered.

Disability services

19.30 The disability sector, which accounts for around €1.2 billion (67%) of the voluntary and community agencies funding, has developed a national standard service specification within the part 2 arrangements. This includes information on the total number of service users by type of service e.g. residential, day care, respite etc. that are linked to national key performance indicators along with the associated costs. This allows for the calculation of a cost per unit of service e.g. for a residential place or a day place.

19.31 In 2014, the HSE established a service improvement team with the objective of enhancing accountability arrangements with service providers in the disability sector. The first phase of the team’s work included preparing baseline analysis linking funding provided with activity, cost, quality and outcomes for the top five largest service providers that account for €557 million or 46% of the disability budget. From this work, the service improvement team has identified 12 performance indicators (see Figure 19.7).

19.32 The model developed for the top five funded agencies is now being extended to the top 50 service providers accounting for over 80% of the disability budget. The HSE expects that this analysis will facilitate benchmarking of service providers using specified performance indicators which include inter alia, unit cost of service provided.

Figure 19.7 Baseline analysis top five funded disability services agencies — performance indicators

Cost: Finance

- Residential cost individual /day cost per individual
- Reported operating deficit as a % of HSE funding
- Agency staff cost (€m) as a % of pay expenditure

Activity

- % Community based residential places
- % of people supported over 40
- % of residential people supported with high/intensive support needs
- % HSE funding of total funding

Cost: Workforce

- % Absenteeism
- Staff of service user ratio/nursing to service user ratio
- Management and administration — WTE % of total WTE

Quality

- HIQA compliance
- % of people in residental services decongregated

Source: Health Service Executive

Written agreement

19.33 A written agreement should clearly define the terms of the relationship between the HSE and the agency. Part 2 of the service arrangement, signed on an annual basis, specifies the quality and quantum of service to be provided, the performance monitoring arrangements that will be in place, the information to be supplied by the agency to the HSE and the funding allocation.

Specification of outputs

19.34 For the 29 arrangements reviewed, the examination found that there was an adequate specification of outputs. In all cases, there was a description of the type of service to be provided, the type of outputs and the number of individuals the service would be provided to. Examples of this include the number of service users provided with supports, day services and residential services.

Performance monitoring arrangements

19.35 The frequency of performance reporting is at the discretion of each CHO. While there is central guidance setting out appropriate levels and frequency of reporting by health agencies taking account of the size of the agency, the level of grant funding being provided and the nature of the service funded the audit noted variation in the application of this. For example,

- the service arrangement of one agency allocated a grant of €31.6 million specified that the agency provide quarterly service activity information
- the service arrangement of another agency allocated a grant of €1.17 million specified that service activity information was to be returned monthly.

19.36 Performance monitoring for the most part comprised the following

- review of key performance indicators
- monitoring meetings and/or site visits as appropriate
- review of the agencies' annual financial statements
- annual compliance statement.

Timeliness

19.37 Previous audit findings identified delays in agencies agreeing and signing service arrangements. In early 2016, the HSE decided that any agency not in compliance with the requirement to sign a service arrangement would only receive 80% of the normal rate of funding until such time as the service arrangement was signed.

19.38 The HSE aimed at ensuring that all 2016 service arrangements would be agreed by end February 2016. In practice, arrangements accounting for 90% of funding had been completed by the end of April 2016. Arrangements accounting for 95% of the funding had been signed by end 2016.

Monitoring and reporting

19.39 Monitoring expected outcomes is important to ensure that funds are used efficiently and effectively and that there is no improper or irregular expenditure. The level of performance monitoring in many cases depended on the level of funding and the type of service being funded.

Key performance indicators

19.40 In order to determine whether a grantee has used the funding provided effectively and efficiently, it is important that the HSE set appropriate key performance indicators for funded agencies. The examination found that for over half of the agencies reviewed, there were key performance indicator returns on file and almost three quarters of these were at the frequency specified in the service arrangement.

Other information requirements

19.41 For the 29 arrangements reviewed, the audit noted variation in the level and type of other information sought in the part 2 arrangements in the CHO's visited. A significant amount of the other information sought was not being submitted by the health agencies and the CHO was not following up on the non-submission of this information. However it is unclear what information is actually being sought by the HSE in relation to these requirements. Examples include "review of service plan priorities", "health statistics (as relevant) to HSE" and "quarterly monitoring returns on the value for money review initiatives including to rationalise staff deployment patterns in line with client need".

Monitoring meetings

19.42 The number of monitoring meetings between HSE and agency officials required in a year depends on the level of grant funding. (Where a health agency receives less than €50,000 in a given year, the HSE does not require monitoring meetings to be carried out.) Minutes of the meetings are required to be maintained with the meeting following a formal agenda that includes reviewing the health agency's

- key performance indicators
- overall performance including specified outcomes
- compliance with rules and regulations
- governance arrangements
- annual audited financial statements.

19.43 For six of the 29 arrangements examined the grant allocations were below €50,000, therefore no monitoring meetings were required to be carried out. As shown in Figure 19.8, there was evidence on file for 78% of the cases that the required monitoring meetings were carried out at the required frequency.

Figure 19.8 Evidence of monitoring meetings

Grant allocation	Number of agencies in sample	Prescribed number of meetings each	Evidence of compliance[a] Yes	No
€50,000 — €500,000	9	1	78%	22%
€500,000 — €5,000,000	13	2	77%	23%[a]
> €5,000,000	1	6	100%	—
All	**23**		**78%**	**22%**

Source: Office of the Comptroller and Auditor General

Notes: a Cases were deemed compliant where there were minutes of the meetings on file for the required number of meetings.

b Includes two cases where one monitoring meeting took place instead of the required two meetings.

Annual audited financial statements

19.44 The HSE seek assurance from the audited financial statements that the funding is spent for the purposes intended and the related expenditure is capable of being vouched to original invoices, receipts and/or other relevant supporting documentation, as appropriate. All grant funded agencies managed under a service arrangement are required to submit audited annual financial statements to the HSE. The audit found for the 29 arrangements examined

- There was evidence on file in the CHOs visited that audited financial statements had been received and reviewed by the HSE for 13 service arrangements.
- Audited financial statements had been received and reviewed by a different funding CHO for 11 service arrangements, but the audit found no evidence that the funding CHO visited had obtained written assurance in this regard.
- For five arrangements, audited financial statements had not been received or reviewed by the HSE.

19.45 The HSE noted that the Compliance Unit are currently developing a system in order to provide a central facility for CHOs to record information on the receipt and review of the service providers' annual audited financial statements.

19.46 In both of the CHOs visited, the audit found that a review of an agency's financial statements includes

- reconciling the income per the service providers financial statements to HSE records
- considering the type of audit opinion
- reviewing the service provider's liquidity and performance in the period.

19.47 The audit noted that in one CHO, the review also considered the extent to which the agency had fully utilised the grant allocated to them in the period.

Annual compliance statement

19.48 Since 2014, Section 38 health agencies are required to provide a statement of compliance confirming the agency's compliance with specified standards including the HSE code of governance, good practice risk management procedures, public sector pay policy, taxation and procurement rules. The statement must be approved by the Board of directors or governing body of the service provider and be signed by the chairperson and one other member on behalf of the Board of directors or governing body. The requirement to submit an annual compliance statement has been extended to Section 39 agencies in receipt of grant funding in excess of €3 million for 2016.

19.49 For 2016, 37 compliance statements were due to be submitted by 31 May 2017 by Section 38 health agencies.[1] 35 statements had been received by the HSE by mid September 2017 with the remaining two in progress. Compliance statements were also due for 51 of the Section 39 agencies of which 46 had been received by mid September 2017 and five were in progress.

1 One service provider, Cork University Dental School and Hospital, are not required to submit a return as it is part of University College Cork and is governed under the Universities Act 1997. Two service providers submit one combined statement — St. Vincent's University Hospital and St. Michael's Hospital.

19.50 At the time of completion of this report, the HSE had not yet completed their analysis of the 2016 compliance statements. Analysis by the HSE of the statements returned for 2014 and 2015 had been completed and is summarised in Figure 19.9. Areas of concern highlighted in the compliance statements submitted by the agencies include: compliance with procurement rules and regulations, and compliance with public sector pay policies.

19.51 The HSE stated that following review of the annual compliance statements received, the HSE formally writes to the Chairperson of each provider noting any areas of non-compliance indicated within their statement, or recurring matters from previous statements, requesting the provider to address these issues and reply accordingly. All matters and relevant correspondence are brought to the attention of the National Directors, Hospital Group CEOs and Chief Officers. The HSE further stated that it has taken a number of steps to address the compliance issues identified.

Figure 19.9 Summary of annual compliance statements, 2014 to 2015

	Number of agencies compliant[a]	
	2014	**2015**
Number of returns received	37	36
Confirmations/assurance provided	**2014**	**2015**
Current tax clearance certificate held	37	36
Formal risk management system in place	34	32
Capital asset funded/part funded by HSE — the State's interest is protected by the provider through entering a grant agreement	32	31
Internal code of governance adopted	28	31
Annual financial statements have been prepared and audited[b]	31	32
Compliance with public sector pay policy confirmed	31	18
Appropriate governance arrangements in place[c]	18	18
Compliance with procurement rules and regulations confirmed	24	14

Source: Health Service Executive

Notes:
a All required annual compliance statements were submitted for 2014. In 2015, one body did not submit a compliance statement by agreement with the HSE.

b The HSE requires that the annual financial statements of the service provider for the period covered by the annual compliance statement have been audited and a copy of the annual financial statements along with the external auditor's certificate are supplied with the compliance statement.

c Issues of non compliance related to board membership, employees on boards, board sub-committees, documented procedures and board reviews.

19.52 In relation to the procurement issues identified, the HSE noted the following

- It has provided each Section 38 agency with a set of procurement guidelines, a list of current centralised contracts and frameworks in place, and a training programme specifically aimed at procurement staff in those organisations.
- With effect from June 2017, all Section 38 and Section 39 providers in receipt of funding in excess of €150,000 have also been provided with access to an online facility that provides information on all current HSE and Office of Government Procurement contracts and framework agreements in place. HSE procurement will continue to work with, and provide ongoing support to, the Section 38 and Section 39 providers regarding procurement matters.

19.53 In relation to compliance with public sector pay policy, there is an ongoing process in place where HSE Human Resource (HR) division is in direct contact with voluntary agencies and is working through the issues involved. HSE HR is also engaging with the Department of Health and the Department of Public Expenditure and Reform on these issues. More recently, the HSE has also taken the following steps.

- Following a number of previous correspondences, the HSE issued another communication to all Section 38 service providers (2 December 2016) which set out inter alia the process to be followed to deal with any outstanding matters in Section 38 service providers regarding health sector pay policy.
- In July 2017, the HSE's National Director of HR wrote to all Section 38 service providers giving direction on further aspects of compliance with public sector pay policy and to seek assurances on current compliance within their organisation or, if there is any non-compliance, on the corrective action to be taken.

External governance reviews

19.54 During 2016, the HSE commissioned external reviews of the governance at Board and executive level in all Section 38 agencies. The reviews sought to establish the level and standard of governance in place and to provide assurance to the HSE that the governance practices and procedures accord with each agency's annual compliance statement.

19.55 As of August 2017, three external reviews have been completed and 28 are currently underway. The HSE expect to complete reviews for all Section 38 agencies by the end of 2017. It is proposed that following completion of these reviews in 2017, repeat reviews would be carried out over a five year cycle. The HSE informed the examination team that issues emerging from the completed reviews to date include: non compliance with procurement rules and regulations; non compliance with public sector pay policy; and the absence of internal audit functions.

19.56 The HSE noted that the management responses in the governance reports will be examined for each provider. These responses, as relevant, will be followed up with each provider to ascertain progress with, and obtain confirmation regarding, the actions being undertaken by them to address the report findings and recommendations within the reports. This will include meeting with the CEO or Board Chair where required.

19.57 The HSE also noted that future external reviews will focus on issues identified in the current process and also on issues identified by HSE Internal Audit and the Comptroller and Auditor General and will include an examination of the relevant matters contained in the memo to the Board Chairs and CEOs as outlined earlier in the report.

Grant aid agreements

19.58 Around 1,700 agencies allocated revenue funding of around €32 million in 2016 were managed under a grant aid agreement. Agencies managed under this type of agreement are required to have a governing document (rules, constitution, memorandum and articles etc.) that is required to be available on request. In half of the 24 cases examined, a governing document was on file.

19.59 The audit found that for 21 (87%) of the cases reviewed with a total funding allocation of €1.5 million, the grant aid agreements in relation to 2016 funding were signed by end February 2016. These accounted for 86% of the funding provided under the grant aid agreements examined. The remaining three cases were signed as follows

- one agreement signed in April 2016 — €220,000
- two agreements signed in August 2016 — €13,884.

19.60 Funding allocations under grant aid agreements are based on general descriptions of the service (or services) to be provided. The agreement does not specify outputs to the same degree as is specified in a service arrangement. From the sample of cases reviewed, examples of the purpose of the grant included

- provision of services to males and females over the age of 20 years experiencing problems with addiction
- healthy lifestyle promotion programme targeting children from birth.

19.61 Performance monitoring does not include the setting or reviewing of key performance indicators. Instead it focuses on

- monitoring meetings and/or site visits as appropriate
- review of the agency's financial statements and chairperson's statement.

Monitoring meetings

19.62 No monitoring meetings were required to be carried out for 14 of the 24 cases examined because the grant allocation to each agency was below €50,000. There was evidence on file in nine of the remaining ten cases that the required monitoring meetings were carried out at the frequency required.

Annual audited financial statements

19.63 The requirement to submit financial statements is dependant on the agencies total income. The grant aid agreement specifies the following

- where the agency's income exceeds €150,000, the agency is required to submit annual audited financial statements within ten months of their financial year end
- where its income is less than €150,000, the agency must submit a set of approved annual financial statements within six months of the agency's financial year end.[1]

19.64 In practice, the HSE implements this requirement by reference to the level of HSE funding provided rather than the agency's total income.

1 The HSE do not require these accounts to be independently audited, but they must be signed and dated by the organisation's chairperson, secretary and treasurer and approved by the organisations governing body.

19.65 Of the 24 cases examined, four agencies received more than €150,000 each, and so were required to submit audited financial statements. The audit found that one agency with a funding allocation of €213,000 had submitted audited financial statements; the three remaining agencies with a combined funding allocation of €644,000 had submitted draft unaudited financial statements. The audit found evidence that in all cases the accounts had been reviewed within the HSE.

19.66 The remaining 20 cases were required to submit signed and approved unaudited annual accounts. As shown in Figure 19.10, the audit found that only seven of the 20 cases were compliant in this regard.

Figure 19.10 Evidence of unaudited approved annual accounts on file

	Number of cases		Grant allocation (aggregated)
Type of annual accounts on file	On file	Reviewed by HSE	€
Approved annual accounts	7	6	399,200
Annual accounts submitted not approved	4	2	289,926
No annual accounts submitted	9	—	192,805
	20	**8**	**881,931**

Source: Office of the Comptroller and Auditor General

19.67 In the seven cases where the required approved accounts were provided, the audit found evidence of review of six of them. Two of the four cases where draft unapproved accounts were provided had been reviewed by the HSE.

Annual Chairperson's statement

19.68 Health agencies funded under a grant aid agreement must submit an annual statement from the chairperson. This is a signed written declaration certifying that the grant was spent for the purposes intended. It also specifies that

- where the agency is in receipt of Exchequer funding from other State bodies, the statement must include a report on the amount, source and purpose of all such funding, and a declaration that there is no duplication of funding for the same activity
- where the combined funding from the Exchequer exceeds 50% of the total funding for the agency, this must also be declared within the statement.

19.69 The examination found signed annual chairperson statements were on file for only one third of the agencies reviewed.

HSE Internal Audit

19.70 HSE's Internal Audit division carry out a programme of audits on externally funded agencies on an annual basis. The selection of these agencies for audit is, in the main, informed by discussion with HSE staff with responsibility for oversight and monitoring. In 2016, Internal Audit also commenced a programme of random audits of agencies in receipt of funding below €1 million. A summary of the types of issues identified by HSE internal audit from their reports published in 2016 is shown in Figure 19.11.

Figure 19.11 Summary of HSE Internal Audit Findings, 2016

Area	Summary of issues
System of internal control	▪ High number of bank accounts. ▪ Incomplete accounting records. ▪ Absence of financial procedures and controls such as • lack of segregation of duties • transactions not authorised at appropriate levels • accounting reconciliations not being performed • weaknesses in purchasing controls.
Propriety	▪ Expenditure on gifts and entertainment. ▪ Poor audit trails over credit card expenditure.
Governance	▪ Non rotation of board members. ▪ Absence of policies and procedures regarding conflicts of interest of board members and confidential disclosures. ▪ Board members not completing standards in public office returns.
Remuneration	▪ Salary payments in excess of approved pay scales. ▪ Senior staff in receipt of allowances and round sum payments. ▪ Staff in receipt of bonus payments.
Procurement	▪ Contracts awarded without competitive procurement process. ▪ Lack of policies and procedures in relation to procurement. ▪ Documentary evidence not retained for the awarding of contracts.

Source: Health Service Executive Internal Audit

Department of Health Oversight of HSE

19.71 In 2016, the HSE funding of around €3.9 billion to Section 38 and Section 39 health agencies was sourced from the Department of Health's vote as follows

- €2.4 billion from subhead I.5 in relation to funding for Section 38 acute hospitals
- €1.5 billion from subheads I.1 to I.4 in relation to funding for Section 38 and Section 39 voluntary and community groups.

19.72 Section 31 of the Health Act 2004 requires the HSE to submit an annual service plan to the Minister for Health, setting out key priorities and targets including inter alia output measures and any new initiatives to be delivered during the period. The service plan also sets out the funding allocation by area of activity. Section 33 of the Health Act 2004 further requires the HSE to ensure that services are delivered in accordance with the service plan. In this regard, the HSE must submit quarterly performance reports to the Minister for Health comparing actual performance to the target levels set in the service plan.

19.73 The *Code of Practice for the Governance of State Bodies* requires the Chairperson of a State body to provide a comprehensive annual compliance report to the relevant Minister. This report includes a section on the system of internal control and discloses details of any breaches in control which occurred in the previous financial year.

19.74 On 1 June 2017, the Director General submitted this report to the Minister for Health in relation to the 2016 financial year. The report outlined significant breaches in internal control in relation to governance of grants to outside agencies. The breaches in control had also been disclosed in the statement on internal financial control included as part of the HSE's financial statements. The breaches included

- delays in signing service arrangements
- absence of documentary evidence of monitoring meetings, review of periodic financial reports and staffing returns of funded agencies
- audited financial statements not submitted, where required and no evidence of review of financial statements submitted in many cases
- funded agencies not complying with public procurement guidelines or public sector pay polices.

Views of the Director General Health Service Executive

19.75 The management and oversight of grants to health agencies should be viewed in the context of the fact that in three years, the HSE have moved from a point where service arrangements were not being signed in a timely manner, and additional focus had to be brought to bear on the application of the governance framework, to a point where we now have a comprehensive governance and oversight process in place.

