



Comptroller and Auditor General

**Report on the
Accounts of the Public Services 2013**

September 2014

Report of the Comptroller and Auditor General

Accounts of the Public Services 2013

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

Statutory Reporting Provisions

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

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

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

Separately, section 11 of the 1993 Act provides for the preparation by me of special reports, dealing with any general matters I wish to report arising from my audits of the financial statements of any of the bodies within my audit remit, or where I decide to present the findings of 'value for money' examinations or inspections undertaken under relevant provisions of the 1993 Act. Such special reports are submitted formally by me to the relevant Minister of the Government, who is then required to cause a copy of the report to be presented to Dáil Éireann within three months.

Presentation of this Report

This is my report under Section 3 (10) of the 1993 Act relating to the 2013 financial year. The report is set out in four parts.

- Part 1 deals with matters relating to the Central Fund and Government debt.
- Part 2 outlines certain matters related to voted expenditure in 2013.

- 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.

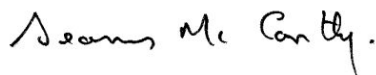
The report was prepared on the basis of audited information, where available, and other information, documentation and explanations obtained from the relevant government departments and offices. Drafts of relevant parts of the report were sent to the departments and offices concerned and their comments 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 2013 to Dáil Éireann in accordance with Section 3 (11) of the 1993 Act.

Presentation of Appropriation Accounts 2013

The 1993 Act 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 2013 and, in an associated volume, submit those accounts, together with my audit certificates, to Dáil Éireann.



Seamus McCarthy
Comptroller and Auditor General

26 September 2014

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Central Government

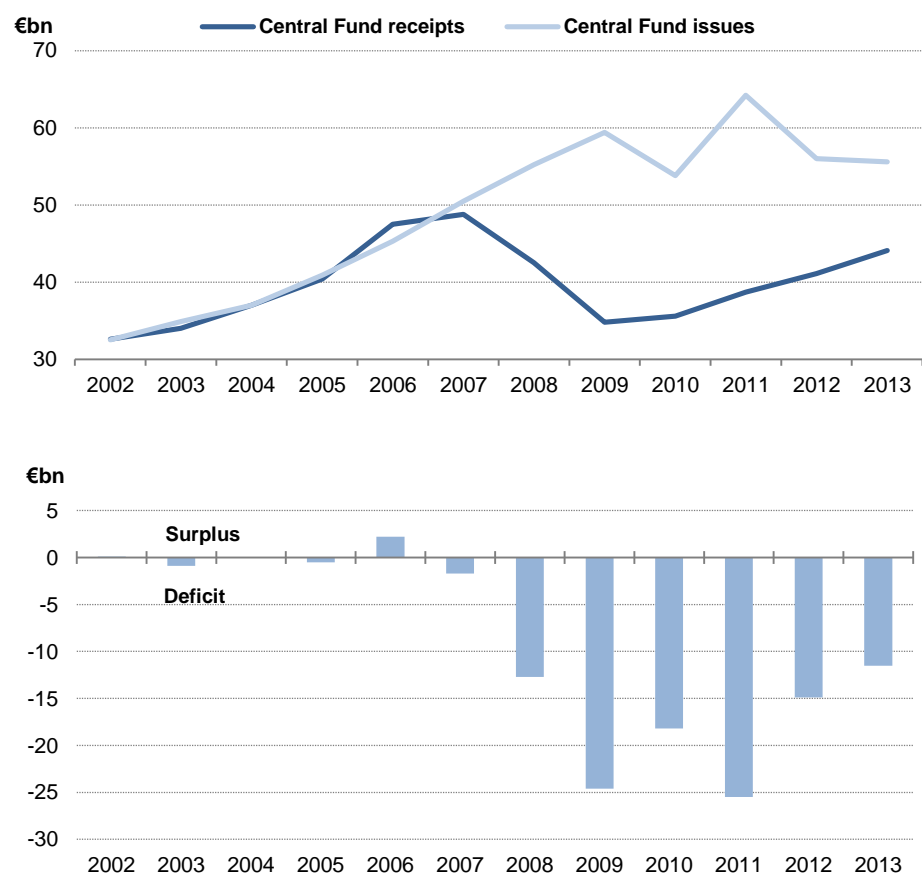
1 Exchequer Financial Outturn for 2013

- 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.
- 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.

Central Fund Receipts and Issues

- 1.3** The movement in the Central Fund receipts and issues over the period 2002 to 2013 and the surplus or deficit for each of those years is set out in Figure 1.1. In 2013, the deficit was €11.5 billion.