19.76 New service arrangements are now in place and are being completed in a timely manner. Annual compliance statements have been introduced for all Section 38 providers and the Section 39 providers in receipt of funding over €3 million which accounts for 93% of the funding.

19.77 To complement and enhance the financial oversight process, an annual financial monitoring return has been introduced for all providers in receipt of funding over €250,000 in relation to accounting periods ending on 31 December 2016 or later.

19.78 External reviews for Section 38 providers are nearing completion and a programme of rolling five year reviews of the top 50 funded providers, which account for 85% of funding, is being introduced.

19.79 In addition, the HSE issued a memo in June 2017 to all hospitals groups, CHOs, Board chairs and CEOs of Section 38 and Section 39 providers, outlining recurring issues of concern raised by HSE Internal Audit and by the Comptroller and Auditor General, directing that they ensure that these issues are addressed as a matter of urgency. Following a review of the compliance statements submitted for 2016, the HSE intends to write to the relevant Chairpersons seeking assurances that areas of non compliance are being addressed.

19.80 The service provider governance system, introduced in 2014 continues to be developed and enhanced and an extensive training programme has been delivered, aimed at operational staff in the CHO's, but also encompassing staff from the provider organisations.

19.81 In January 2017, the HSE issued an updated version of performance monitoring guidelines for overseeing the performance of Section 38 and Section 39 providers to CHOs. These provide updated guidance on the annual review of the service arrangements and grant aid agreements and the frequency and format of performance meetings. Work currently being undertaken by the service improvement will facilitate the development of a standardised assessment and performance monitoring system for disability services.

19.82 It should also be noted that these significant improvements in governance have been introduced during a period when the HSE is reorganising its delivery system through the establishment of hospital groups and CHOs. It should be borne in mind that due to the effects of the previous moratorium on recruitment, these new structures have taken, and are taking, time to bed down.

19.83 It is anticipated that when they are fully resourced the HSE will be in a position to further enhance and oversee the delivery of these services in a manner that will give ongoing assurance in relation to significant amounts of Exchequer funding involved. The introduction of a contract management support unit in each CHO is a good example of how the process and structures are evolving and will continue to evolve at operational level.

Annual financial monitoring return

19.84 In order to standardise the financial information received from the various organisations, the HSE introduced the annual financial monitoring return for accounting periods ending on 31 December 2016 or later. The return is required to be completed by all agencies managed under a service arrangement in receipt of funding in excess of €250,000.

19.85 The return must be submitted to the HSE with an agency's annual audited financial statements and should be signed by the chief financial officer and the chief executive officer or equivalents. The HSE recommends that the returns be submitted within five months of the year end.

19.86 The receipt and review of a Section 38 and Section 39's annual audited financial statements is a key assurance process in the HSE's governance framework as they provide assurance to the HSE on the use of the funding provided under the service arrangement. The annual financial monitoring return seeks to address difficulties encountered by staff involved in the review process including the following.

- Prior to the introduction of the annual financial monitoring return, finance personnel had difficulty extracting key financial information from an agencies annual financial statements due to different formats of presentation. The annual financial monitoring return standardises the presentation of financial information in a way that allows finance staff to easily examine key financial information.
- Although agencies are contractually obliged to comply with DPER Circular 13/2014 *Management and Accountability for Grants from Exchequer Funds*, the HSE observed a poor level of compliance. The annual financial monitoring return will seek to ensure compliance with the requirements.
- The return sets out the funding provided by the HSE under the service arrangement which in many cases was not readily available in an agency's annual financial statements. It provides a breakdown by CHO of both income and expenditure allowing reconciliation to HSE records.

- The return provides analysis of expenditure by the agency attributable to HSE funding which was previously not available.
- The return includes a number of statements of assurance in respect of financial and corporate governance controls.

19.87 Each CHO and hospital group with responsibility for service arrangements will have responsibility for the receipt and review of the annual financial monitoring return. The review of the 2016 returns will commence towards the end of 2017. As this is the first year the annual financial monitoring return has been introduced, a sample of returns will be reviewed by the HSE's compliance unit which will inform a review of the process which is planned after the first year of operation.

19.88 The establishment of contract management support units in each CHO will also provide for a more structured approach to the analysis and review processes.

Views of the Accounting Officer Department of Health

19.89 The legal framework under which the HSE provides grant funding to agencies is set out in the Health Act 2004. As Accounting Officer, I recognise the importance of ensuring that strong governance, accountability and control arrangements are in place in the HSE to ensure that all such monies are discharged appropriately and in accordance with the proper procedures.

19.90 In my letter of determination to the HSE, advising it of the maximum net non-capital expenditure that may be incurred, the obligations of the HSE under Circular 13/2013 *Public Spending Code,* Circular 13/2014 *Management and Accountability for Grants from Exchequer Funds*, and the *Code of Practice for the Governance of State Bodies* (2016), were emphasised. These requirements are of particular importance for the HSE as an organisation charged with such a large amount of public spending. The HSE must also address the requirement to comply with all obligations under these policies in the national service plan.

19.91 The HSE has a governance framework in place which incorporates national standardised documentation and guidance documents that enables the HSE to contractually underpin the grant-funding provided to all non-statutory service providers. This framework seeks to ensure the standard and consistent application of good governance principles, which are robust and effective, to ensure that both the HSE and the providers meet their respective obligations. It is reviewed and updated as required.

19.92 It is essential that the HSE continues to build on the management processes which the national standard governance documentation and operational procedures have established and to comply in full with audit and accounting requirements concerning the disbursement of these grants.

19.93 The HSE, similar to other agencies under the aegis of the Department, submitted a report on its compliance with the provisions of the *Code of Practice for the Governance of State Bodies* for 2016. This report acknowledged shortcomings in relation to the HSE's governance of grants to outside agencies. It also set out details of how the breaches in governance will be mitigated.

19.94 The report stresses that the findings and recommendations emerging from governance reviews, audits etc. will inform the HSE's annual review of its governance framework. The HSE is overseeing an external review of Section 38 agencies which should be completed by the end of 2017. The Department will continue to be updated on this review and continue to monitor progress on the HSE's actions in closing out breaches of compliance and in enhancing its oversight of the bodies which it funds.

19.95 The HSE submit annually to the Department a national service plan. The Department monitors monthly the HSE's performance in delivering this plan. In addition to the arrangements for the annual agreement of the national service plan, the HSE must submit a corporate plan covering a three year period. The latest corporate plan covers the period 2015-2017. It includes plans to strengthen areas of corporate governance.

19.96 The HSE corporate plan is reported upon by the HSE in its annual report which is submitted to the Minister and laid before each House of the Oireachtas. Furthermore, the annual report includes reference to the arrangements in place for maintaining and adhering to the HSE's code of governance.

19.97 I look forward to the strengthening of governance and accountability arrangements between the HSE and its service providers, taking into account in particular the findings of its external review of financial statements, its internal audit findings and the findings of this examination, in order that it and its service providers comply, as appropriate, with the requirements in the *Code of Practice for the Governance of State Bodies*.

Conclusions and recommendations

19.98 The Department of Health provides funding to the HSE in relation to grants for Section 38 and Section 39 agencies. In 2016, around 28% or €3.78 billion of the HSE's total annual Exchequer revenue allocation from the Department of Health related to funding provided to over 2,270 health agencies to provide a range of health and social care services on behalf of the HSE. This includes funding of €1.99 billion to sixteen acute hospitals and funding of €1.79 billion to voluntary and community groups. Given the level of expenditure and the number of agencies funded, it is important that the HSE has adequate oversight and monitoring arrangements in place.

19.99 The relationship between the HSE and these agencies has arisen from an historical pattern of provision whereby services and payments are for the most part negotiated rather than as the result of competitive procurement, and these arrangements have evolved over time.

19.100 Up until 2015, the approach to funding service providers was based on the provider's historic cost patterns. The HSE has undertaken a number of initiatives to transition towards a funding model based on benchmark prices and projected activity levels.

- It has introduced activity based funding in the acute sector in relation to about 70% of total funding of €1.99 billion to that sector. While transition arrangements are in place whereby hospitals receive some additional funding to allow them to adjust to the revised budgets, the HSE intends phasing out these transitional arrangements over a number of years. Thereafter funding to the acute sector will be fully based on the number and type of patients treated.
- The HSE recognises that calculating unit cost per output is more difficult in the social care area. The HSE has recently completed analysis of the top five funded agencies in the disability sector. The work identified 12 performance indicators to be used in comparing the performance of service providers. The HSE plans to extend this performance assessment model to all providers in order to facilitate comparison of performance of alternative service providers using specified indicators including unit cost of service provided. The HSE stated that this analysis will support more effective and equitable pricing, resource allocation and the development of commissioning models.

19.101 The examination found that details in relation to the governance arrangements in individual entities was not always available in the CHO providing the funding. The HSE noted that while governance information is provided in relation to grantees receiving funding for the first time, for existing grantees

- in the signing of their service arrangements, providers confirm that they have appropriate structures and governance arrangements in place
- the Chairperson's statement in grant aid agreements confirms matters of financial governance including confirmation regarding the utilisation of funding for the purpose agreed.

19.102 The results of the annual compliance statements, the external governance reviews, inspections by the Office of the Comptroller and Auditor General and the work of HSE Internal Audit point towards a number of governance issues arising across the sector in particular non compliance with procurement rules and regulations, non compliance with public sector pay policies and the absence of internal audit functions.

Recommendation 19.1

The HSE should satisfy itself that the service providers in receipt of funding have appropriate governance structures and procedures in place. The HSE's monitoring procedures should include an assessment of the effectiveness of those structures and procedures.

HSE Director General's response

Agreed. In advance of providing funding to service providers, the HSE have a number of procedures in place.

For new grantees the HSE governance framework provides for an application and negotiation process which includes details of the organisation's structure and governance arrangements details in the application form, supplementary support information form and a governance self-evaluation questionnaire.

For existing grantees, in the signing of their service arrangements, providers confirm that they have appropriate structures and governance arrangements in place i.e. providers are contractually committed.

The Chairperson's statement in grant aid agreements confirms matters of financial governance including confirmation regarding the utilisation of funding for the purpose agreed

The HSE has undertaken a number of initiatives in order to gain assurance in relation to the effectiveness of governance procedures in the agencies it provides funding to.

- The annual compliance statement process introduced in 2014 for Section 38 providers and expanded to larger Section 39 agencies in 2016 provides for annual self-certification by service providers regarding compliance with specific matters of governance.
- It is envisaged that the external reviews of governance of Section 38 providers which are currently underway will be part of a rolling review programme over a 5 year cycle.
- The annual financial monitoring return introduced in relation to accounting periods ending on 31 December 2016 provides assurances regarding key elements of financial governance.

The HSE has taken or is planning to take a number of actions to address emerging issues.

- It is proposed that a Contract Management Support Unit will be established in each of the nine Community Healthcare Organisations to assist service managers in managing and documenting all aspects of the relationship with Section 38 and 39 providers in accordance with the governance framework.
- The HSE will continue to review the format of service arrangement schedules, annual compliance statements, annual financial monitoring reports and Chairperson's statements and will amend or update these documents, as appropriate, to reflect any learning gleaned from the external reviews of governance.

19.103 The audit found that the identification of responsibilities for monitoring and oversight in the HSE was difficult where agencies were in receipt of funding for more than one service type and/or from more than one location in the HSE. Although outputs were specified adequately in all cases examined, the arrangements provided for monitoring of a large number of items and did not always specify who was responsible for providing the relevant information or what section of the HSE had responsibility for monitoring this information.

Recommendation 19.2

The HSE should review the format of the annual service arrangement in order to highlight the key performance indicators, the related monitoring arrangements and clearly specify the agency's and the HSE's responsibilities in this regard.

HSE Director General's response

Agreed. The part 2 service arrangements are reviewed on an annual basis. This review takes account of all audit and review recommendations and other updates for changes in legislation, regulations and quality standards. Updates are also made on recommendations arising from review groups in each division taking into consideration operational experience.

For 2018, the part 2 service arrangements are being updated to take account of this matter as follows

- all monitoring arrangements will be examined to ensure the information required is current and relevant
- the arrangements will clearly outline where in the HSE the returns should be to.

Additional information will be provided to CHOs and hospital groups setting out expectations for frequency of reporting requirements. The establishment of contracts management support units in the CHOs will assist service managers in managing and documenting all aspects of the relationship with Section 38 and 39 providers.

19.104 The annual service agreement sets out the funding to be provided and the key performance indicators, and the frequency of reporting and meeting. Although the HSE provides guidance on the appropriate levels and frequency of reporting by health agencies, the audit noted variations between and within CHOs in the frequency of reporting and the number of items to be reported for agencies receiving similar levels of funding.

19.105 It is important that the HSE sets and monitors appropriate key performance indicators for funded agencies in order to ensure the funding provided is used effectively and efficiently. The examination found that for over half of the 29 cases examined, key performance indicator returns were on file and almost three quarters of these were at the frequency specified in the service arrangement.

19.106 The receipt and review by the HSE of a service provider's audited financial statements potentially provides assurance that the funding the agency was allocated has been spent for the purposes intended. The audit found that for just under a quarter of service arrangements and grant aid agreements examined, required audited financial statements had not been provided to the funding CHO.

19.107 The audit further noted variation between CHOs in the review of the annual financial statements. One of the CHOs visited considered the extent to which the grant had been utilised by the service provider as part of their review of the providers annual financial statements; the other CHO did not.

Recommendation 19.3

The HSE should ensure that monitoring arrangements specified in the annual service arrangements are complied with. There is also a need for clarification of roles and responsibilities where an agency is receiving funding from more than one CHO.

HSE Director General's response

Agreed. There is an established process in place whereby key performance indicator data is submitted by service providers at agreed frequencies. In addition to this process, service managers who manage the contractual relationship with service providers will agree the frequency for the submission of the required documentation as per the service arrangement and may request other relevant data from providers, as required.

The HSE Compliance Unit has established an inspection/review capability in 2017 which will provide additional assurance that the relationship with Section 39 providers is being managed properly. These ongoing reviews will support and greatly enhance the governance and oversight process that is currently in place.

Revenue

20 Corporation Tax Receipts

20.1 Corporation tax is a direct tax chargeable on a company's profits and collected by the Revenue Commissioners (Revenue). The tax is charged on profits (income and gains), wherever arising, of companies resident in the State, with some exceptions. Companies that are not resident but who trade in the State through a branch or agency are subject to corporation tax in respect of profits attributable to the branch or agency.[1]

20.2 Companies operating in Ireland are charged a statutory rate of 12.5% tax on trading profits. A rate of 25% applies to rental income, income from certain land dealings and oil, gas and mineral exploitation, and profits from non-trading (passive) income such as investment income. Certain capital gains are taxable at a rate of 33%.[2]

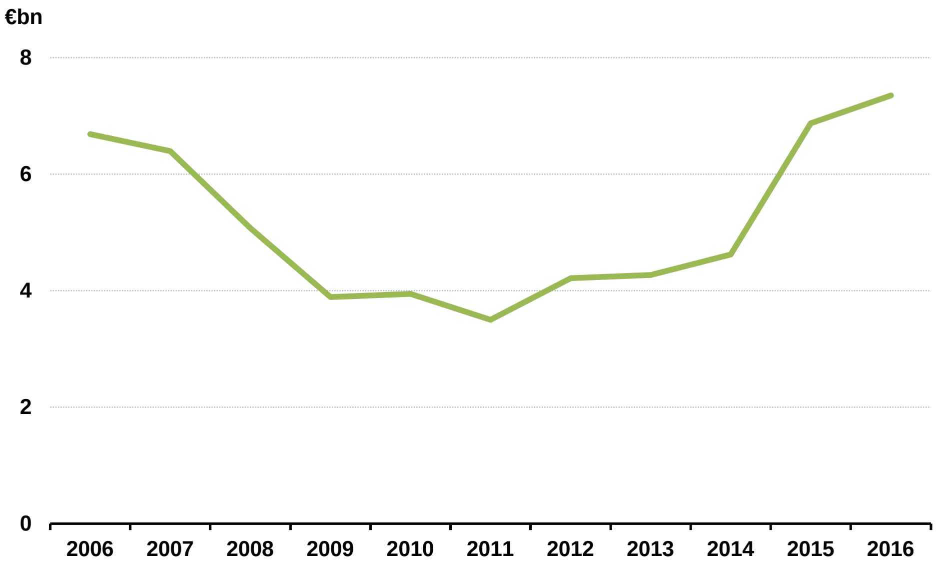
20.3 Corporation tax receipts accounted for 15% of the total tax receipts in 2016.

20.4 Corporation tax receipts have displayed volatility in recent years. This examination was conducted to review the factors contributing to this volatility at a sectoral level and at a national level.

Trends in corporation tax receipts

20.5 Figure 20.1 indicates net corporation tax receipts for the period 2006 to 2016.

Figure 20.1 Net corporation tax receipts, 2006 to 2016[a]



Source: Revenue Commissioners

Note: a Net corporation tax receipts are gross corporation tax receipts less corporation tax repayments in the year.

1 Companies incorporated in Ireland are regarded as tax resident unless they are treated as resident in a treaty partner country by virtue of a double taxation treaty. A company that is incorporated in a foreign country and is centrally managed and controlled in Ireland will be resident for tax purposes in Ireland.

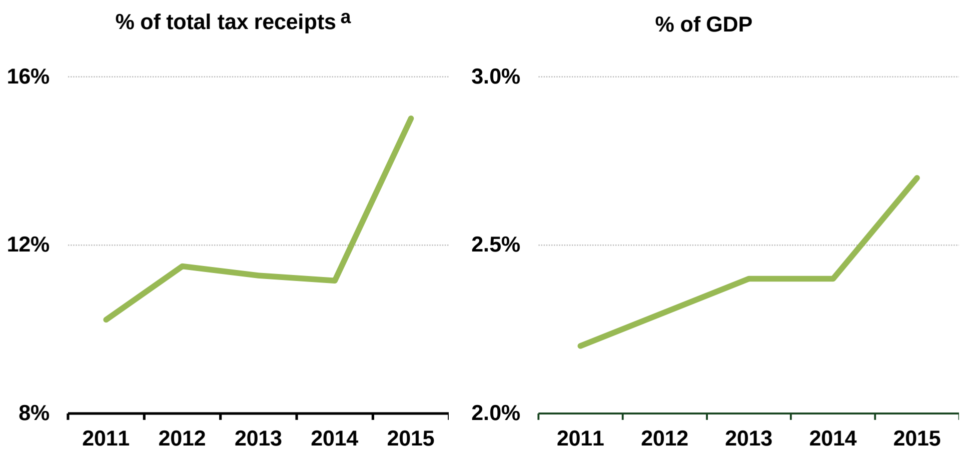
2 A company can make a capital gain from selling or transferring an asset. Corporation tax is chargeable on a capital gain made by a company (other than a gain on development land which is subject to capital gains tax).