Figure 1.1 Central Fund receipts and issues and surplus/deficit, 2002 – 2013



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

Figure 1.2 Composition of Central Fund receipts and issues, 2009 – 2013^a

	2009	2010	2011	2012	2013
	€m	€m	€m	€m	€m
Receipts					
Tax revenue	33,043	31,753	34,027	36,646	37,806
Other current revenues	838	2,687	2,520	2,765	2,676
Loans/advances repaid by					
European Agricultural Guarantee Fund	741	790	673	720	730
Social Insurance Fund	–	–	254	355	285
National Asset Management Agency	–	250	49	–	–
Risk Equalisation Fund	–	–	–	–	78
Other	9	3	10	2	5
National Pensions Reserve Fund withdrawal	–	–	1,018	–	–
Sale of Irish Life plc	–	–	–	–	1,301
Sale of contingent capital notes in Bank of Ireland	–	–	–	–	1,010
Sale of mobile phone licences	–	–	–	450	60
Other capital receipts	140	138	116	150	113
Total receipts	34,771	35,621	38,667	41,088	44,064
Issues					
Issues for voted expenditure	47,163	46,434	45,711	44,950	43,072
Service of national debt	2,641	3,619	4,736	5,823	7,459
Contribution to EU budget	1,486	1,352	1,350	1,393	1,726
Oireachtas Commission	123	103	130	105	101
Share capital acquired in banks	4,000	725	2,300	1,300	–
Bank recapitalisation payments	–	–	5,268	–	–
Payments under Credit Institutions (Financial Support) Act 2008	–	–	–	–	1,035
Promissory notes repayment	–	–	3,085	25	25
National Pensions Reserve Fund contribution	3,000	–	–	–	–
European Stability Mechanism capital contribution	–	–	–	510	510
Credit Union Fund	–	–	–	250	–
Loans/advances issued to					
European Agricultural Guarantee Fund	790	673	720	730	715
Social Insurance Fund	–	110	199	300	300
Insurance Compensation Fund	–	–	280	455	198
Risk Equalisation Fund	–	–	–	–	78
National Asset Management Agency	–	299	–	–	–
EU stability support for Greece	–	346	–	–	–
Advance to PMG supply account	–	–	–	–	153
Other payments	209	105	406	139	195
Total issues	59,412	53,766	64,185	55,980	55,567
Deficit for the year	24,641	18,145	25,518	14,892	11,503

Source: Finance Accounts 2009 to 2013

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

Receipts

- 1.4** Total receipts into the Central Fund in 2013 were €44.1 billion (see Figure 1.2). This represented an increase of €3 billion (7%) relative to 2012 receipts.

Tax Revenues

- 1.5** Over 85% of receipts were the proceeds of taxation, which rose by €1.16 billion compared with 2012. Receipts into the Central Fund from the new Local Property Tax in 2013 totalled €318 million.¹ From 2014, the Minister for Finance will pay into the Local Government Fund an amount equivalent to the property tax paid into the Central Fund each year. Up to end-June 2014, €310 million had been received into the Central Fund in 2014 in respect of the property tax.

Other Current Revenues

- 1.6** Non-tax current revenues of the Central Fund in 2013 amounted to €2.7 billion, of which the major components were
- €1.15 billion in Central Bank surplus income, in respect of the financial year ending 31 December 2012
 - €576 million from credit institutions in respect of fees under the Eligible Liabilities Guarantee scheme
 - €264 million (up 137% on 2012) in dividends from State shareholdings in a range of bodies including the ESB, Bord Gáis Éireann and Irish Life plc
 - €247 million in interest received on contingent capital notes held in banks.

Recovery of Investments in Financial Institutions

- 1.7** In July 2013, an amount of €1.3 billion was paid into the Central Fund on completion of the sale of Irish Life plc to Great-West Lifeco. A receipt of €1 billion in January 2013 related to the sale of the State's entire holding of contingent capital notes in Bank of Ireland.

¹ The Local Property Tax is an annual self-assessment tax which is charged on the market value of all residential properties in the State. A half-year charge applied in 2013, with the tax coming into full effect in 2014. See Chapter 15 for further details of the Local Property Tax.

Issues

- 1.8** Issues from the Central Fund in 2013 amounted to €55.6 billion, which represents a decrease of about €0.4 billion, or 1%, on the 2012 level.

Voted Service Issues

- 1.9** Issues from the Fund for voted services were down by over 4% when compared with 2012. The cumulative decline in voted expenditure issues since the peak in 2008 is nearly 13%.

Debt Servicing

- 1.10** Payments related to servicing of borrowing undertaken by the NTMA increased by €1.6 billion, or 28%, compared to 2012. This includes the first interest payment on the floating rate bonds issued in February 2013 to replace the Irish Bank Resolution Corporation promissory notes.

Contribution to EU Budget

- 1.11** A total of €1.73 billion was contributed to the EU budget in 2013, representing an increase of €333 million, or 24%, compared to 2012. The annual increase related to a rise in gross national income (which is a significant factor in determining the level of contributions from member states) combined with the adoption of a number of EU amending budgets during 2013 which necessitated additional payments.

Financial Institution Stabilisation

- 1.12** Just over €1 billion was paid from the Central Fund in 2013 under the Credit Institutions (Financial Support) Act 2008, following the winding up of the Irish Bank Resolution Corporation in February 2013.
- 1.13** A further €198 million was advanced to the Insurance Compensation Fund in 2013, arising from the administration of Quinn Insurance Limited, bringing the total advanced at the end of 2013 to €933 million.¹ It is expected that the loans will ultimately be repaid, mainly from levy receipts on insurance sales. The Minister for Finance, in consultation with the Central Bank, will determine when the Insurance Compensation Fund is in a position to commence repaying Exchequer loans received.
- 1.14** The European Stability Mechanism has total approved 'paid-in' capital of €80 billion of which Ireland's share is €1.274 billion, due to be paid in five equal tranches.² Following the payment of two tranches in 2013, Ireland had contributed 80% of its share.

1 The Insurance Compensation Fund, operating under the control of the President of the High Court, was set up to meet liabilities of insolvent insurers. While the Fund is ultimately funded by levies on policy holders, the Minister for Finance may make advances from the Exchequer if the Fund is unable to meet a payment approved by the High Court in a timely way.

2 The European Stability Mechanism (ESM) capital structure has two levels. Paid-in capital is the term applied to an initial block of €80 billion to be contributed by ESM members. A further €622 billion in committed callable capital may be called in from ESM members in the future.

Exchequer Assets and Liabilities

- 1.15** The movements in the balance on the Exchequer account at the Central Bank and other Exchequer financial assets are shown in Figure 1.3.

Figure 1.3 Movements in Exchequer cash and financial asset balances, 2009 – 2013

	2009	2010	2011	2012	2013
	€m	€m	€m	€m	€m
Balance at 1 January	22,059	21,816	16,164	17,692	23,850
Movement in year					
Net Exchequer borrowing in year	24,397	12,493	27,046	21,050 ^a	11,254 ^b
(Deficit) of issues over receipts	(24,641)	(18,145)	(25,518)	(14,892)	(11,503)
Balance at 31 December	21,816^c	16,164	17,692	23,850	23,601

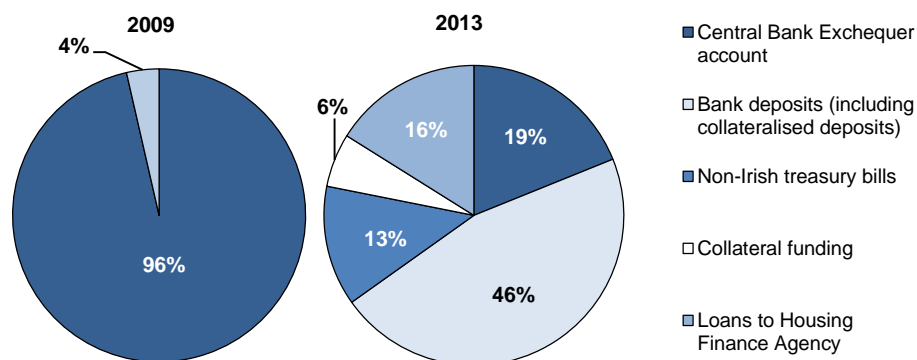
Source: Finance Accounts 2009 to 2013

- Notes:
- a Excludes Government bond issue of €3.5 billion to meet the cost of the promissory note payment of €3.06 billion to Irish Bank Resolution Corporation due in March 2012.
 - b Excludes floating rate bonds of just over €25 billion issued to replace Irish Bank Resolution Corporation promissory notes.
 - c Any apparent discrepancies between figures are due to rounding.

- 1.16** Historically, surplus Exchequer cash was held in the Central Bank Exchequer account. As shown in Figure 1.4, the composition of the Exchequer's cash and financial assets has changed considerably since 2009. The NTMA has stated that it has invested the Exchequer's cash balances in a range of liquid assets in order to generate an enhanced return, and in accordance with prudent risk management.
- 1.17** At the end of 2013, the balance on the Central Bank Exchequer account was €4.4 billion, a reduction of €10.8 billion on the balance at the end of 2012. Over the same period, the balance of Exchequer deposits in commercial banks increased from about €3 billion to just over €11 billion.
- 1.18** Short-term loans by the Central Fund to the Housing Finance Agency amounted to €3.7 billion at the end of 2013, a reduction of €278 million on the amount loaned at the end of 2012. In practice, these loans could not be readily realised by the Central Fund.

Figure 1.4 Exchequer cash and financial asset balances, 2009 – 2013

	2009	2010	2011	2012	2013
	€m	€m	€m	€m	€m
Balance at 31 December					
Central Bank Exchequer account	21,025	11,399	13,099	15,280	4,432
Capital Services Redemption Account ^a	–	600	–	–	–
Bank deposits (including collateralised deposits)	790	580	30	3,020	11,068
Non-Irish treasury bills	–	–	–	1,045	3,041
Loans to Housing Finance Agency	–	3,585	3,848	3,982	3,704
Collateral funding	–	–	715	523	1,356
Total cash and financial assets^b	21,816	16,164	17,692	23,850	23,601

Composition

Source: Finance Accounts 2009 to 2013

Notes: a The balance in the account at year end was less than €500,000 in each year, except 2010.

b Any apparent discrepancies in totals are due to rounding.