20.6 Corporation tax receipts in 2011 amounted to €3.5 billion. By 2015, corporation tax receipts of €6.9 billion exceeded the pre-recession peak (€6.7 billion in 2006) for the first time. 2015 was exceptional, with a year–on–year increase of 49%. €7.35 billion was collected in 2016, an historic high for corporation tax. The forecast for 2017 is €7.7 billion, which if achieved, represents almost 5% more than 2016 receipts.

20.7 Corporation tax was the third largest tax receipt in 2015, representing 15% of total tax receipts. This can be contrasted to 2011 when corporation tax receipts accounted for just 10% of total tax receipts (see Figure 20.2).

20.8 Ireland's corporation tax as a percentage of total taxation was the seventh highest of the 28 member states of the EU in 2014 and the sixth highest of OECD countries in 2015.[1,2] Over the period 2011 to 2015, corporation tax receipts as a percentage of GDP have increased from 2.2% to 2.7%. In each of those years, Ireland's corporation tax receipts as a percentage of GDP was within three-quarters of a percentage point of the OECD average even though Ireland's corporation tax rate was the lowest in the OECD over the same period.[3]

Figure 20.2 Corporation tax receipts as a percentage of total tax receipts and as a percentage of GDP, 2011 to 2015



Source: Revenue Commissioners and OECD revenue statistics. Analysis of corporation tax receipts as a percentage of total tax receipts by Office of the Comptroller and Auditor General.

Note: a Tax receipts figures are on a net basis — gross tax receipts less tax repayments in the year.

1 *Taxation Trends in the European Union*, 2016 edition, Taxation and Customs Union.

2 https://stats.oecd.org. For 2015, data was available for 30 of the 35 countries.

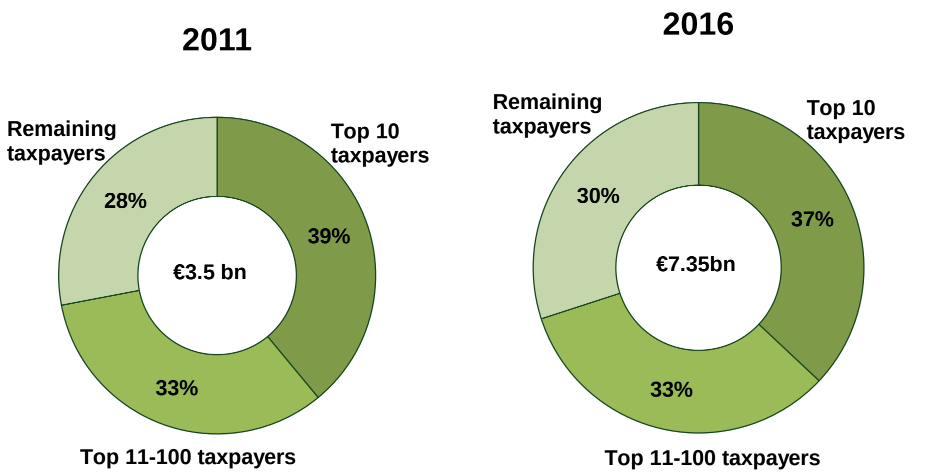
3 OECD published combined corporate income tax rates.

Concentration of corporation tax

20.9 Corporation tax in Ireland applies to a broad base of companies. In 2016, corporation tax was paid by over 44,000 taxpayers, but receipts were dominated by a small number of taxpayers, mainly multi-national enterprises (MNEs).[1] 37% of 2016 corporation tax receipts were paid by the top 10 taxpayers, and 70% by the top 100 taxpayers (see Figure 20.3).[2] By comparison, around 7,000 companies in the UK − accounting for just under 1% of all companies paying corporation tax − are responsible for the payment of 54% of all corporation tax collected in 2015-16.[3]

20.10 The Department of Finance has pointed out that reliance on a small cohort of large corporation taxpayers is a risk that needs to be carefully managed.[4]

Figure 20.3 Concentration of corporation tax receipts, 2011 and 2016[a]



Source: Revenue Commissioners

Note: a Percentages are net corporation tax receipts for each year.

Sectoral trends in corporation tax receipts

20.11 Figure 20.4 shows corporation tax receipts by NACE (sector of activity) code over the period 2011 to 2016.[5]

1 *An analysis of 2015 corporation tax returns and 2016 payments,* Revenue Commissioners, April 2017.

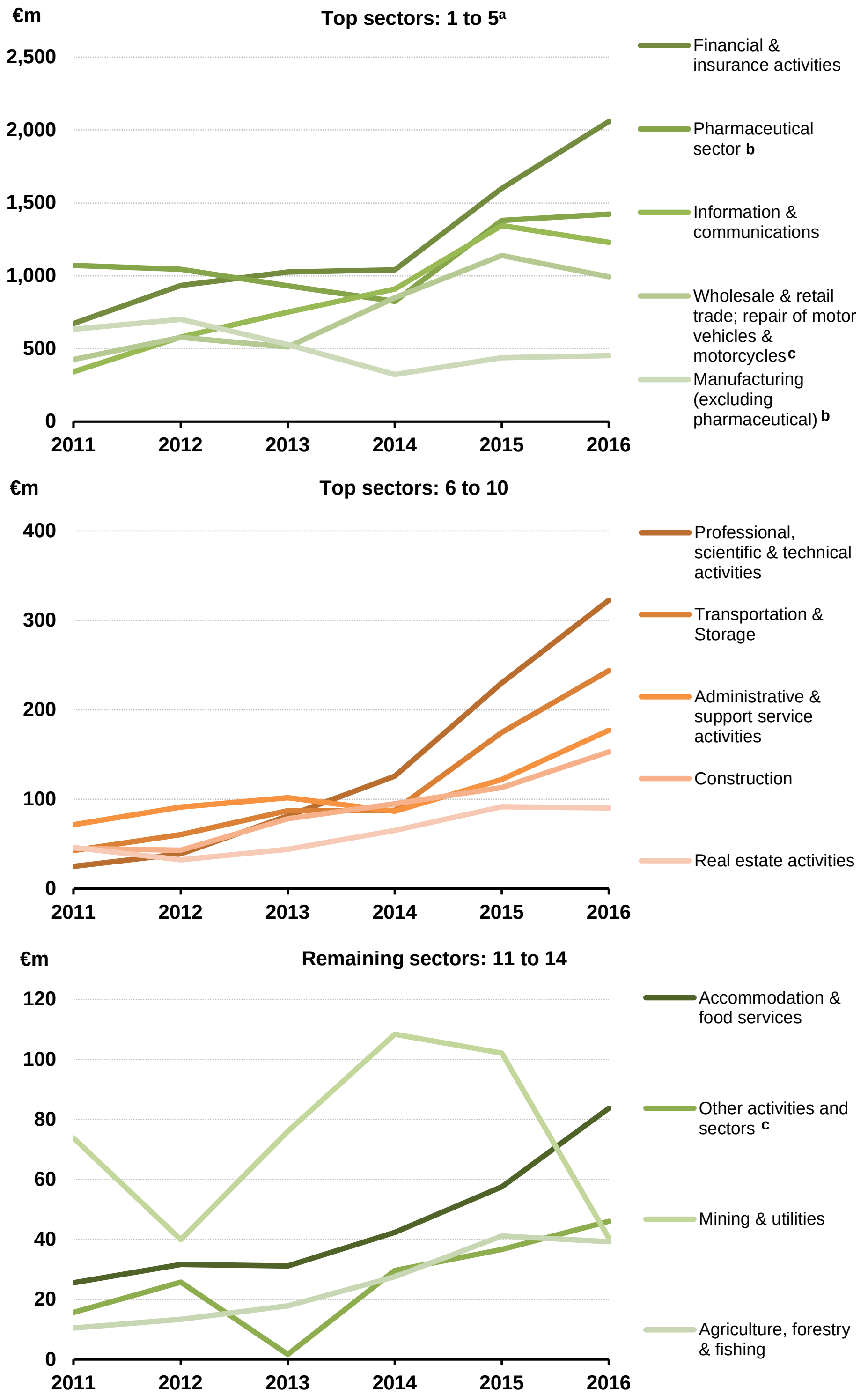
2 Movement of individual taxpayers in and out of the top 10 and top 100 taxpayers will occur over time.

3 *Corporation Tax Statistics 2017* — HM Revenue and Customs.

4 *Economic Impact Assessment of Ireland's Corporation Tax Policy: Summary Research Findings and Policy Conclusions*, October 2014, Department of Finance.

5 NACE is a statistical classification of economic activities developed in the EU.

Figure 20.4 Trends in corporation tax receipts by sector of activity, 2011 to 2016

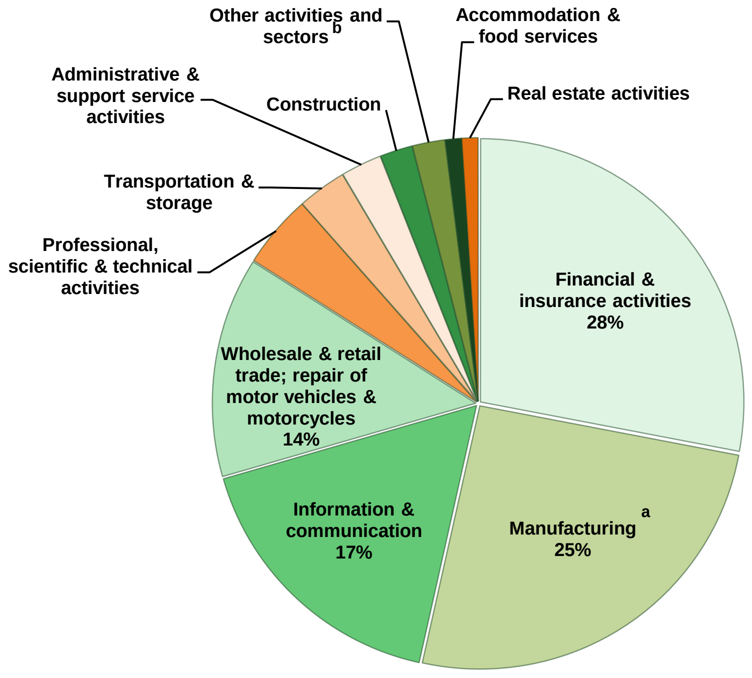


Source: Revenue Commissioners

Notes:
- a Ranking is based on 2016 data.
- b The manufacturing sector generally includes pharmaceutical manufacturing. However, the NACE codes relating to pharmaceutical manufacturing have been extracted and shown separately for the above analysis.
- c Other activities and sectors comprises public administration and defence; education; human health and social work activities; and other activities and sectors.

20.12 Three sectoral categories account for 70% of the total corporation tax receipts. These are financial and insurance activities; manufacturing (including pharmaceutical manufacturing); and information and communications. These three sectors are dominated by MNEs. When the wholesale and retail trade sector is considered along with these three sectors, 84% of total corporation tax receipts in 2016 originate from four sectors of the economy (see Figure 20.5 below).

Figure 20.5 Corporation tax receipts by sector, 2016



Source: Revenue Commissioners

Notes: a 76% of the corporation tax receipts from the manufacturing sector comprise pharmaceutical manufacturing.

b Other activities and sectors comprises public administration and defence; education; human health and social work activities; arts, entertainment and recreation, agriculture, forestry and fishing; mining and utilities; and other activities and sectors.

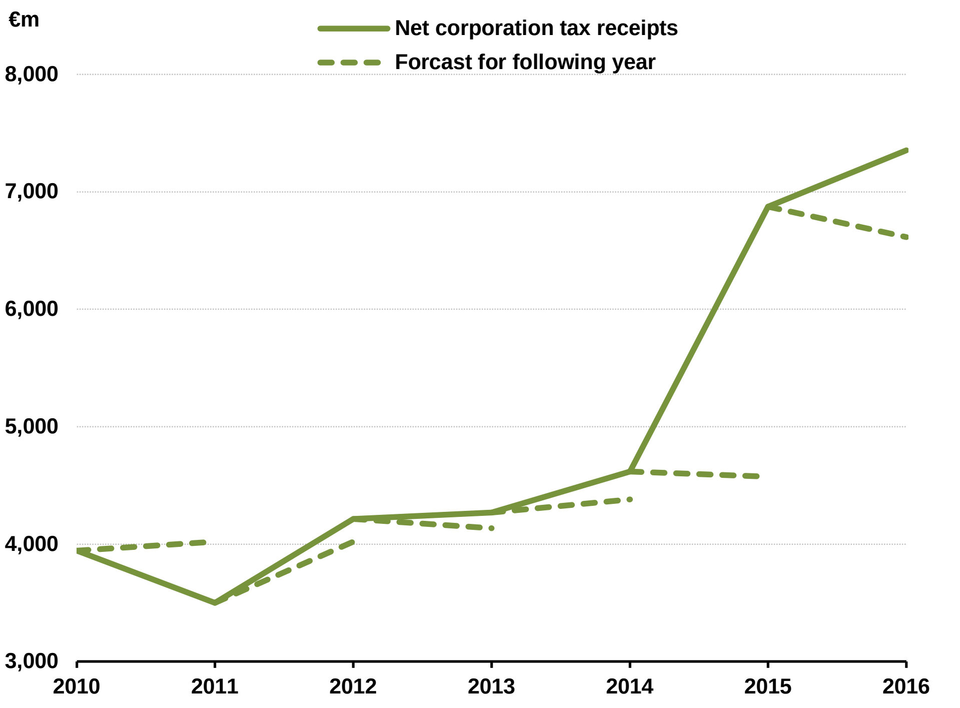
Forecasting corporation tax receipts

20.13 The accurate forecasting of tax revenue is a fundamental part of overall public sector budgeting. The Department of Finance has responsibility for the calculation and publication of tax forecasts each year, which is done with assistance from Revenue. Corporation tax receipts are by nature difficult to forecast, especially in economies such as Ireland, with both a concentration of tax receipts from a small number of taxpayers and a reliance on MNEs. This is because there is greater exposure to factors such as changes in group structure, currency fluctuations and market shocks.

20.14 Figure 20.6 sets out corporation tax forecasts compared to net receipts for the period 2010 to 2016. Significant variations are evident over this period. In 2011, corporation tax receipts were 13% below the forecast. The following year, almost 5% more was received than was forecast. In 2015, corporation tax receipts were 50% higher than had been anticipated. 2016 receipts were 11% greater than the forecasted amount.

20.15 The Department of Finance uses gross operating surplus (taken from the National Accounts) together with information derived from Revenue's Large Cases Division to forecast corporation tax. In 2016, the Irish Fiscal Advisory Council tested a number of alternatives to the Department's approach and concluded that nominal GDP appears to be a slightly better predictor of receipts.[1,2]

Figure 20.6 Corporation tax receipts compared to forecasts, 2010 to 2016



Source: Revenue Commissioners (net corporation tax receipts) and Department of Finance tax profiles 2011 to 2016.

1 *Challenges forecasting Irish corporation tax*: Irish Fiscal Advisory Council – September 2016.

2 The Department of Finance use nominal GDP as a secondary predictor of corporation tax receipts.

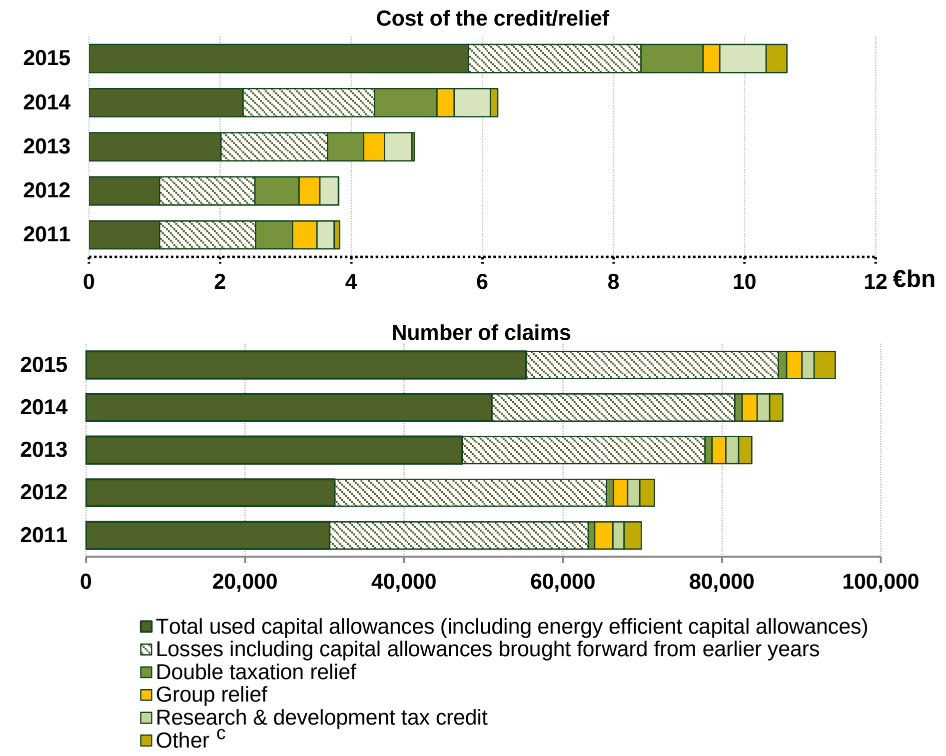
Credits and reliefs

20.16 The corporation tax code includes a number of tax expenditures in the form of tax reliefs and tax credits, which if applicable, have the effect of reducing the tax liability of a company. Generally, such reliefs and credits are designed with certain policy objectives in mind. Figure 20.7 shows the tax credits and reliefs pertaining to corporation tax, including both the number of claims and the cost over the period 2011 to 2015.

20.17 For the years 2011 and 2012, the utilisation of losses brought forward accounted for the largest expenditures at almost €1.5 billion in each of the two years. For the period 2013 to 2015, capital allowances accounted for the largest category of credits and reliefs available in each year. In 2015, capital allowances accounted for 54% of the overall cost of credits and reliefs at €5.8 billion, with losses brought forward accounting for 25%. Relief for double taxation was the third highest cost in 2015 at €948 million.

20.18 The cost of capital allowances increased from €2.4 billion in 2014 to €5.8 billion in 2015, an increase of almost 150%. This increase is consistent with increases in productive capital stock in 2015. The number of claims associated with capital allowances only increased by 8%. The cost of the research and development tax credit also increased significantly from €553 million in 2014 to €708 million in 2015 (a 28% increase). The number of claims related to this tax credit decreased over the same period by 2%.

Figure 20.7 Corporation tax credits and reliefs by cost and number, 2011 to 2015[a,b]



Source: Revenue Commissioners

Notes:

a All figures are based on tax due in respect of assessments for each year and not on tax receipts within that year. The costs included are by reference to accounting periods which ended in the year shown.