1.19 Since 2012, the NTMA has lent on a short-term basis to other states, through the purchase of sovereign treasury bills. At the end of 2013, the value of non-Irish treasury bills held by the State was just over €3 billion (an increase of €2 billion on 2012) and their residual maturities were between 24 and 150 days.¹

1.20 Since 2011, the NTMA has placed collateral with derivative counterparties. This requirement arises from credit support arrangements the NTMA has with the counterparties to derivative contracts under which the party who is 'out of the money' is required to deposit collateral with its counterparty. At the end of 2013, a net €1.4 billion was funded by and is due to be repaid to the Exchequer.²

1.21 The Capital Services Redemption Account was established to set funds aside to meet the cost of servicing and redeeming State debt. It is maintained by the NTMA and is operated subject to guidelines issued by the Minister for Finance, including the maximum amount that may be held in the account at year end. The year end limit set by the Minister is normally €1 million.³

1 Treasury bills are a form of short-term lending. The NTMA may opt to purchase treasury bills issued by other states as an alternative to placing funds on overnight deposit.

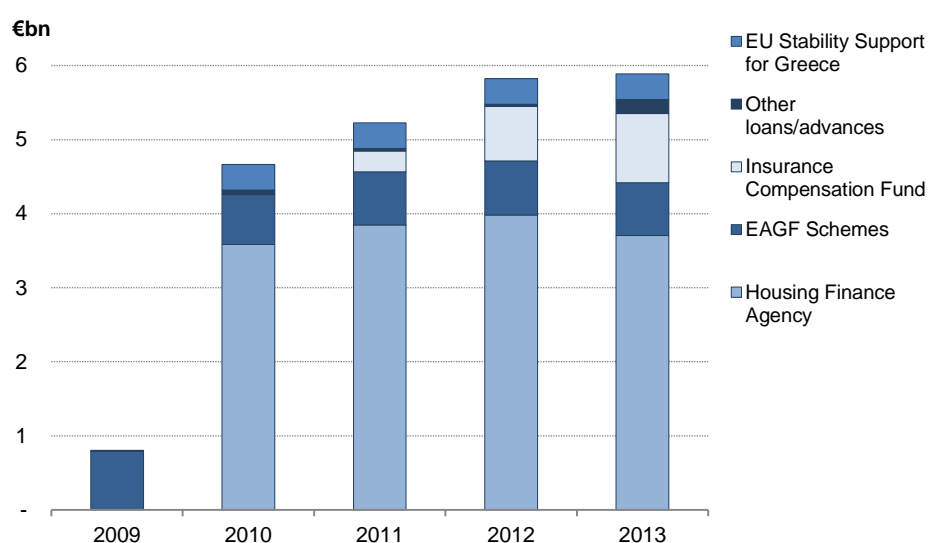
2 Further details regarding these transactions are outlined in Chapter 2 on Government Debt.

3 For end 2010, the Minister set the limit on the balance at €601million.

Loans and Advances

- 1.22** Loans and advances provided from the Central Fund (excluding lending of €3.7 billion to the Housing Finance Agency) totalling €2.19 billion were outstanding at the end of 2013 – an increase of €346 million when compared with 2012. The loans outstanding at the end of 2013 include €933 million in advances to the Insurance Compensation Fund, €715 million in respect of advances to fund costs associated with the operation of EAGF schemes and €346 million (net) in relation to Ireland's contribution to EU Stability support for Greece. Figure 1.5 shows the outstanding balances for the major categories of loans and advances at the end of each year since 2009.

Figure 1.5 End year balances on Central Fund loans and advances, 2009 – 2013



Source: Finance Accounts 2009 to 2013

- 1.23** Legislation enacted in 2012 created a risk equalisation fund administered by the Health Insurance Authority. In 2013, €78 million was advanced to the fund. All funds advanced had been repaid at the end of 2013.
- 1.24** Funds are advanced to the Social Insurance Fund as a working facility and subsequently repaid. €15 million remained to be repaid to the Central Fund at the end of 2013. The Department of Finance confirmed that the outstanding €15 million was repaid from the Social Insurance Fund in January 2014.
- 1.25** Due to the unavailability of bank clearing systems on Wednesday 1 January 2014, provision was made under Section 3 of the Appropriation Act 2013 for advances to be made from the Central Fund to the Paymaster General supply account in order to fund commercial bank accounts in respect of salaries to be paid from voted monies on Thursday 2 January 2014. An advance of nearly €153 million made in December 2013 was repaid to the Central Fund in January 2014.

2 Government Debt

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

General Government Debt

- 2.2** The most comprehensive measure of government debt is General Government Debt (GGDebt), an internationally standardised measure of debt which all EU countries are legally obliged to use for their twice-yearly reporting of government deficit and debt under the Maastricht Treaty. The GGDebt is defined by EU regulations as the total gross debt at nominal value outstanding at year-end for the consolidated general government sector – that is, the total gross debt owed by all government bodies to third parties outside government.¹ Debt that one government body owes another does not count towards the GGDebt. In Ireland, the general government sector includes most public sector bodies, but not publicly owned banks, NAMA Investment Ltd, and those commercially-operated State companies which cover a majority of their operating costs through sales.
- 2.3** In April 2014, the Central Statistics Office (CSO) calculated Ireland's GGDebt at approximately €203 billion at the end of 2013 – an increase of 5.4% since end-2012.