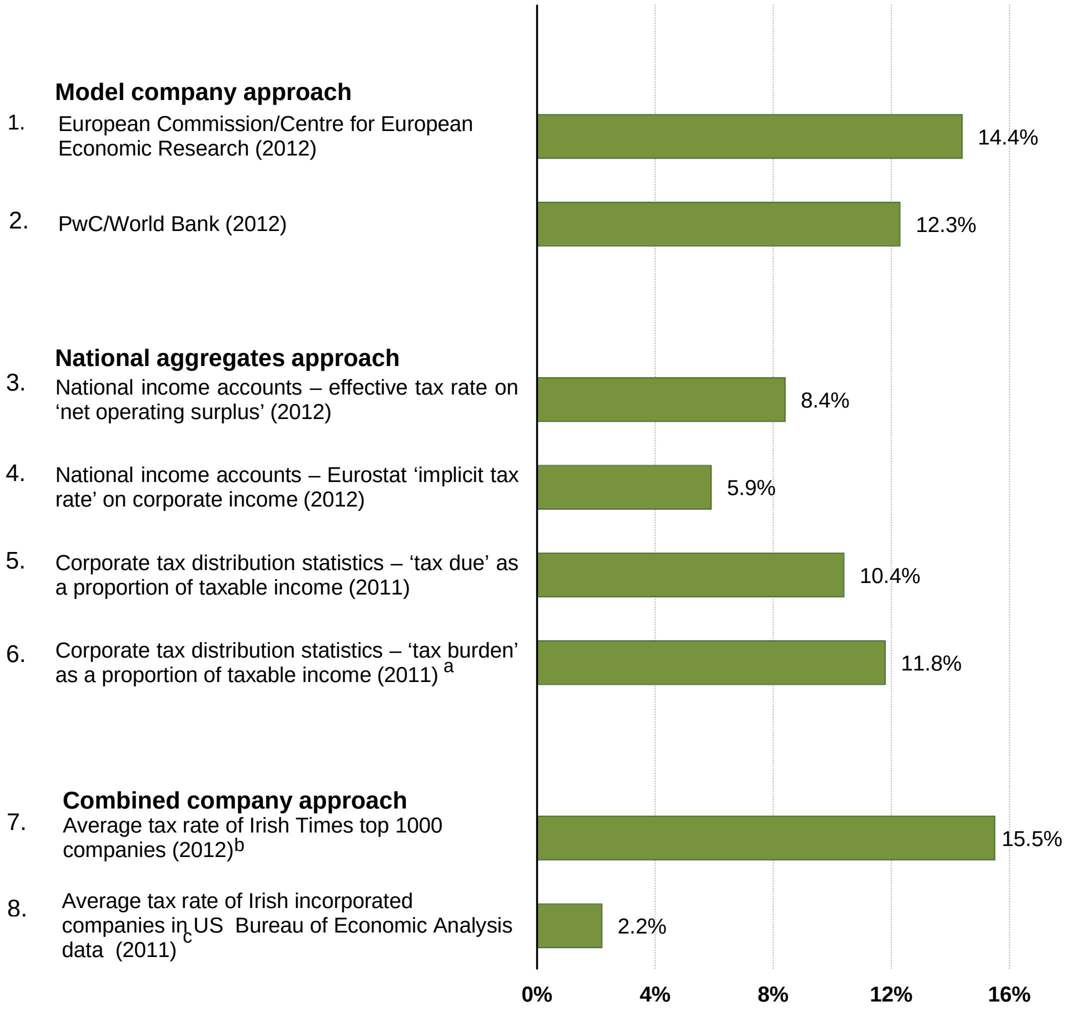
b A taxpayer can have claims in more than one category. For example, in 2015 there were just over 94,000 individual claims for reliefs and credits but there were just over 65,000 claimants.

c Other comprises effective rate of 10% for manufacturing and certain other activities (only in 2011), foreign earnings deduction, additional foreign credit, relief on donations, film relief and start-up relief.

Effective rates of corporation tax

20.19 The effective rate of corporation tax paid by a company may differ from the statutory rate due to the impact of allowable reliefs.[1] A 2014 report produced by the Department of Finance identified eight approaches for calculating the effective rate on company profits.[2] The various approaches are outlined in Figure 20.8.

Figure 20.8 Selected effective corporation tax rates attributed to Ireland – identified by the Department of Finance



Source Department of Finance

Notes:
a This is before the deduction of double taxation relief for corporation tax paid on that income in other jurisdictions.
b Profits earned and taxes paid outside of Ireland are included in this approach.
c This approach uses data from US-owned Irish-incorporated subsidiaries collected by the Bureau of Economic Analysis, which is the federal economics statistics agency in the United States. Data used in this approach includes financial data from their operations everywhere, not just in Ireland. As such it is not necessarily reflective of their operating activities in Ireland or corporation tax paid in Ireland.

1 Annex 20A presents illustrative cases of how the effective rate may differ from the standard tax rate.

2 *Effective Rates of Corporation Tax in Ireland: Technical Paper*, April 2014, Department of Finance.

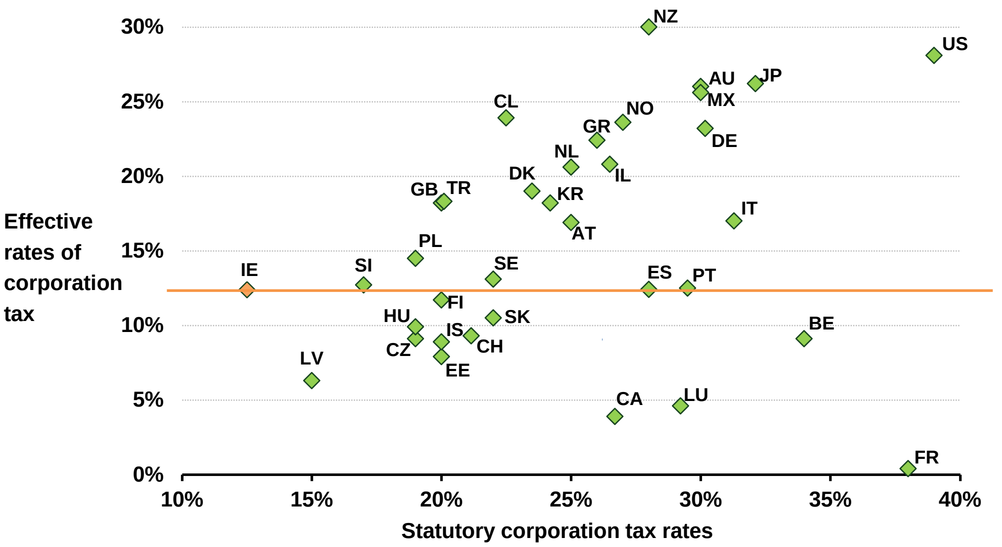
20.20 The eight approaches considered by the Department of Finance resulted in estimated effective rates ranging from 2.2% to 15.5%.[1] While the paper notes that there is no single best measure of the effective rate, two of the approaches are identified as the most appropriate to measure the effective rate of Irish corporation tax on the total profits that are subject to Irish tax. These are

- Effective tax rate on 'net operating surplus' (option 3) — taxes on the income or profits of corporations divided by net operating surplus, both taken from the national accounts, provide an overall effective tax rate
- 'Tax due' as a proportion of taxable income (option 5) — these figures are obtained from Revenue's Corporation Tax Distribution Statistics.

International comparison

20.21 When comparing corporation tax rates across countries, the effective tax rate provides a better means of comparison than the statutory rate, as it reflects tax actually paid. Figure 20.9 compares the statutory rate of corporation tax with the effective rate for OECD countries for 2015, using a 'model company' approach (option 2) for estimating the effective tax rate on profits.[2]

Figure 20.9 International comparison of statutory rates of corporation tax compared to effective rates of corporation tax, for OECD countries for 2015



Source: Statutory corporation tax rates for 2015 sourced from OECD. Effective corporation tax rates sourced from *Paying Taxes 2017* PwC and World Bank Group.

Notes:

a Central government corporation income tax rate used with the exception of Belgium, Canada, France, Germany, Italy, Japan, Korea, Luxemburg, Portugal, Switzerland and the United States where the combined corporate income tax rate is used. This rate includes the sub-central government corporate income tax rate.

b The *Paying Taxes 2017* report uses a case study company to evaluate taxes paid by a medium sized company. The case study scenario is based upon a standardised set of financial statements with all items in the financial statements calculated as a fixed multiple of gross national income per capita for each economy. Other standard assumptions are also used. Data relates to 2015. The total tax rate is the total of all taxes borne as a percentage of commercial profit.

c The statutory corporation tax rate in France for 2015 was 33.33%. A rate of 38% was calculated by the OECD to take account of a temporary surtax applicable to large companies and a surcharge for companies with a turnover over a certain threshold.

d The statutory corporation tax rate in Portugal for 2015 was 21%. A rate of 29.5% was calculated by the OECD to take account of a surcharge on taxable profits above a certain threshold.

1 Effective rates can be higher than the standard statutory rate of 12.5% as well as lower. A tax rate of 12.5% is charged on trading profits. An effective rate higher than 12.5% is usually due to passive income charged at the 25% rate. In addition, some approaches take account of profits earned in other jurisdictions where higher corporation rates may apply.

2 *Paying Taxes 2017*, PwC and World Bank Group.

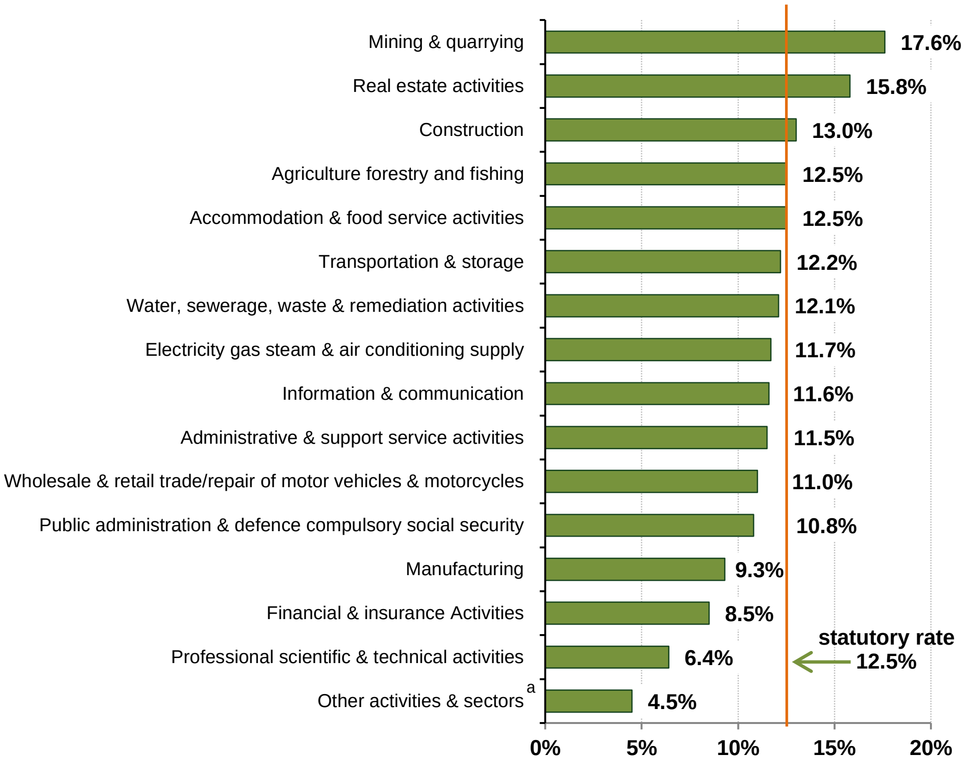
20.22 In 2015, Ireland had the lowest statutory rate of corporation tax of all OECD countries.[1] Based on the PwC/World Bank report, Ireland's estimated effective rate of corporation tax was 12.4%, which was just 0.1% below the statutory rate. 12 OECD countries had an effective rate of corporation tax which was lower than this; one had a rate which was equal; and 21 had an effective rate which was higher.

20.23 In 2015, the United States had the highest statutory rate of corporation tax in the OECD at 39%, coupled with the second highest effective rate of 28.1%. France had the second highest statutory rate at 38% but the lowest effective rate at just 0.4%. The OECD reported that for 2015, France's corporation tax as a percentage of total taxation was 4.6%.

Sectoral analysis of the effective tax rate

20.24 Revenue calculates the effective tax rate using the tax due as a proportion of taxable income approach, as set out in Figure 20.8 — option number 5. Figure 20.10 sets out the effective tax rate by NACE code in 2015.

Figure 20.10 Effective corporation tax rate by NACE code, 2015



Source: Revenue Commissioners

Note: a Other activities and sectors comprises education; human health and social work activities; arts, entertainment and recreation, activities of households as employers of domestic personnel; other services and activities; and unknown sectors. It accounts for 1.4% of total taxable income.

1 Based on the combined corporate tax rates from the OECD's 2015 revenue statistics.

20.25 The effective tax rate for all sectors in 2015 was 9.8%. The rate varied from 6.4% for the professional, scientific and technical activities sector to 17.6% for the mining and quarrying sector.

Effective corporation tax rates of the top 100 companies

20.26 In order to identify the effective rates of corporation tax for the 'top 100' companies, a method must be selected for ranking them. There are two main approaches to the ranking.

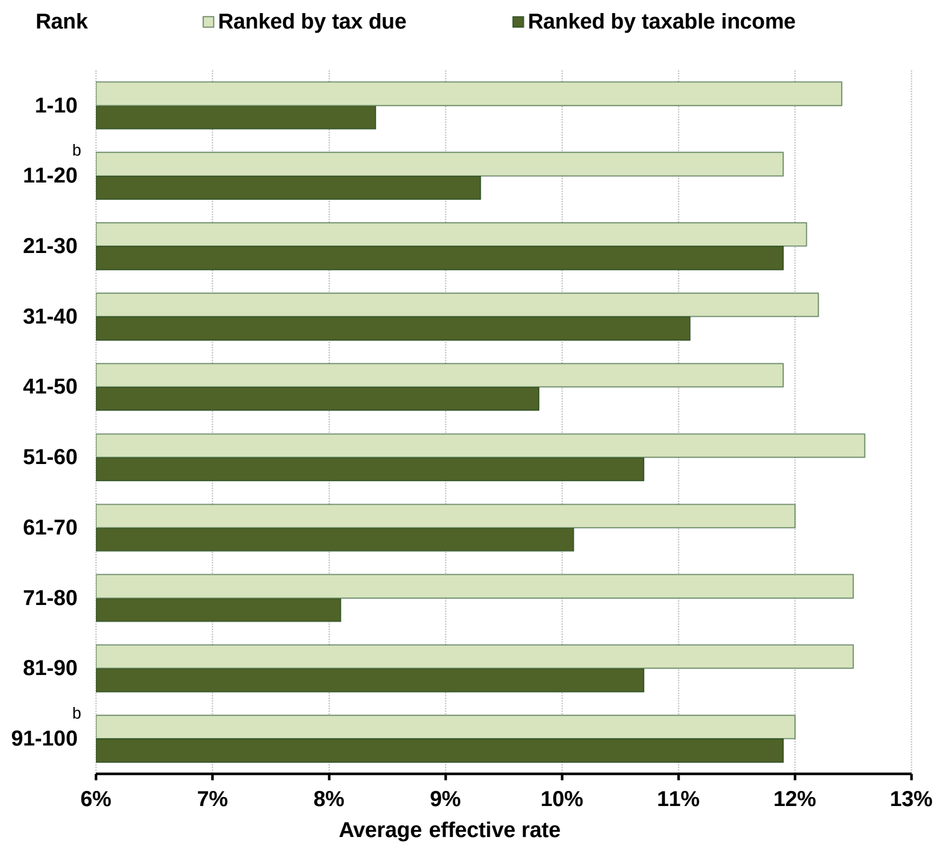
- Tax due — Tax due is determined based on taxable profits as set out in corporation tax returns, which are filed by reference to accounting periods. Ranking the top 100 companies by tax due generally results in a higher average effective rate because those companies with the highest tax liabilities are automatically included.
- Taxable income — Ranking companies in this way highlights companies with the highest taxable income in a given year but which do not necessarily have the highest corresponding tax liabilities, depending on tax credits and reliefs availed of.

20.27 There is overlap between the groupings. In 2015, 83 taxpayers were in the top 100 ranked by both tax due and taxable income. The average effective tax rate in 2015 for the top 100 companies ranked by tax due is 12.4%. This compares to an average effective tax rate of 9.3% when companies are ranked on the basis of taxable income.

20.28 Figure 20.11 presents the average effective corporation tax rate for the top 100 taxpayers for 2015, ranked by taxable income and by tax due. Taxpayers have been grouped in bands of ten to show the variances arising when companies are ranked using taxable income. While there is relatively little variation in the average effective rate between bands when companies are grouped on the basis of tax due, there is considerable variation when companies are ranked by the amount of taxable income.

Top 100 corporation taxpayers by tax due and taxable income — 2015

Figure 20.11 Top 100 corporation taxpayers — average effective corporation tax rate 2015[a]



Source: Revenue Commissioners, with analysis by Office of the Comptroller and Auditor General.

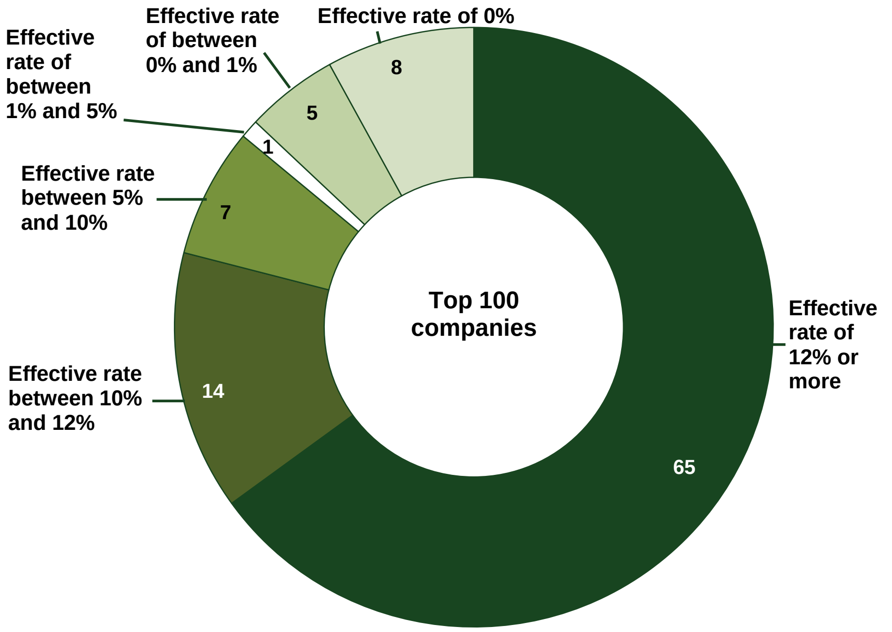
Notes: a 83 taxpayers are in the top 100 taxpayers ranked by both taxable income and ranked by tax due for 2015.

b One taxpayer has been excluded from this subset because the majority of tax due related to withholding tax under S.239 of the Taxes Consolidation Act 1997. In the absence of the withholding tax classified as tax due, the taxpayer would not come within the top 100 taxpayers ranked by tax due for 2015.