Revised Measurement Framework

- 2.4** The current framework for measurement of GGDebt will be revised in September 2014.² The main implication of the new framework (ESA 2010) for Ireland will be that the Irish Bank Resolution Corporation Limited (now in special liquidation) will be included in the GGDebt calculation from 2011.
- 2.5** In accordance with the ESA 2010 methodology, the CSO revised the GGDebt figure for 2013 to €216 billion (2012: €210 billion) in July 2014.³
- 2.6** The ratio of GGDebt to gross domestic product (GDP) is a standard sustainability measure applied for the purposes of comparison across the EU. The GGDebt as a proportion of GDP rose from 43% in 2008 to 123% of GDP in 2013 based on the ESA 2010.

1 Specifically, GGDebt is defined as the consolidated liabilities of the general government sector in the following European System of Accounts 1995 (ESA95) categories: currency and deposits; securities other than shares excluding financial derivatives; and loans.

2 ESA 2010 will revise and update the common standards, classifications and accounting rules for member states in drawing up their national accounts and transmitting their data to Eurostat. Eurostat will publish EU aggregates in mid-October with a note illustrating all the changes.

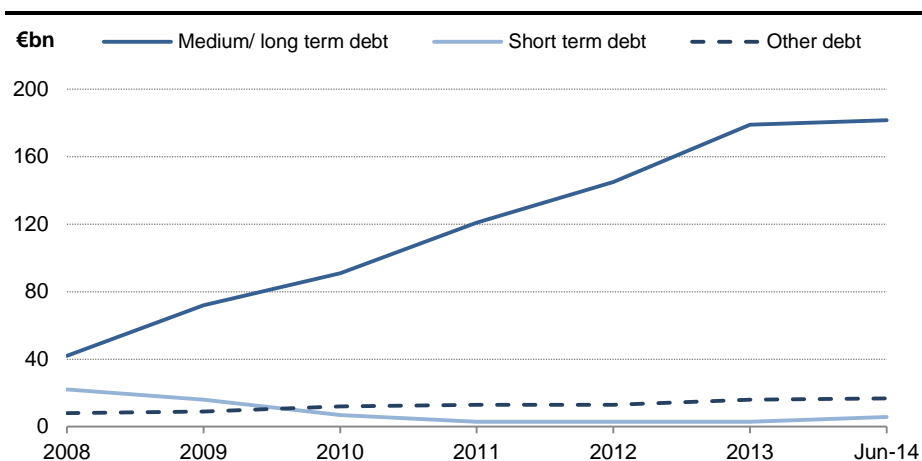
3 This was the CSO's first estimate according to the new ESA 2010 standards for National Accounts. It will not be subject to normal verification processes by Eurostat until September 2014 and should, therefore, be regarded as provisional.

Gross National Debt

2.7 The largest component of GGDebt is the gross national debt, which is debt arising from borrowings of the Exchequer undertaken by the National Treasury Management Agency (NTMA). This stood at €197.5 billion at the end of 2013 (2012: €161.5 billion). From end-2013 to end-June 2014, this increased by a further 3% to €204.2 billion.¹

2.8 Figure 2.1 illustrates the trends in the major components of gross national debt from 2008 to end-June 2014.

Figure 2.1 Gross national debt at redeemable par values, 2008 – 2013 (year-end) and at end-June 2014



Source: Annex A, Figure A1

Medium and Long-Term Debt

2.9 Medium and long-term debt at end-December 2013 accounted for 90% of the gross national debt. It comprised mainly borrowings in the form of government bonds and loans under the EU-IMF Programme of Financial Support for Ireland which was agreed in late 2010.²

Fixed Rate Government Bonds

2.10 Of the €111 billion in government bonds outstanding at end-December 2013, fixed rate bonds accounted for €84.6 billion or 76%.

2.11 During 2013, there were two bond sales (€7.5 billion nominal) and three bond buy-backs/cancellations. The sales included the first 10-year benchmark bond issue since January 2010, at a yield of 4.15%. In January 2014, the NTMA raised €3.75 billion from the sale of a new ten-year bond maturing in March 2024 at a yield of 3.54%. In March 2014, the NTMA announced the resumption of scheduled bond auctions, three of which took place in the period to end-June 2014.³ The total nominal value of bonds auctioned was €2.75 billion with yields ranging from 2.97% to 2.73%.

¹ End-June 2014 figures have not been audited.

² Formal Agreement on a three-year financial support programme from the EU, the euro area Member States and the International Monetary Fund was reached on 7 December 2010.

³ These were the first scheduled bond auctions since September 2010.

Floating Rate Government Bonds

- 2.12** In 2010, as part of the process of bank capitalisation, the Minister for Finance issued promissory notes to the value of €30.85 billion to three financial institutions – Anglo Irish Bank, Irish Nationwide Building Society (INBS) and the Educational Building Society (EBS). Anglo and INBS were subsequently merged to become the Irish Bank Resolution Corporation Limited (IBRC). The net effect of this measure was to create State debt outside the NTMA-managed gross national debt.
- 2.13** On 7 February 2013, joint special liquidators were appointed to IBRC. The promissory notes which were held by the Central Bank of Ireland as collateral for lending to IBRC at the time were replaced with Government bonds. For this purpose, eight new floating rate bonds with a nominal value of €25.034 billion were issued by the NTMA to the Central Bank of Ireland with maturities ranging from 25 to 40 years. The first of these bonds is due to mature in 2038 and the remaining bonds are due to mature every two years thereafter between 2041 and 2053. The bonds pay interest every six months (June and December) based on the 6-month Euribor interest rate plus a fixed interest margin which averages 2.63% across the eight issues and ranges from 2.50% to 2.68%. These floating rate Government bonds accounted for 23% of the government bond balance at end-December 2013.
- 2.14** The promissory notes outstanding at 30 June 2014 relate solely to EBS. The interest rate on these is fixed at 5.46%. A summary of the movement in the nominal value of promissory notes between 2010 when they were issued and June 2014 is outlined in Figure 2.2.

Figure 2.2 Issue and redemption of promissory notes (position as at 30 June 2014)

	IBRC	EBS	Total
	€m	€m	€m
Promissory notes issued in 2010	30,600	250	30,850
Payments in 2011 ^a	(3,060)	(25)	(3,085)
Payments in 2012 ^a	(3,060)	(25)	(3,085)
Payments in 2013 ^a	–	(25)	(25)
Cancellations in 2013 ^b	(25,034)	–	(25,034)
Payments in 2014	–	(25)	(25)
Nominal value at end-June 2014	–	201	201

Source: Department of Finance

Notes: a The annual payments include an element of principal and interest. The nominal value of promissory notes is reduced by the principal element of the payment each year. The payment to IBRC in 2012 was made by the NTMA issue of bonds with a nominal value of €3.46 billion.

b IBRC promissory notes were replaced with floating rate government bonds (see paragraph 2.13).

Amortising Bonds

- 2.15** In 2012, the NTMA issued amortising bonds for the first time. These bonds make equal annual payments (comprising principal and interest) over their lifetime, and are designed to meet the needs of the pension industry. Of the government bonds in issue at end-December 2013 almost €1.4 billion (or 1.2%) related to amortising bonds.

EU-IMF Programme of Financial Support

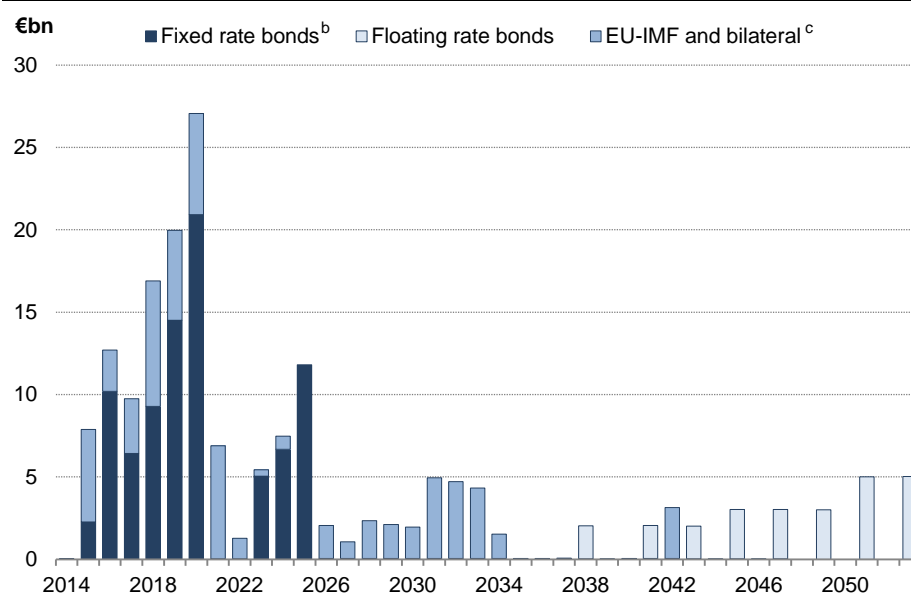
- 2.16** Ireland's EU-IMF programme provided for funding from EU facilities, the IMF and bilateral loans. The net euro amount received by the Exchequer under the programme was €67.5 billion (after adjustment for below par issuance, deduction of a prepaid margin, and the effect of foreign exchange transactions). The final programme disbursement of €0.8 billion from the European Financial Stabilisation Mechanism (EFSM) took place in March 2014.
- 2.17** The external support under the programme comprises
- €22.5 billion from the IMF Extended Fund Facility
 - €22.5 billion from the EFSM
 - €17.7 billion from the European Financial Stability Fund (EFSF) (this is net of a prepaid margin of €530 million¹) and
 - bilateral loans from the United Kingdom (€3.8 billion), Sweden (€0.6 billion) and Denmark (€0.4 billion).
- 2.18** The liability outstanding at end-June 2014 was €67.6 billion. The liability outstanding differs from the drawdown amount due to the effect of hedging instruments in place to hedge currency risk on the IMF and UK loans, euro equivalents translated at those dates and adjustment for below par issuance. See Annex A, Figure A2 for further details.
- 2.19** There have been a number of amendments to the terms of the EU-IMF funding since the first drawdowns were made. In 2011, an agreement was reached to reduce the interest margins and extend maturities for loans granted by the EFSF and EFSM. Subsequently, the interest margins on the bilateral loans were also reduced. In April 2013, EU and euro area Finance Ministers agreed in principle to extend further the weighted average life of borrowings under both the EFSF and the EFSM. The revised maturity dates for the EFSF loans are reflected in Figure 2.3 and the first of these is now due to mature in 2029. The revised maturity dates for individual EFSM loans will only be determined as they approach their original maturity dates. It is not expected that Ireland will have to refinance any of its EFSM loans before 2027.
- 2.20** The first repayment to the IMF will be in 2015 and the first bilateral loans to mature will be in 2019.