1 Of the 13 taxpayers with an effective rate of less than 1% for 2015, they had availed either of double taxation relief to offset Irish corporation tax or of the research and development tax credit or of both these reliefs. The other 43 taxpayers with an effective rate of less than 12.5% had also availed of various reliefs.

20.29 Even within the top 100 companies ranked by taxable income, the average effective tax rate masks significant variations. As indicated in Figure 20.12, 13 of the top 100 companies with the highest taxable income had an effective rate of less than 1%. 79 companies had effective tax rates of 10% or more, and almost two thirds had effective tax rates of 12% or more.[1]

Figure 20.12 Effective corporation tax rates of the top 100 taxpayers — 2015



Source: Revenue Commissioners, with analysis by Office of the Comptroller and Auditor General.

Notes: a Top 100 corporation taxpayers ranked by taxable income for 2015.

b The category of zero effective tax rate includes cases with negative effective tax rates.

Conclusions

20.30 Corporation tax receipts are subject to dramatic changes year-on-year, and have been difficult to forecast. Apart from economic trends, concentration of receipts among taxpayers affects the ability to produce accurate forecasts.

20.31 Corporation tax receipts are highly concentrated both in terms of sectors and by number of taxpayers. Three sectors of the economy account for around 70% of the total corporation tax receipts — financial and insurance activities; manufacturing (including pharmaceutical manufacturing); and information and communications. For 2016, 37% of corporation tax receipts were paid by the top 10 taxpayers and 70% by the top 100 taxpayers.

Effective rate of corporation tax

20.32 The effective rate of corporation tax allows for comparison of tax rates between countries. While Ireland had the lowest statutory rate of corporation tax in the OECD, a study by PwC and the World Bank showed that when looking at effective corporation tax rates, 12 OECD countries had a lower rate than Ireland.

20.33 The effective corporation tax rate also allows for useful comparisons between companies in Ireland. In 2015, the top 100 companies, ranked by taxable income, had a lower average effective corporation tax rate (9.3%) than the rate applying to all companies of 9.8%. This masks significant variations within the top 100 companies. While 79 of the top 100 companies had an effective corporation tax rate of between 10% and 15%, 13 had an effective rate of less than 1%. This reflects the use of significant tax credits and reliefs, in particular double taxation relief and research and development tax credits.

Annex 20A

Figure 20A.1 Illustration of impact of reliefs and credits on the effective tax rate paid

The table below shows how different circumstances can impact the effective tax rate for a company.

- Company A is an example of a company that pays an effective rate identical to the statutory 12.5% rate.
- Company B is an example of a start-up company involved in research and development work. A number of tax reliefs and tax credits have the effect of reducing the company's tax liability and therefore the effective rate of corporation tax charged, which in this instance is 5.8% − 6.7 percentage points lower than the statutory rate of 12.5%.
- Company C has rental income of €50,000 in addition to trading income. Non-trading income is charged at a rate of 25% and this, in combination with trading losses carried forward, results in an effective tax rate for the company of 17.1%.

Example: Impact of reliefs and credits on the effective tax rate paid

	Company A	Company B	Company C
Sales income (trading activity)	300,000	300,000	250,000
Less			
Salaries and wages	90,000	60,000	100,000
Materials	50,000	60,000	40,000
Research and development expenditure	—	20,000	—
Plant and machinery capital allowances[a]	—	6,250	—
Trading income	**160,000**	**153,750**	**110,000**
Less			
Trading losses forward from earlier years[b]	—	4,000	25,000
Taxable trading income	**160,000**	**149,750**	**85,000**
Rental income (non-trading activity)	—	—	50,000
Total taxable income	**160,000**	**149,750**	**135,000**
Tax payable[c]			
at 12.5%	20,000	18,719	10,625
at 25%	—	—	12,500
Start up relief[d]	—	(5,000)	—
Research and development tax credit[e]	—	(5,000)	—
Tax due	20,000	8,719	23,125
Effective tax rate (tax due/taxable income)	**12.5%**	**5.8%**	**17.1%**

Source: Office of the Comptroller and Auditor General

Notes:
a Capital allowances for the wear and tear of plant and machinery is calculated by reference to the cost of the assets and allowable expenditure may be written off over 8 years (12.5% per annum).
b Trading losses carried forward may only be offset against income from the same trade in a subsequent accounting period(s).
c Corporation tax is charged at 12.5% on trading income and 25% on non-trading income, such as investment income and rental income.
d Tax relief for start-up companies commencing a new trade is available. The relief is based on employers' PRSI contributions and is limited to €5,000 per employee up to a limit of €40,000 in any one period. Marginal relief is also available.
e The research and development tax credit is calculated at 25% of qualifying expenditure.

21 Tax Debt and Write Outs

21.1 The Revenue Commissioners (Revenue) are obliged under legislation to collect tax, pursue recovery of tax debt and ensure the tax system is administered in a fair and equitable manner.

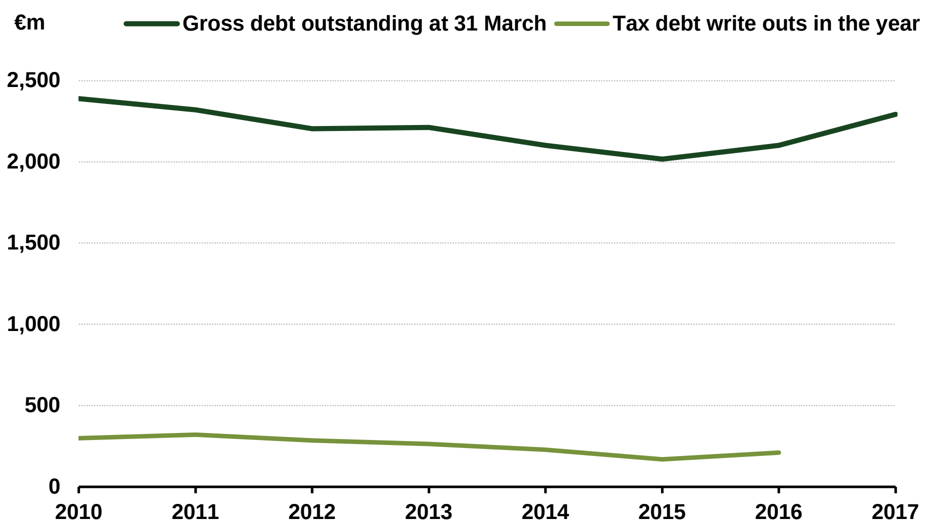
21.2 Within Revenue, the Collector General's Office is charged with the responsibility for ensuring the timely collection of the majority of business and personal taxes. The timely collection of outstanding debt helps minimise the level of debt to the Exchequer.

21.3 This report sets out the broad principles underlying Revenue's approach to tax debt collection, including its approach to debt deemed uncollectable. It also reviews Revenue's processes for 'writing out' what is deemed to be uncollectable, the reasons underlying the write outs and the amounts of debt written out by category of tax.[1]

Outstanding tax debt and write outs

21.4 The gross value of tax debt outstanding at 31 March 2017 stood at €2,293 million, an increase of just over 9% when compared to the value at March 2016 of €2,102 million. Figure 21.1 sets out the value of gross debt outstanding at the end of March each year, for the period 2010 to 2017, compared to the level of debt written out each year.[2]

Figure 21.1 Gross debt outstanding at March, 2010 to 2017 and tax debt write outs, 2010 to 2016



Source: Revenue Commissioners

Note: Figures for write outs for 2017 will not be available until 2018.

1 Debt written out is debt that is removed from Revenue's accounts receivable records. Guidelines are in place for staff involved in the write out of debt.

2 Revenue generally reports the net tax outstanding i.e. gross debt less current year VAT repayments due. At 31 March 2017, the net debt reported by Revenue was €1.9 billion.

21.5 While the level of debt outstanding at 31 March had fallen between 2010 and 2015 by almost 16%, the most recent two years has seen a marked increase, taking the overall level close to 2010 figures. Revenue has stated that this is due to an increase in the value of cases under appeal. The level of write outs each year has remained reasonably constant at between 8% and 14% of gross debt outstanding. In the same period, net Revenue tax receipts have increased by around €14 billion (44%). The level of tax debt written out by Revenue between 2010 and 2016 amounted to €1.8 billion, with an average tax write out of €254 million per year.

21.6 Figure 21.2 shows the gross debt outstanding by tax type and summarises the charges raised, the payments made and the amounts written out in the 12-month period ended March 2017.[1] The two largest categories of debt outstanding at that date, which accounted for over 50% of the total tax due, were income tax (€705 million excluding PAYE) and VAT (€455 million). The income tax debt is 22% of the charges raised in the year, whereas the VAT debt is 4%.

Figure 21.2 Movement in outstanding taxes and PRSI, 2016/17

Tax or levy[a]	Balance at 31 March 2016	Charges raised[b]	Tax paid[c]	Tax written out	Balance at 31 March 2017	Balance as % of charges raised
	€m	€m	€m	€m	€m	
PAYE	226	12,939	(12,889)	(10)	266	2%
Value Added Tax	475	10,732	(10,696)	(56)	455	4%
PRSI	173	9,082	(9,062)	(13)	180	2%
USC	38	3,243	(3,235)	(3)	43	1%
Income Tax	713	3,195	(3,162)	(41)	705	22%
Corporation Tax	174	5,462	(5,332)	(1)	303	6%
Capital Gains Tax	183	671	(662)	(8)	184	27%
Capital Acquisitions Tax	61	436	(396)	—	102	23%
Relevant Contracts Tax	20	262	(262)	(3)	18	7%
Environmental Levy	37	9	(9)	—	37	411%
Total	**2,102**	**46,030**	**(45,705)**	**(134)**	**2,293**	**5%**

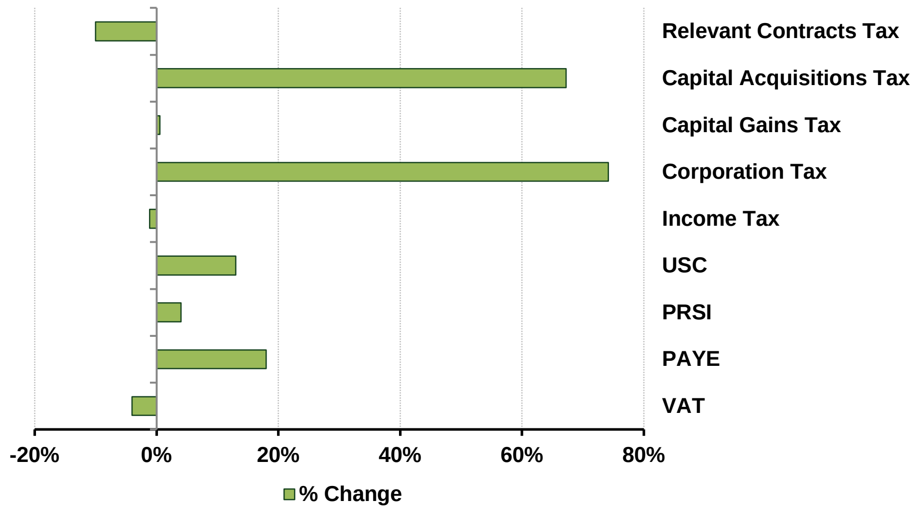
Source: Revenue Commissioners. Figures may not add due to rounding.

Notes:
a Tax is regarded as outstanding from the date the liability is placed on the taxpayer's record — usually as a result of the receipt of a return or the raising of an estimate.
b Charges raised include estimates in cases of non-filing.
c Tax paid includes cases where estimates are subsequently reduced by the caseworker.
d DIRT is excluded as all charges raised were paid in the year.

1 The outstanding debt and 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. Local Property Tax is managed by the Local Property Tax branch through a separate compliance programme outside of the normal debt management units.

21.7 Figure 21.3 shows the percentage changes in the level of outstanding debt during 2016. The largest increase related to corporation tax, which increased by €129 million or over 74% in the year. Income tax and VAT, the two largest categories of tax debt, have seen reductions in outstanding debt over the period 31 March 2016 to 31 March 2017. Revenue attributes this to more prompt contact and case escalation for smaller value debts.

Figure 21.3 Change in outstanding taxes, March 2016 to March 2017



Source: Revenue Commissioners. Analysis by Office of the Comptroller and Auditor General.
Note: Environmental Levy showed no change in the period.

Debt management

21.8 Revenue's debt collection is managed within the Collector General's Division, by 26 'standard' debt management units and five specialist units, which manage cases involving outstanding debt of the main business taxes. In addition, the Services and Transactions Taxes Unit and Dividend Withholding Tax Units manage debt related to a number of other taxes.[1] Local Property Tax is managed by the Local Property Tax Branch through a separate compliance programme outside of the normal debt management units.

21.9 The primary objective of the debt management units is to ensure that tax returns and payments are submitted on time. Cases for debt management intervention are predominately identified by the Collector General's Office using various in-house analytical and compliance systems. Also, some cases are referred from the Revenue Districts to the debt management units where additional debt has been identified through audit or compliance interventions and where payment is not forthcoming from the taxpayer. Interest is charged on overdue payments. This compensates the Exchequer for the late payment and also ensures equity for the majority of taxpayers who pay their taxes on time.

1 Service and Transactions Taxes Unit and Dividend Withholding Tax Unit manage debt related to Dividend Withholding Tax, Professional Services (Withholding) Tax, Life Assurance Exit Tax, Investment Undertaking Tax, Deposit Interest Retention Tax, Environmental Levy and Air Travel Tax. These units have dual customer service and compliance roles.

21.10 The relevant debt management unit moves to apply the necessary measures to address any lack of engagement. These measures vary from the application of interest charges to the commencement of enforcement action to recover outstanding debt.[1] Enforcement actions will normally be used only after other recovery actions have been taken and proven unsuccessful. Revenue states that each debt case is considered on its merits with a view to selecting the most effective collection, recovery or enforcement strategy to bring a case to compliance in the shortest timeframe possible.

21.11 In some cases where a new company is started by individuals connected to a previous company that went into liquidation or ceased to trade, Revenue may monitor these cases as phoenix cases. In these cases, the new entity normally purchases the assets but not the liabilities of the ceased entity and as a consequence creditors, including Revenue, are often left with substantial unpaid debts. In many such instances the new entity continues to trade from the same premises with the same management team and employees in place. Revenue states that it applies a 'zero tolerance' approach to phoenix companies and intervenes as soon as the new entity falls behind in its payment/filing obligations.

Status of outstanding tax debt

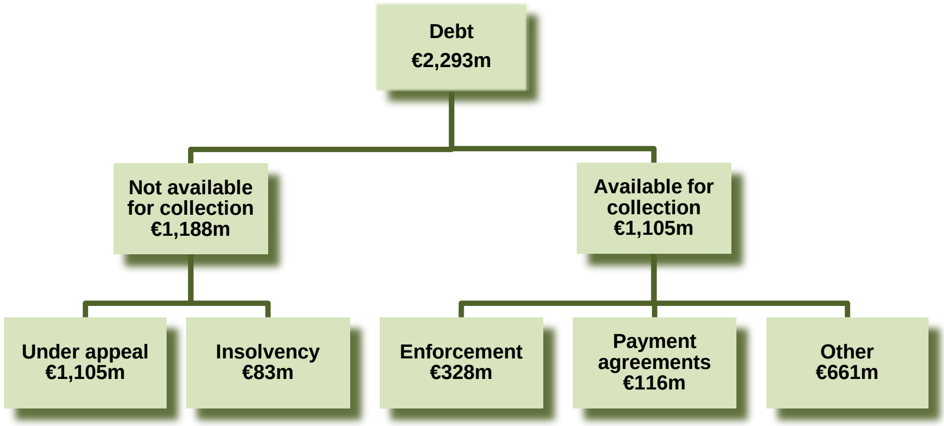
21.12 Revenue categorises its outstanding debt in terms of its current status, using the following method:

- Debt under appeal and unavailable for collection — where a taxpayer has appealed the value of the tax assessment and 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 subject to ongoing collection activities, are the subject of payment agreements with the taxpayer or are under enforcement with either the Sheriff or Revenue's Solicitors.

21.13 Figure 21.4 presents an analysis of tax debt using Revenue's categorisation scheme. Taxes under appeal represent the largest category of tax debt at €1,105 million or just over 48% of the total debt outstanding at 31 March 2017. €328 million of the tax debt was classified as debt under enforcement at the same date.

1 Revenue enforcement options include engagement of Sheriff or Solictor, attachment orders and various insolvency options including bankruptcy and liquidation.

Figure 21.4 Categorisation of tax debt as at 31 March 2017



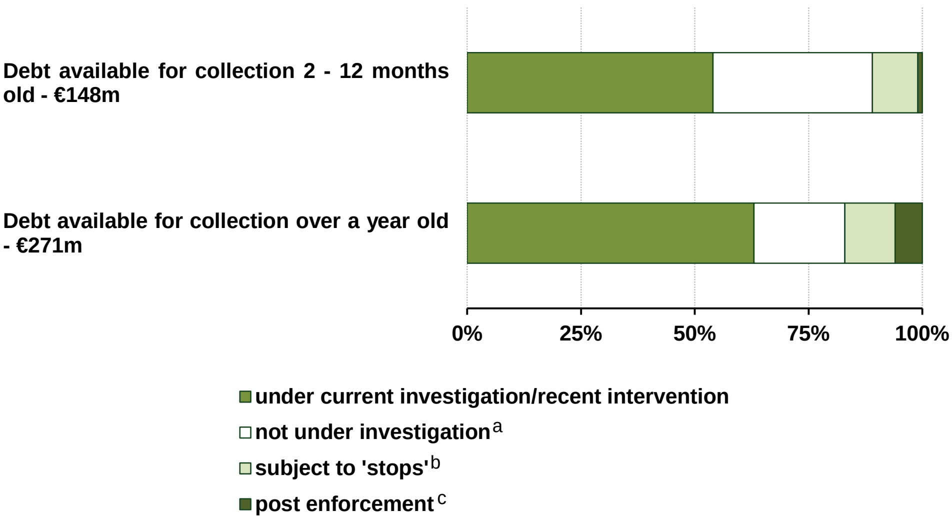
Source: Revenue Commissioners

Debt available for collection – 'Other'

21.14 As noted by the Organisation for Economic Cooperation and Development (OECD), the older tax debt is, the higher the risk of non-payment of that debt.[1]

21.15 At the end of March 2017, €661 million of the tax debt was classified as available for collection but was not subject to either payment agreements or enforcement proceedings. €242 million of this was less than two months old. Figure 21.5 provides an analysis of debt between two and twelve months old, and debt over a year old.