Maturity Profile

- 2.21** Medium and long-term debt has various maturity dates. At end-June 2014, the residual maturity of fixed rate government bonds in issue ranged from under one year to 11 years, while the maturity of floating rate bonds ranged from 24 to 39 years, and the maturity of amortising bonds ranged from 13 to 33 years. The longest maturity for borrowing under the EU-IMF programme is currently just over 28 years.
- 2.22** Figure 2.3 shows the residual maturity profile of Government bonds and funding under the EU-IMF programme (totalling €181 billion) at end-June 2014.

¹ The first drawdown from the EFSF in February 2011 amounted to €4.2 billion. At that date, Ireland was required to prepay the present value of the interest margin charges that would accrue over the life of the loan of €530 million, along with additional fees and charges of €72 million. The net amount disbursed was €3.6 billion. It was confirmed by the NTMA in June 2014 that €485 million of the €530 million prepaid margin will be rebated to Ireland in 2016. The remaining €45 million is due to member state guarantors.

Figure 2.3 Residual maturity profile of government bonds and EU-IMF programme funding held at end-June 2014^a



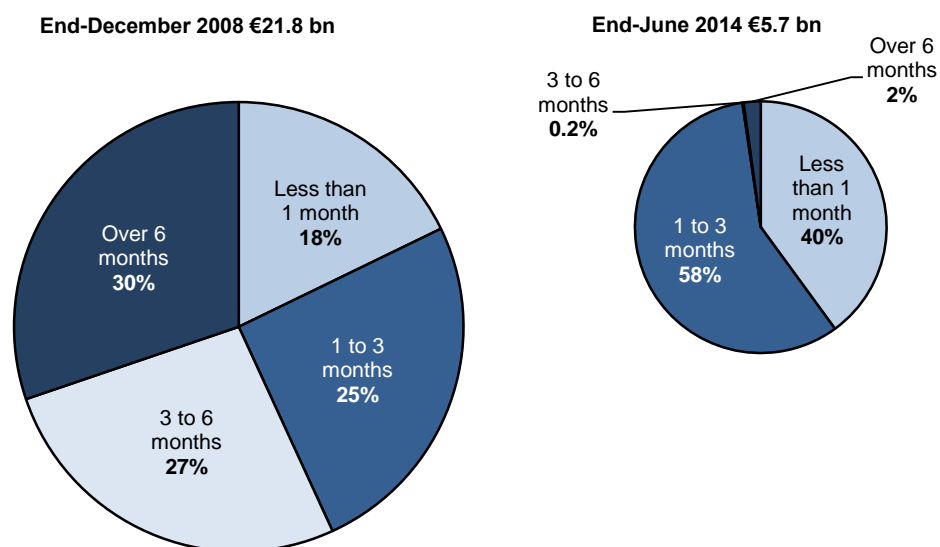
Source: Annex A, Figure A2 and Figure A3

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

Short-Term Debt

- 2.23** Short-term debt is debt with an original maturity of less than one year. Short-term debt¹ accounted for €2.6 billion of gross national debt at end-December 2013 and €5.7 billion at end-June 2014. Short-term instruments are used to provide liquidity and flexibility in the timing of long-term funding operations.
- 2.24** The main forms of short-term borrowings are treasury bills, exchequer notes and the euro commercial paper programme. Regular auctions of short-term treasury bills, (which resumed in July 2012), continued throughout 2013 with eight auctions during the year. Between January and June 2014, three auctions have taken place. Exchequer notes and euro commercial paper are sold through reverse enquiry. At end-December 2013, NAMA held €1.6 billion in exchequer notes – over 60% of the total short-term debt.
- 2.25** Figure 2.4 compares the maturity profile of short-term debt at end-2008 and end-June 2014.

¹ This excludes short-term borrowing from other State funds.