Figure 21.5 Debt available for collection — 2-12 months old and over a year old



Source: Revenue Commissioners

Notes: a Per Revenue, debt not under investigation is made up of a combination of smaller debts of less than €5,000, debts delayed from the collection cycle due to issues such as amended returns, audits etc. and debt that required slower manual intervention.

b 'Stops' are put in place where there is reason to defer the debt's collection, e.g. case is under audit or amended returns being submitted.

c Debt is classified as post enforcement where initial enforcement actions have failed and Revenue is considering what alternative actions need to be taken.

1 *Working Smarter in Tax Debt Management, 2014*

21.16 In November 2015, Revenue doubled its full time debt collection capacity in relation to its lower value cases, which are managed by debt management units operating in the Collector General's office. The outcome was that timely compliance in the lower value cases increased by 3% in 2016. Revenue has amended its monthly and annual debt collection targets to take account of its increased resources.

21.17 In January 2017, the Collector General's office started a three year development programme to replace the core Active Intervention System.[1] This has resulted in a complete restructuring of the debt management operation. Revenue reports that a number of enhancements to its case management and compliance system have since been delivered. Revenue's arrears case analysis tool (ACAT) was redeveloped in 2016 to increase its analytical capacity for debt management staff.[2]

Tax debt write outs

21.18 In certain situations, Revenue may take a decision not to pursue a debt in light of the specific circumstances of the particular case and having regard to its own guidelines for tax write out. The effect of writing out a debt is that all activity to pursue the debt will cease. This may be the case for a particular tax liability, or all outstanding tax liabilities in a particular case.

21.19 Where a decision not to pursue a debt is made, the debt effectively becomes dormant. Writing out of debt allows Revenue to distinguish the uncollectable tax on its official records and focus on the pursuit and collection of outstanding tax liabilities that remain collectable. Tax write out only reflects a decision not to pursue the debt for a period of time and in certain cases, the write out can be reversed if and when Revenue considers that the taxpayer's circumstances have changed. However, debts which have been written out because they are not legally recoverable, cannot be re-instated.

21.20 Additional procedures are applied where the amount of tax being written out exceeds €50,000. Commonality checking is conducted in respect of these cases, to establish whether the taxpayer is or was involved in other trading entities with payment issues. The process involves a review of associated entities (e.g. through common directors) to get a better understanding of their tax affairs.

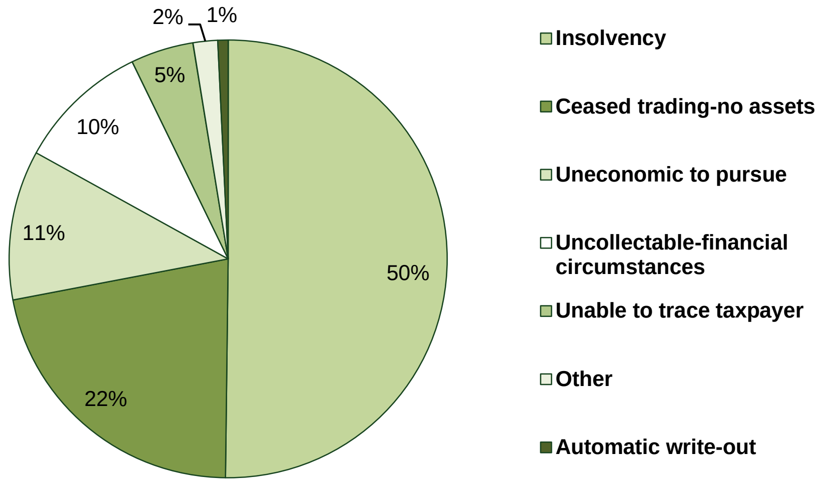
21.21 All write outs are approved at the appropriate management level in accordance with Revenue's guidelines and are signed off on a monthly basis by the Chairman of Revenue. Each year, Revenue's internal audit unit reviews a sample of the write-out cases to ensure that they are in accordance with Revenue's procedures. The most recent internal audit report recommended some improvements to the recording of reasons for write-out decisions. The report also noted that management checks were not completed on a timely basis or dated in the majority of the sample reviewed and recommended a review of the frequency of such checks.

1 The Active Intervention System (AIM) is used by Revenue to select cases based on either returns or debt outstanding (or a combination of both).

2 The ACAT 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.

21.22 €211.2 million of uncollectable tax debt, relating to 526,000 cases, was written out by Revenue during 2016. The figure is equivalent to 9.2% of the total outstanding debt at 31 March 2017. Figure 21.6 summarises the reasons for debt write outs in 2016.

Figure 21.6 Reasons for tax debt write out 2016



Source: Revenue Commissioners

21.23 In 2016, just over €106 million or 50% of the total debt written out related to insolvency cases (liquidation, receivership, bankruptcy, examinership and personal insolvency). A further €46 million, representing 22% of the debt written out occurred in circumstances where a taxpayer/business ceased trading with no assets available to offset against the debts.

Automatic write outs

21.24 Write outs on a case-by-case basis accounted for over 99% of the total value of write outs in 2016.

21.25 512,000 cases with a combined value of €1.6 million were written out automatically in 2016, as they were considered uneconomic to pursue. This refers to debt for which the anticipated cost of the recovery is likely to exceed the amount of the debt. Debt that has been determined to be uneconomical to pursue is not waived or legally extinguished, but 'parked' by Revenue indefinitely. In some cases, Revenue may decide to pursue a debt even though it may not be economical to do so, for example if a taxpayer has a significant history of non-compliance. Prior to the write out of such debts, Revenue considers the age of the debt, the asset position and the location of the taxpayer, and whether a company has ceased trading. Figure 21.7 outlines the number of automatic write outs by tax head in 2016.

Figure 21.7 Automatic write-outs by tax head, 2016

Tax Type	Number of cases 000	Value €000	Average value per case
Pay related taxes	69	355	€5.18
Value Added Tax	22	355	€16.16
Income Tax	380	802	€2.11
Corporation Tax	39	58	€1.46
Capital Gains Tax	2	17	€8.12
Dividend Withholding Tax	*	*	€1.24
Environmental Levy	*	12	€114.84
Total	**512**	**1,599**	**€3.12**

Source: Revenue Commissioners
Note: * indicates a value under 200.

Conclusions and recommendation

21.26 Revenue has an extensive debt management process in place in order to ensure the effective recovery of tax debt. Procedures are in place to charge interest on overdue payments. When taxpayers, by their actions or inaction, do not deal with the outstanding liability, enforcement may be required.

21.27 The two-year period to 31 March 2017 saw an increase in gross debt, reversing the downward trend of the previous five years. Income tax and VAT, the two largest categories of tax debt, have seen reductions in outstanding debt over the period 31 March 2016 to 31 March 2017. Revenue attributes this to more prompt contact and case escalation for smaller value debts.

21.28 Over one-quarter of debt was classified as collectable but was subject to neither payment agreements nor enforcement proceedings. €271 million (41%) of this debt was over one year old.

Recommendation 21.1

At least once a year, Revenue should review debt which is classified as collectable and which is more than one year old but on which no agreement has been reached with the taxpayer for its payment. Where Revenue has not initiated enforcement action, it should determine what actions might be taken to collect the debt.

Accounting Officer Response

Agreed. Revenue is very aware that early intervention is the best way to secure payment of outstanding debts and that aged debt can become entrenched and more difficult to collect. This is why Revenue's debt collection processes are geared towards engaging with defaulting taxpayers either in the due month or the following month.

Revenue's debt management units hold regular monthly team level arrears meetings (and bi-monthly with Principal Officer) to discuss progress on the more entrenched cases and to consider next steps having regard to previous actions taken and the circumstances of the taxpayer/business involved.

21.29 €1.8 billion of tax debt has been written out since 2010 with an average annual tax write out of €254 million. In 2016, the value of debt written out as uncollectable was €211.2 million. Of this amount, €209 million was written out on a case-by-case basis. The most frequent reasons for debt write outs are liquidations and businesses ceasing to trade.

21.30 A recent internal audit report has recommended some improvements to the recording of reasons for write out decisions. The report also noted that management checks of write outs decisions were not completed on a timely basis and recommended a review of the frequency of such checks.

21.31 Revenue has yet to fully implement a number of recommendations made by the Comptroller and Auditor General in 2015 in relation to the recording of appeals in its record systems and the development of more comprehensive debt management performance indicators. Revenue has stated that it is in the process of implementing the recommendation in relation to the recording of appeals in its record systems and intends that a new case management system, incorporating appeal activities, will be in operation by the end of 2017. Revenue has also stated that it is in the process of developing a more comprehensive range of performance indicators and expects that additional performance indicators will be in place by the end of 2019, which will supplement those currently in operation.

22 Allocation of Encashment and Film Withholding Taxes

22.1 The Office of the Collector General of Revenue (Collector General) is responsible for the collection of the majority of Revenue's annual tax receipts. In addition, the Collector General deals with a number of specific functions such as tax relief at source (TRS), the charitable exemption/donations schemes and the management of unallocated tax deposits.

22.2 Unallocated tax deposits include payments made by taxpayers that, for the time being, cannot be associated with or allocated to the relevant taxpayer records by Revenue due to incomplete information, or payments made on account during tax audits and audit settlements. Such balances are transferred to the Exchequer as part of Revenue's legislative obligations.

22.3 *Public Financial Procedures* require the prompt transfer of revenues to the Exchequer.[1] In the course of the audit of the Revenue account for 2016, it was found that balances in relation to two categories of taxes – encashment tax and film withholding tax – had accumulated and were held in a Central Bank account at year end.

Encashment tax

22.4 Encashment tax is a standard rate income tax deduction that must be made by banks and stock broking firms, as authorised paying and collecting agents, when they pay or receive payment of

- certain public revenue dividends or
- interest and dividends of certain non-resident entities.[2]

Encashment tax was introduced in 2012, and receipts are payable to the Collector General.

Film withholding tax

22.5 Under legislation, film withholding tax is applied to relevant payments made to visiting non-resident artists, from outside the EU, where artists are engaged by companies to appear in film and television productions made in the State.[3] The legislation came into effect on 10 January 2015 and allows for a withholding tax on relevant payments made by companies who qualify for a film tax credit. The tax withheld is paid to the Collector General.

1 *Public Financial Procedures*, Section C5, paragraph 13.

2 Section 38, Finance Act, 2012

3 Section 25, Finance (No.2) Act 2013.

Revenue's allocation procedures

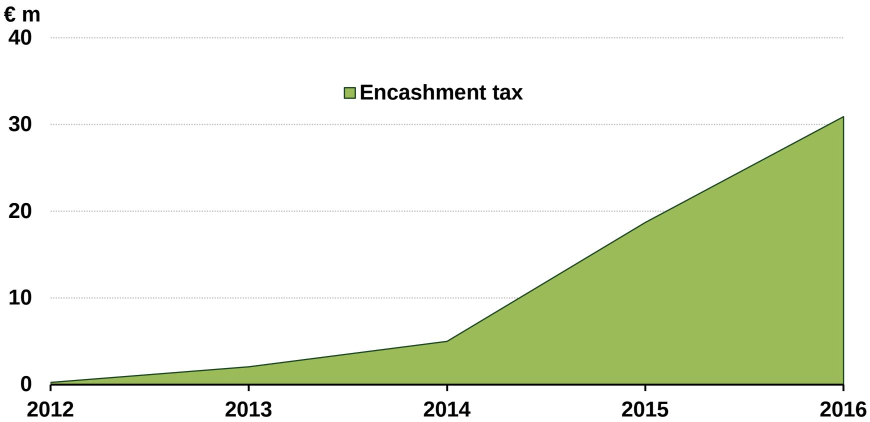
22.6 Payments made by taxpayers to the Collector General in respect of tax liabilities are transferred to a Revenue bank account held at the Central Bank for transfer each day to the Exchequer. Simultaneously, taxpayer records (maintained on Revenue's Integrated Taxation System) are updated as appropriate.

22.7 In cases where the Collector General is unable for technical reasons to allocate receipts to the appropriate taxpayer record(s), the amounts received are lodged to a Revenue 'unallocated tax deposits' bank account or holding account in the Central Bank. A similar procedure is applied in cases where the Collector General is unable to identify a taxpayer from the information provided at the time the payment is made. Revenue has an arrangement with the Central Bank to transfer funds out of the holding accounts each day to an Exchequer bank account.

Delayed transfer to the Exchequer

22.8 Encashment tax receipts of just under €31 million which accumulated over the period 2012 to 2016 remained unallocated to taxpayer records at the end of 2016 (see Figure 22.1). The balance was held in the Revenue Central Bank holding account and was not transferred to the Exchequer at year-end.

Figure 22.1 Accumulated encashment tax — 2012 to 2016



Source: Office of the Revenue Commissioners

22.9 Accumulated film withholding tax receipts of €1 million relating to 2015 and 2016 also remained unallocated to taxpayer records at the end of 2016. Similar to the encashment taxes, the receipts were held in the Revenue Central Bank holding account and were not transferred to the Exchequer at year-end.

22.10 Revenue has stated that the receipt of encashment and film withholding taxes from taxpayers had not been automatically linked with Revenue's taxpayer records system and so was outside the normal tax allocation procedures.[1] Receipts in respect of these taxes were lodged to the holding account in the Central Bank, and details in relation to the receipts were maintained on a separate database.

1 Tax balances that have not been allocated to taxpayers records are recorded on the Revenue account balance sheet as amounts awaiting receipting and allocation (liability) and as a bank balance (asset).

22.11 While funds were transferred from the holding account to the Exchequer on a daily basis, amounts equivalent to the total unallocated encashment and film withholding taxes i.e. €32 million, were held back at the end of the year. This was achieved by reducing the Exchequer transfers by these amounts in the final days of 2016. This process was not conducted for other taxes processed through the Central Bank holding account.

22.12 Revenue has stated that it had not set up systems to automatically link encashment and film withholding taxes receipts to the relevant customer records due to the prioritisation of other IT developments. As a consequence, delays were experienced in the allocation of these receipts.

22.13 An online payment facility with full connectivity to the customer record has now been developed for these taxes. Revenue has stated that the encashment taxes balance of €31 million was allocated to taxpayer records and permanently transferred to the Exchequer in April 2017. The film withholding tax balance was permanently transferred to the Exchequer in June 2017.[1]

Other technical developments

22.14 RevPay is an online payment facility introduced by Revenue in 2016. It is designed to allow taxpayers to make online payments in respect of a wider number of taxes both through ROS and myAccount than had previously been the case, including encashment and film withholding taxes. The introduction of RevPay should mean that taxpayers can make online payments for all major tax liabilities, which will simultaneously update the taxpayer record. This facility should help reduce the level of new unallocated tax balances arising.

22.15 For income tax, VAT and capital gains tax, where taxes continue to be paid by electronic funds transfer, the amounts will be updated to the taxpayer record when the taxpayer has been identified.

1 The balance for unallocated film withholding tax was €1.7 million at 31 May 2017.

Conclusions and recommendations

22.16 There was a significant delay in bringing encashment tax and film withholding tax receipts to account. Revenue had the necessary information to allocate the receipts to the relevant taxpayers' accounts. Because priority was given to other projects, the allocation process for the two tax categories was not automated, and alternative manual allocation was not done.

Recommendation 22.1

Revenue should ensure that, in cases where new categories of taxes are introduced, the taxpayer records system is updated to allow the correct and timely allocation of tax payments received to the individual taxpayer record.

Accounting Officer's response

Agreed. Revenue accepts that that the required IT infrastructure for any new tax should be developed in a timely manner that supports the processing and recording of all associated returns and payments.

However, Revenue's development requirements, which can be very complex and diverse, are often driven by mandatory legislative or budgetary changes to the tax system that requires immediate prioritisation. This can be to the detriment of other IT requirements that are then delayed as a consequence.

Revenue takes prioritisation of its overall IT requirements very seriously and every effort is made to deliver high-quality products as quickly as possible. To ensure the most efficient use of scarce development resources, all major projects are evaluated and approved by an IT Executive, which includes a number of Assistant Secretaries and which is chaired by a Commissioner.

Other Matters

23 Accounts of the National Treasury Management Agency

23.1 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 (the Minister), 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.

23.2 Separately, section 12 of the 1990 Act requires the Comptroller and Auditor General to report to Dáil Éireann with respect to the correctness of the sums brought to account by the NTMA each year. This is the report for 2016 under that section of the 1990 Act.

Accounts of the NTMA 2016

23.3 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.

23.4 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[1]
- National Asset Management Agency.

23.5 The accounts of the NTMA for 2016 have been audited. My reports on the audits were issued on 12 May 2017. Copies of the accounts, together with my reports on the audits, were presented by the Minister to the Houses of the Oireachtas on 10 July 2017.

23.6 I am satisfied that the accounts properly present the transactions of the NTMA for 2016 and its balances at year end.

23.7 The NTMA also prepares the financial statements of the Dormant Accounts Fund under the Dormant Accounts Act 2001.[2]

1 The NTMA did not incur expenses in relation to its activities in respect of the National Pensions Reserve Fund in 2016.

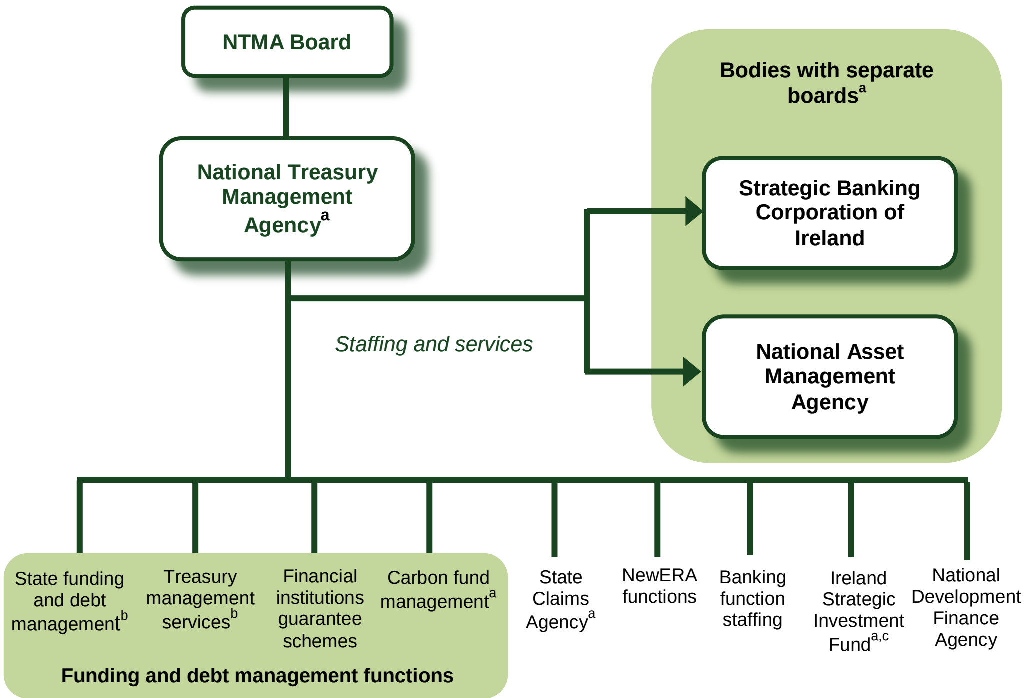
2 The report on the audit of the Dormant Accounts Fund was issued on 12 May 2017.

Functions, roles and staffing of the Agency

23.8 The NTMA was originally set up in 1990. It has since evolved into a complex organisation with multiple functions that extend beyond its original and core role in managing Ireland's national debt. The structure of the NTMA is outlined in Figure 23.1.

23.9 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. Both NAMA and SBCI have their own boards and are separately accountable to Dáil Éireann.

Figure 23.1 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 are prepared for the Dormant Accounts Fund, the Post Office Savings Bank Fund and the national debt.
c The Ireland Strategic Investment Fund (ISIF) took over assets and liabilities of the National Pensions Reserve Fund (NPRF) in 2014. Financial statements for the NPRF will continue to be prepared until all remaining assets are legally transferred to the ISIF. At 31 December 2016, foreign assets valued at €0.4 million (2015: €1 million) remained in the NPRF.

Funding, debt and treasury management

23.10 The NTMA borrows on behalf of the Exchequer and manages Ireland's national debt. Details of the structure of the national debt and trends in Government debt are included in Chapter 2.

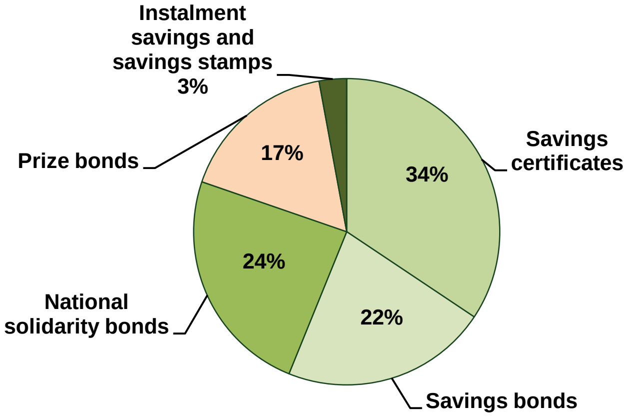
23.11 The NTMA performs a number of other debt management and treasury functions, including

- 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[1] and the Post Office Savings Bank Fund.

State savings

23.12 State savings is the brand name used by the NTMA to describe the range of Irish Government savings products offered to personal savers. State savings at end-2016 amounted to €17.2 billion, a 28% increase from end-2012. This is part of the gross national debt of €196.7 billion at end-2016. The composition of state savings products at end-2016 is shown in Figure 23.2.

Figure 23.2 Composition of State savings, at end 2016



Source: National Treasury Management Agency

1 See also Chapter 7, *Dormant Accounts Fund*.

23.13 In June 2016, the NTMA announced new issues of State savings products and changes to the interest rates paid to savers (see Figure 23.3).

Figure 23.3 Products and interest rates

Products	Revised interest rates June 2016[a]	Previous interest rates[a]
3 year saving bond	0.33%	0.83%
4 year national solidarity bond	0.5%	0.99%
5 year savings certificate	0.98%	1.24%
6 year instalment savings	0.98%	1.24%
10 year national solidarity bond	1.5%	2.26%
Prize bonds	0.85%	1.25%
Deposit accounts	0.15%	0.25%

Source: National Treasury Management Agency

Note: a Annual equivalent rate (AER).

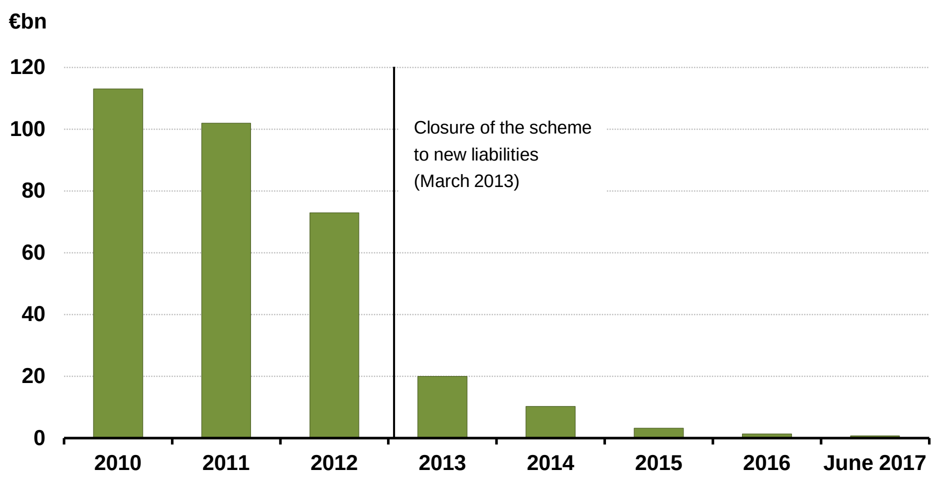
Financial institutions guarantee schemes

23.14 Certain eligible liabilities in financial institutions, including deposits and debt securities of up to five years maturity 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.[1]

23.15 Each institution with liabilities guaranteed under the scheme is required to pay a fee. The amount received in 2016 was €47 million (2015: €76 million).[2] The Accounting Officer of the Department of Finance is accountable for the fees received.

23.16 At end February 2013, the Minister announced the closure of the scheme to all new liabilities with effect from midnight on 28 March 2013. At end-2016, amounts covered by the scheme were around €1.4 billion. This had reduced to €755 million at end-June 2017 (see Figure 23.4).

Figure 23.4 Covered liabilities under the Eligible Liabilities Guarantee Scheme, at year end 2010 to 2016, and end-June 2017



Source: Department of Finance

1 SI No. 490 of 2009.

2 Fees are recognised on a cash basis and received quarterly in arrears. Fees in respect of 2016 on an accruals basis were €42 million (2015: €53 million).

23.17 Following the liquidation of IBRC in February 2013, a number of claims were made under the scheme and, in March 2013, the Minister delegated further functions to the NTMA[1]

- 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.

23.18 The NTMA, as the scheme operator, continues to process payments under the scheme as claims are submitted and verified. Payments under the scheme to end 2016 totalled just over €1.1 billion (see Figure 23.5).

23.19 The State has lodged claims totalling €1,116.5 million with the joint special liquidators of IBRC[2]

- €1,079 million claimed by the NTMA in respect of payments to bondholders, depositors and expenses [3]
- €37.5 million claimed by the Department of Finance in respect of derivatives.[3]

23.20 In 2016, the joint special liquidators paid its first (interim) dividend of 25% of all admitted unsecured creditors of the liquidation. The Exchequer received approximately €280 million — €270.6 million in respect of the NTMA's claims, and €9.4 million in respect of the Department's claim.

Figure 23.5 IBRC payments under financial institutions guarantee schemes, 2013 to end 2016

Payment type	2013 €m	2014 €m	2015 €m	2016 €m	Total €m
Deposits[a]	63.9	74.6	4.5	4.2	147.2
Bond holders[a]	933.8	—	—	—	933.8
Derivatives[b]	37.5	—	—	—	37.5
Total payments	**1,035.2**	**74.6**	**4.5**	**4.2**	**1,118.5**
Payment from special liquidators					(280.0)
Balance of claims outstanding					**838.5**

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.

1 SI No. 85 of 2013.

2 The amounts claimed from the joint special liquidators may differ from amounts paid under the schemes due to timing and associated costs claimed.

3 Interest is payable on amounts claimed from the date of each claim to the date of payment by the joint special liquidators.

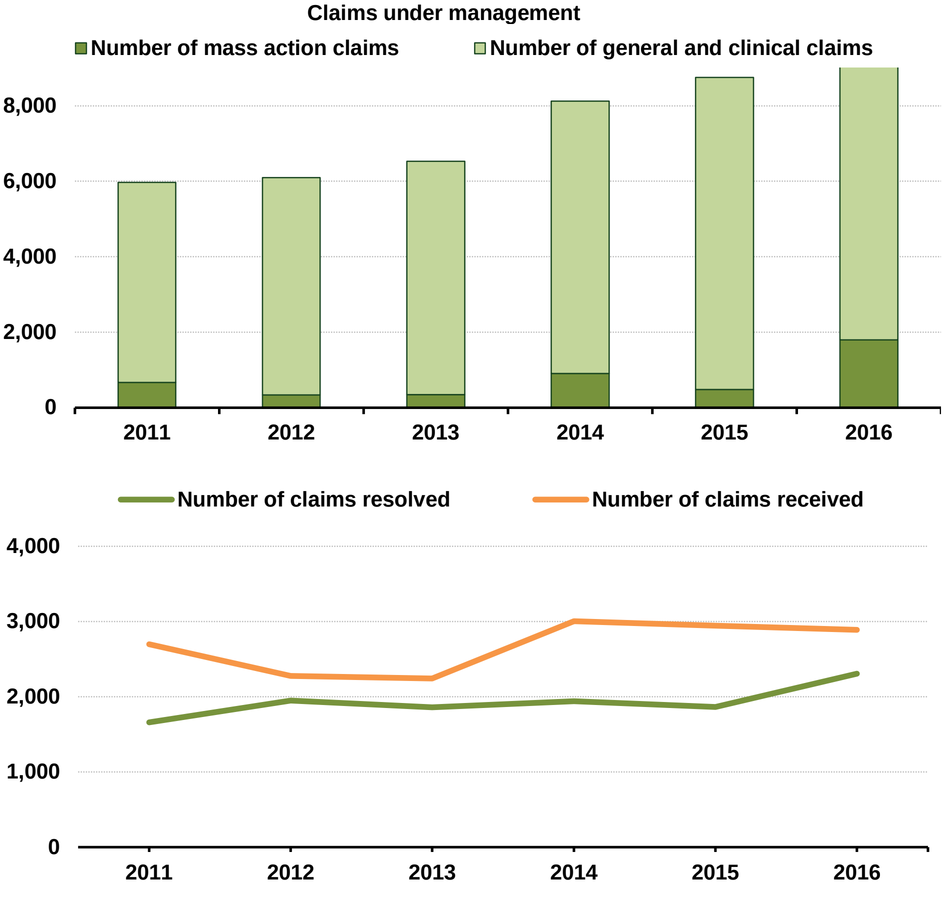
State Claims Agency

23.21 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 2016, the SCA's remit covered 139 State authorities.

23.22 Awards and associated claim costs of the SCA in 2016 amounted to a total of €256.2 million (2015: €219.3 million). These costs are recoupable from the relevant State authorities availing of the SCA services. In addition, the NTMA incurred €19.4 million (2015: €15.7 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.

23.23 The number of claims under management has increased significantly since 2011. At end-2016, there were almost 8,900 claims under management including around 1,800 claims in mass actions (general and clinical). In 2016, almost 2,300 claims were resolved, an increase of 24% over the previous year (see Figure 23.6).

Figure 23.6 Claims received and resolved annually, and claims under management, at year end, 2011 to 2016

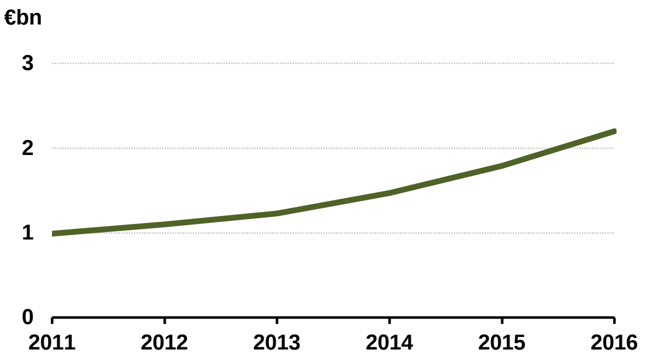


Source: National Treasury Management Agency

23.24 The estimated cost of settling outstanding claims has been steadily increasing. The liability at end-2016 has been estimated by the SCA at €2.2 billion, more than twice the liability at end-2011 (see Figure 23.7).

23.25 A key factor in the increase in the estimated liability from €1.8 billion in 2015 to €2.2 billion in 2016 is the impact of a reduction in the assumed future real rate of return used, from 3% to 1% or 1.5% on foot of a determination by the Supreme Court in February 2017.[1] This results in a higher net present value being placed on projected future cash flows. The impact of this change on the estimated liability as at 31 December 2015 had been estimated by the SCA as approximately €300 million.

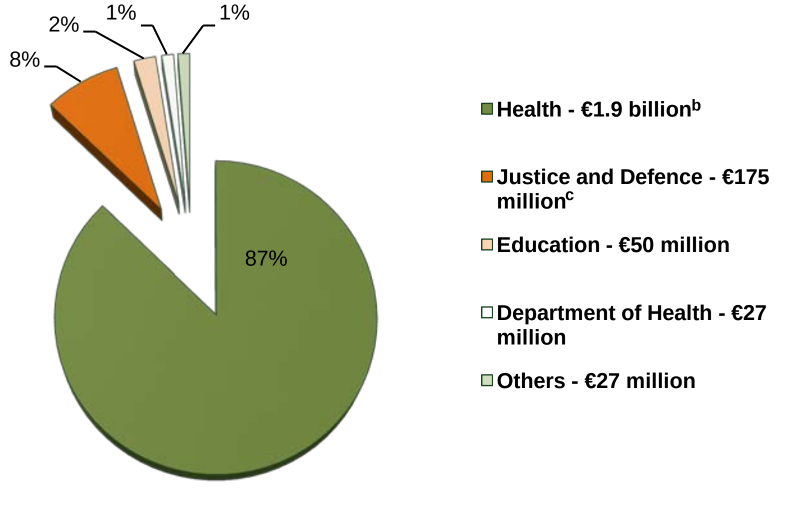
Figure 23.7 Estimated cost of settling outstanding claims, at year end, 2011 to 2016



Source: National Treasury Management Agency

23.26 Health sector bodies (including the HSE and Tusla) accounted for 87% of the estimated outstanding liability at end-2016. Three other sectors accounted for a further 11% (see Figure 23.8).

Figure 23.8 Proportion of estimated liabilities for each State authority sector, at end-2016[a]



Source: National Treasury Management Agency

Notes:
a Figures do not add to 100% due to rounding.
b Health includes the HSE and claims relating to bodies under its aegis and also to claims relating to Tusla.
c Justice and Defence includes the Irish Prison Service, An Garda Síochána, Defence Forces and others.

1 The Court ruled that claims for the cost of future care should be calculated at a real rate of return of 1% and claims for future pecuniary loss should be calculated at a real rate of return of 1.5%.

23.27 In February 2013, a State legal cost unit was set up within the SCA to deal with third-party costs arising from the Mahon, Moriarty and Smithwick Tribunals of Inquiry. The NTMA (Amendment) Act 2014 (the 2014 Act) put the SCA legal costs function on a statutory basis. In 2015, the Government extended the responsibilities of this unit to management of all third party legal costs claims against 139 specified State entities.[1]

23.28 The SCA reviews legal costs claimed by plaintiffs' legal representatives. If agreement on the amounts claimed is not reached, the claims are referred to a Taxing Master of the High Court. In 2016, the SCA settled 284 claims for legal costs. The claims, totalling €49.2 million were settled for €27.2 million (55%). None of the settled claims were referred to a Taxing Master.

Carbon Fund management

23.29 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-2016, the Carbon Fund held assets with an acquisition value of €90 million.

23.30 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.[2]

NewERA

23.31 The New Economy and Recovery Authority (NewERA) functions of the NTMA were established on a statutory basis in December 2014 on commencement of the relevant sections of the 2014 Act.[3]

23.32 The NewERA functions include the provision of financial and commercial advisory services on a range of issues to a relevant Minister of the Government in respect of a designated body under his/her remit.[4] Also, 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 also provide similar services in relation to such bodies.

23.33 Expenditure incurred by the NTMA on NewERA activities in 2016 was around €5.3 million and is separately disclosed in the NTMA's administration account. This expenditure mainly represents the operating costs of the NTMA in providing financial and commercial advice to relevant Ministers, on a total of 74 submissions made by commercial State bodies. In 2016, this included advice relating to

- bond issuance (ESB and Gas Networks Ireland), credit facilities (Irish Water, Bord na Móna and Coillte) and European Investment Bank loans (Coillte)
- capital expenditure budgets, the majority relating to regulated electricity, gas and water network assets
- specific capital expenditure projects including Irish Water infrastructure projects and Coillte joint venture wind farms.

1 SI No. 505 of 2015 NTMA (Delegation of Claims for Costs Management Functions) Order 2015.

2 The report on the audit of the Carbon Fund was issued on 12 May 2017.

3 The New Economy and Recovery Authority (NewERA) was initially set up on a non-statutory basis following a Government announcement in September 2011.

4 Currently the designated bodies are the Electricity Supply Board, Ervia, Bord na Móna plc, Coillte Teoranta, Eirgrid plc, Irish Water and any subsidiaries or any company in which such designated body has an interest.

Banking system functions staffing

23.34 The NTMA's Banking Unit has been seconded to the Department of Finance since August 2011.[1] 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. Costs incurred by the NTMA in 2016 in relation to the Banking Unit totalled €2.8 million and are separately disclosed in the NTMA's administration account in 2016. €394,000 of these costs related to professional advisor costs.

Ireland Strategic Investment Fund

23.35 The Ireland Strategic Investment Fund (ISIF) was established in December 2014 pursuant to the 2014 Act. On its establishment, the assets and the liabilities of the National Pensions Reserve Fund (NPRF) became the assets and liabilities of the ISIF, apart from some residual foreign assets and liabilities which are still being worked out.[2]

23.36 At 31 December 2016, the ISIF held net assets of €21 billion (2015: €21.9 billion). The net assets comprised €12.9 billion (2015: €14 billion) in the directed investment portfolio and €8.1 billion (2015: €7.9 billion) in a discretionary portfolio.

- 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.
- 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 economic activity and employment in the State.

Directed investment portfolio

23.37 At 31 December 2016, the net assets of the portfolio comprised

- Allied Irish Bank (AIB) – 99.9% shareholding valued at €11.6 billion (€4.28 per share)[4]
- Bank of Ireland – 13.9% shareholding valued at €1.1 billion (€0.23 per share)
- €215 million held in cash committed for lending to the Strategic Banking Corporation of Ireland
- €25 million loan to the Strategic Banking Corporation of Ireland.

23.38 In June and July 2017, the State realised €3.45 billion from the sale of almost 29% of the shares in AIB in an Initial Public Offering (IPO). The estimated value of the State's remaining shareholding at the IPO price is just under €8.5 billion.

1 SI No. 395 of 2011.

2 At end 2016, a small number of foreign assets valued at €0.4 million had not transferred to the ISIF.

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.

4 Further information about this shareholding is included in Chapter 3, *Cost of Banking Stabilisation Measures as at end-2016*.

Discretionary portfolio

23.39 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. The NTMA Board is required to determine, monitor and keep under review an investment strategy for the assets of the ISIF, in consultation with the Minister for Finance and the Minister for Public Expenditure and Reform. In July 2015, the ISIF published an Investment Strategy which set out the long-term strategic direction of the Fund. This included

- investing on a commercial basis to support economic activity and employment in Ireland
- utilising ISIF's key differentiating features of flexibility, long-term timeframe and being a sovereign investment partner to enable transactions which would not otherwise easily be completed
- targeting 80% allocation to 'high economic impact' investment opportunities which will generate economic additionality over time and have low levels of displacement and deadweight
- deploying capital over a three to five year period, subject to availability of commercial investment opportunities
- earning a portfolio return over the medium term in excess of the average cost of Irish Government debt
- seeking co-investment where possible to leverage the economic impact that can be obtained from ISIF resources.

23.40 When this investment strategy was finalised in mid-2015, it was agreed that a formal review of the strategy would take place after 18 months and that this would include consultation with the Minister for Finance and the Minister for Public Expenditure and Reform. This review is currently underway.

23.41 In 2016, the ISIF reported an investment return of 2.9%.

23.42 The NTMA incurred costs of €10.4 million (2015: €8.7 million) in its role as controller and manager of the ISIF in 2016. This excludes fund operating costs discharged directly by the ISIF.

National Development Finance Agency

23.43 When performing certain infrastructure investment activities the NTMA describes itself as the National Development Finance Agency (NDFA). The functions of the NDFA include acting as the statutory financial advisor to State authorities for all public investment projects with a capital value over €20 million.

23.44 The NDFA also has responsibility for

- the procurement and delivery of public private partnership (PPP) projects in sectors other than transport and the local authorities[1]
- the direct procurement of certain education projects
- the provision of contract management for the operation and maintenance of certain PPP schools
- monitoring of operations on the Convention Centre Dublin PPP under a service level agreement.

1 Further information on PPP projects being procured is included in Chapter 4 *Overview of Public Private Partnerships*.

23.45 Projects where the NDFA is currently an advisor, including the provision of financial advice, are

- the Dublin Waste to Energy PPP (debt refinancing)
- social housing initiatives for the Department of Housing, Planning and Local Government
- development of a mixed tenure housing project at Kilcarberry Grange for South Dublin County Council
- delivery of mixed tenure housing developments for Dublin City Council
- the Forensic Science Laboratory
- traditional build schools projects
- the National Broadband Plan
- various motorway projects.

23.46 In addition, the NDFA provides assistance in sourcing European Investment Bank (EIB) funding for both traditionally funded and PPP projects.

National Asset Management Agency

23.47 As in previous years, the NTMA assigned staff and provided services to the National Asset Management Agency (NAMA) during 2016. The NTMA incurred costs of €47 million (2015: €54 million) in that regard, which was recharged to NAMA.[1]

- €41 million (2015: €47 million) was incurred in respect of staff costs. This comprised staff directly employed by the NTMA and assigned to NAMA (302 staff at 31 December 2016) and the apportioned remuneration cost of NTMA employees operating shared services including IT, human resources and finance.
- €6 million (2015: €7 million) in respect of other costs was incurred by the NTMA on behalf of NAMA, including rent, office services and consultancy costs.

23.48 NAMA 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).[2]

Strategic Banking Corporation of Ireland

23.49 The Strategic Banking Corporation of Ireland (SBCI) was established in September 2014 as a company under the Strategic Banking Corporation of Ireland Act 2014, to make low-cost credit available to Irish small and medium enterprises (SMEs) by sourcing funds from national and international lenders (and investors).[3]

23.50 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 €4.2 million for the provision of these services in 2016 (2015: €3.6 million) which were recharged to the SBCI.[4]

23.51 The SBCI 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).[5]

1 The total administrative costs of NAMA were €80 million in 2016 (€112 million in 2015).

2 The report on the audit of NAMA issued on 28 April 2017.

3 SMEs are defined in accordance with Article 2 of EC Recommendation 2003/361/EC (6 May 2003).

4 Section 10 of the Strategic Banking Corporation of Ireland Act 2014.

5 The report on the audit of the SBCI for 2016 issued on 13 April 2017.

Head office move to North Wall Quay

23.52 On 11 January 2017, the NTMA entered into an agreement for lease and associated arrangements in respect of new office accommodation at North Wall Quay in Dublin. The NTMA anticipates moving into the new building in early 2019 and is considering its options for its existing leases.

23.53 The NTMA currently has lease agreements of varying duration until 2017, 2026 and 2027, in respect of its current office accommodation. The 2016 gross annual rental cost under these leases amounts to €2.8 million.

Staff distribution

23.54 At end-2016, NTMA staff numbers totalled 782 (2015: 781). The assignment of staff to the various functions and activities at year end for 2012 to 2016 is set out in Figure 23.9.

Figure 23.9 NTMA staffing distribution at year end, 2012 to 2016

	2012	2013	2014	2015	2016
NTMA business units					
Funding and debt management	14	15	19	21	20
Ireland Strategic Investment Fund	13	15	33	36	41
State Claims Agency	69	77	91	109	128
NewERA	12	13	14	19	19
Banking Unit (in Department of Finance)	12	14	13	12	13
National Development Finance Agency	44	52	63	60	61
NTMA corporate functions					
Finance, technology and operations	73	95	112	121	125
Legal, compliance, HR and internal audit	21	24	22	33	35
Risk	12	15	14	18	20
Other	6	6	6	2	2
Subtotal	**276**	**326**	**387**	**431**	**464**
Supported bodies					
National Asset Management Agency	224	331	369	341	302
Strategic Banking Corporation of Ireland	—	—	3	9	16
Total	**500**	**657**	**759**	**781**	**782**

Source: National Treasury Management Agency

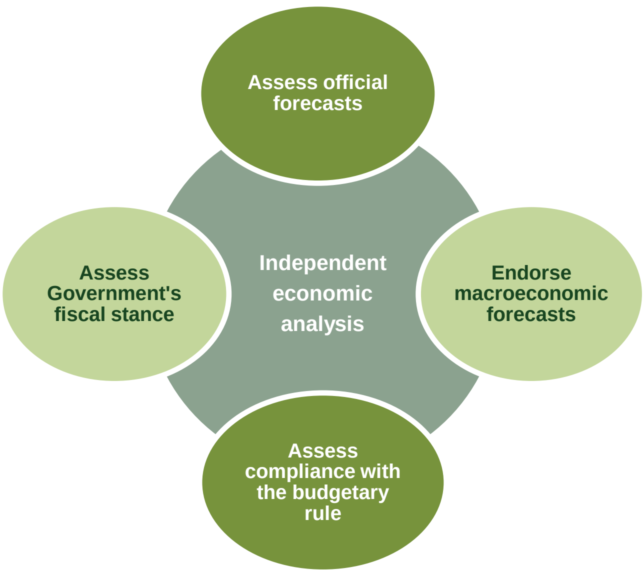
24 Irish Fiscal Advisory Council

24.1 The Irish Fiscal Advisory Council (the Council) was established under the Fiscal Responsibility Act 2012 (the Act) to provide independent assessments of the Government's budgetary plans and projections and to inform public discussion of economic and fiscal matters.[1]

24.2 The Council is required by law to

- assess the official forecasts produced by the Department of Finance (the Department) in spring and autumn each year [2]
- assess whether the fiscal stance of the Government is conducive to prudent economic and budgetary management including by reference to the EU Stability and Growth Pact [3]
- monitor and assess 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 assess whether any non-compliance is as a result of exceptional circumstances [4]
- endorse, as it considers appropriate, the macroeconomic forecasts prepared by the Department, on which the budget and stability programme updates are based.[5]

Figure 24.1 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 and formally established as an independent statutory body under the Act with effect from 31 December 2012.

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.

4 Under the Act, 'exceptional circumstances' include a period of severe economic downturn or an unusual event (outside the control of the Government) which has a major impact on the budgetary position of the Government.

5 A joint memorandum of understanding between the Council and the Department underpins the endorsement process.

Accounts of the Irish Fiscal Advisory Council

24.3 The Chairperson of the Council is the officer accountable for the preparation and presentation of its financial statements for audit. Under the Act, the Council is required to keep accounts of receipts and expenditure in the form approved by the Minister for Finance (the Minister), and to submit them for audit by the Comptroller and Auditor General within three months after the end of the accounting period to which they relate. On completion of the audit, a copy of the accounts and of the audit report must be given to the Minister, who in turn must lay them before the Houses of the Oireachtas.

24.4 Separately, the Act requires the Comptroller and Auditor General to report to Dáil Éireann with respect to the correctness of the sums brought to account by the Council each year. This is the report for 2016.

24.5 The accounts of the Council for 2016 have been audited, and the report on the audit was issued on 30 June 2017. The accounts and report were laid before both Houses of the Oireachtas on 20 July 2017.

24.6 I am satisfied that the accounts give a true and fair view of the assets, liabilities and financial position of the Council at end 2016 and of its income and expenditure for the year.[1]

Membership and staffing

24.7 The Act sets out that the Council shall consist of five members, including the Chairperson. Appointments are made by the Minister with the term of office generally being four years. Council members may not serve for more than two consecutive terms.

24.8 The second term of the Chairperson ceased at the end of December 2016. The consequential vacancy on the Council was advertised and, following an open selection process, the Minister appointed a new member to the Council for a period of four years, with effect from 1 January 2017.

24.9 The Minister also appointed a serving council member as Chairperson, and re-appointed another serving council member for a second term, both with effect from 1 January 2017.

24.10 The Council is currently supported by six staff, comprising five economists and an administrator. In 2016, two of the staff were on secondment from other organisations.

Funding

24.11 The Council is funded from the Central Fund of the Exchequer, subject to an inflation-indexed annual 'ceiling' amount.[2] The funding ceiling for 2016 was €822,537 (2015: €823,360).

24.12 Expenditure of the Council totalled around €633,000 in 2016 (2015: €643,000), of which 60% (2015: 62%) related to salary costs. The largest element of the Council's non-pay administration expenditure related to an administration fee payable to the Economic and Social Research Institute (ESRI) in respect of accommodation costs and support services which totalled around €102,000 (2015: €101,000).

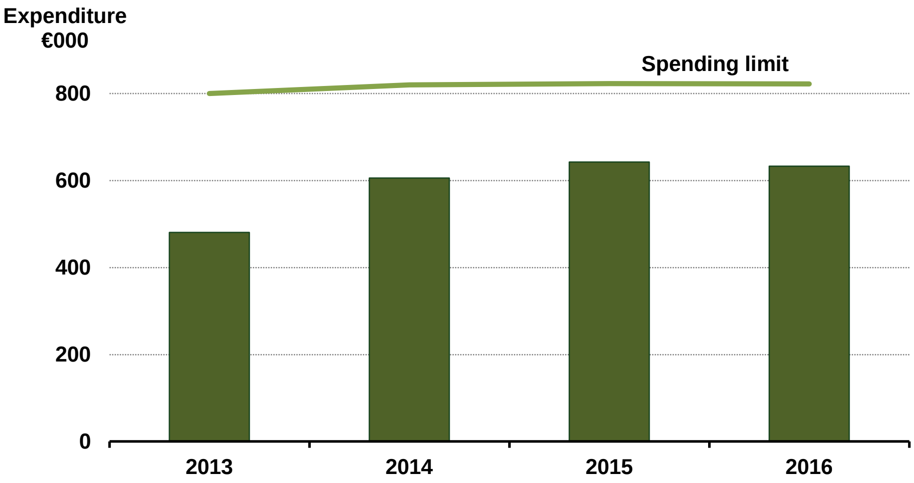
1 The Council's financial statements have been prepared in accordance with FRS102, the Financial Reporting Standard applicable in the UK and Ireland.

2 Section 9 of the Schedule to the Act provides for the funding source and sets the baseline level of spending for the Council on commencement at €800,000.

24.13 Retirement benefit costs of almost €22,100 were recognised by the Council for the first time in 2016. The Council operates the Single Public Service Pension Scheme (the Scheme), the defined benefit scheme for pensionable public servants appointed on or after 1 January 2013. Three staff became eligible for retirement benefits under the Scheme in 2016 having served the two-year vesting period. The costs reflect the benefits earned by these employees and are shown net of their pension contributions which are payable to the Department of Public Expenditure and Reform. The Scheme is unfunded and will be financed (as required) on a pay-as-you-go basis from funds available to the Council.

24.14 A summary of the Council's budget and related expenditure for the period 2013 to end 2016 is shown in Figure 24.2.

Figure 24.2 Financial summary of the Irish Fiscal Advisory Council, 2013 to 2016



Source: Analysis by the Office of the Comptroller and Auditor General and the Irish Fiscal Advisory Council's annual financial statements

Note: The number of staff increased from three in 2013 to six in 2016.

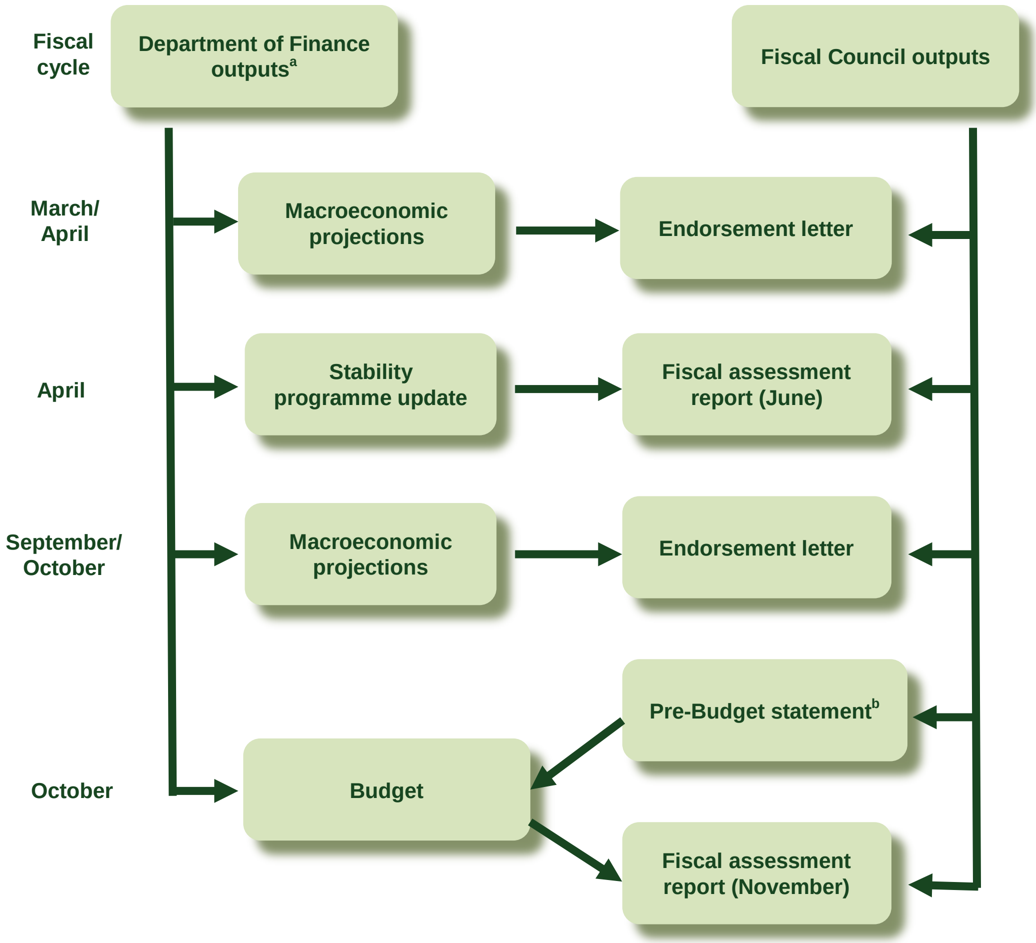
24.15 Fees and expenses incurred in relation to Council members for 2016 totalled just over €54,000 (2015: €62,500). Expenses incurred by Council members mainly reflect travel and subsistence costs incurred by international and non-Dublin based members attending Council meetings, which are held in Dublin. In addition, payments totalling almost €26,700 were made in 2016 (2015: €24,500) to the public sector bodies that employ the Chairperson and one Council member for costs incurred due to their absence on Council business.[1]

1 Under the one-person-one salary principle, Council members who are employees of other public bodies do not receive fees in respect of their service on the Council.

Activity of the Council

24.16 The Council produces a number of annual outputs in response to outputs from the Department. Figure 24.3 outlines these outputs. In addition, the Council has produced a number of non-statutory reports and papers (see Annex 24A).

Figure 24.3 Irish Fiscal Advisory Council outputs



Source: Office of the Comptroller and Auditor General

Notes: a The Department also publishes a summer economic statement around June/July. This statement was introduced as part of the budgetary reform process.

b This statement is published annually in September and takes into account, *inter alia*, the summer economic statement.

24.17 Under Section 11 of the Act, the Chairperson of the Council may be called before a Committee of either House of the Oireachtas to account for the Council's functions.

24.18 In June 2016, the Council appeared before the Select Committee on Arrangements for Budgetary Scrutiny to present its views on proposed changes to the budgetary process. The Council also appeared before the Committee on Budgetary Oversight twice during 2016.

Peer review of the Council

24.19 In 2015, in line with its Strategic Plan 2014 – 2016, 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.[1]

24.20 The review concluded that the Council had fulfilled all the tasks expected from an independent fiscal institution and that it had been visible in public debate, increasing transparency and public knowledge about fiscal matters.[2]

24.21 The review also noted that there was scope for enhancing the output and impact of the Council and made 25 recommendations. The Council, following consideration, prepared an implementation plan for the recommendations. It subsequently decided, following review, not to implement two recommendations and that another three were outside of its control. To end July 2017, 18 of the remaining 20 recommendations have been implemented and plans for the implementation of the remaining two by the end of 2017 are in progress.

1 The evaluation team members were Professor Lars Jonung (Chair), Professor Iain Begg and Mr Michael G Tutty (prior to his appointment to the Council).

2 The review (published in June 2015) is available at www.fiscalcouncil.ie

Annex 24A Irish Fiscal Advisory Council's non-statutory reports

Figure 24A.1

2013	**Working paper**
	▪ The Government's Balance Sheet after the Crisis: A Comprehensive Perspective
2014	**Anaytical notes**
	▪ House Price Risks
	▪ Sensitivity Analysis of the Department of Finance Approach to Potential Output Estimation under the EC Methodology
	▪ Tax Forecasting Error Decomposition
	▪ DIRT Forecast Methodology
	▪ Future Implications of the Debt Rule
	▪ Adoption of New International Standards for National Accounts and Balance of Payments
2015	**Working papers**
	▪ Uncertainty in Macroeconomic Data: The Case of Ireland
	▪ An Analysis of Tax Forecasting Errors in Ireland
	Analytical notes
	▪ The EU Expenditure Benchmark: Operational Issues for Ireland in 2016
	▪ Controlling the health budget: Annual budget implementation in the public health area
2016	**Analytical notes**
	▪ Public Capital: Investments, Stocks and Depreciation
	▪ Challenges Forecasting Irish Corporation Tax
2017 (to July)	**Working papers**
	▪ Producing Short-Term Forecasts of the Irish Economy