Figure 2.4 Maturity profile of short-term debt, December 2008 and end-June 2014

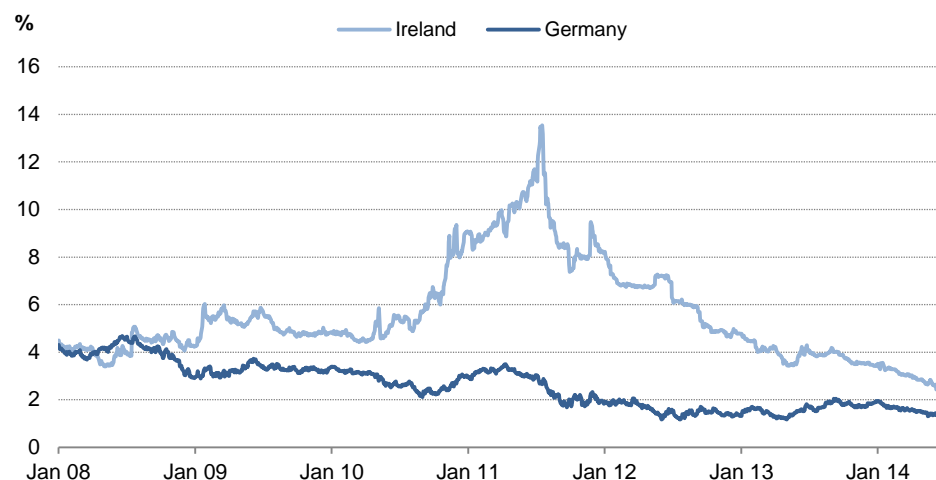
Source: Annex A, Figure A4

Debt Service Costs

Ireland's Debt Market Position

- 2.26** Because of the high cost of debt, the NTMA did not actively seek new funding in the bond markets during the period September 2010 to July 2012. Following its return to the debt markets during 2012, sales of bonds achieved yields of 5.9% and 6.1%.¹ At end-December 2013, the yield on ten-year Irish Government bonds had fallen to 3.51% compared with Germany which was at 1.93% – a difference of 1.58 percentage points. By June 2014, rates had further decreased to 2.36% for Ireland compared with Germany at 1.25%, and the difference had narrowed to just 1.11 percentage points (see Figure 2.5).

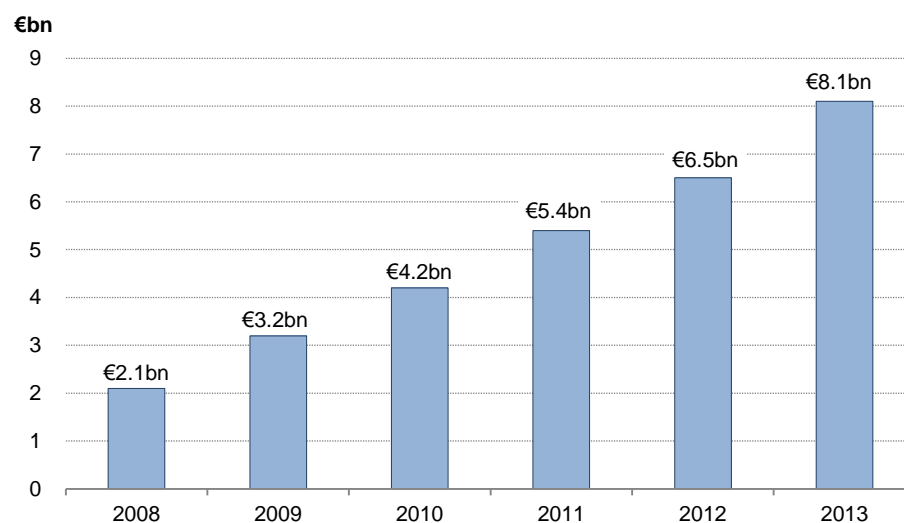
¹ The yield is the annual return investors will receive for holding the bonds.

Figure 2.5 Irish and German ten-year bond yields, 2008 – June-2014

Source: National Treasury Management Agency (Bloomberg and NTMA calculations)

Note: Where a ten-year Irish bond yield is not available, the Irish yield is a synthetic yield derived from yields on other Irish Government Bonds for that period.

- 2.27** The debt service cost disclosed in the NTMA's accounts for 2013 was almost €8.1 billion when measured on a cash basis. When account is taken of a transfer of €625 million from current funds to a statutory sinking fund, the servicing outlay was €7.5 billion.¹ This is net of €125 million interest received and includes fees and expenses of €134 million.
- 2.28** The cost of servicing the debt rose by almost 25% between 2012 and 2013. The cost in 2013 was 3.9 times the cost in 2008 (see Figure 2.6).
- 2.29** When the debt service cost is measured on an accruals basis, the servicing cost for 2013 was €7.4 billion.² The equivalent cost for 2012 was €6.2 billion – a 19% increase year-on-year.

Figure 2.6 Debt service costs 2008 – 2013 (cash basis)

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

2 The accruals basis recognises the costs incurred rather than those paid and does not take account of sinking fund movements.

Source: National Treasury Management Agency

Average Cost of Borrowing

- 2.30** The NTMA estimates the overall weighted average cost of servicing the gross national debt at just under 4% at end-June. At end-June 2014, around 88% of gross national debt was at fixed rates, including debt where hedging had been undertaken.¹ The balance of the debt was at floating interest rates.
- 2.31** At end-December 2013, the overall weighted average cost of servicing the gross national debt was estimated at 3.9%. Four components accounted for 99% of the gross national debt as outlined in Figure 2.7.

Figure 2.7 Average cost of borrowing, end-December 2013

Product	% Gross national debt	Average interest rate
	December 2013 ^a	%
Fixed rate bonds and amortising bonds	44	4.84 ^b
Floating rate bonds	13	3.02 ^c
EU-IMF Programme	34	3.14 ^d
State Savings Schemes	8	3.05 ^e

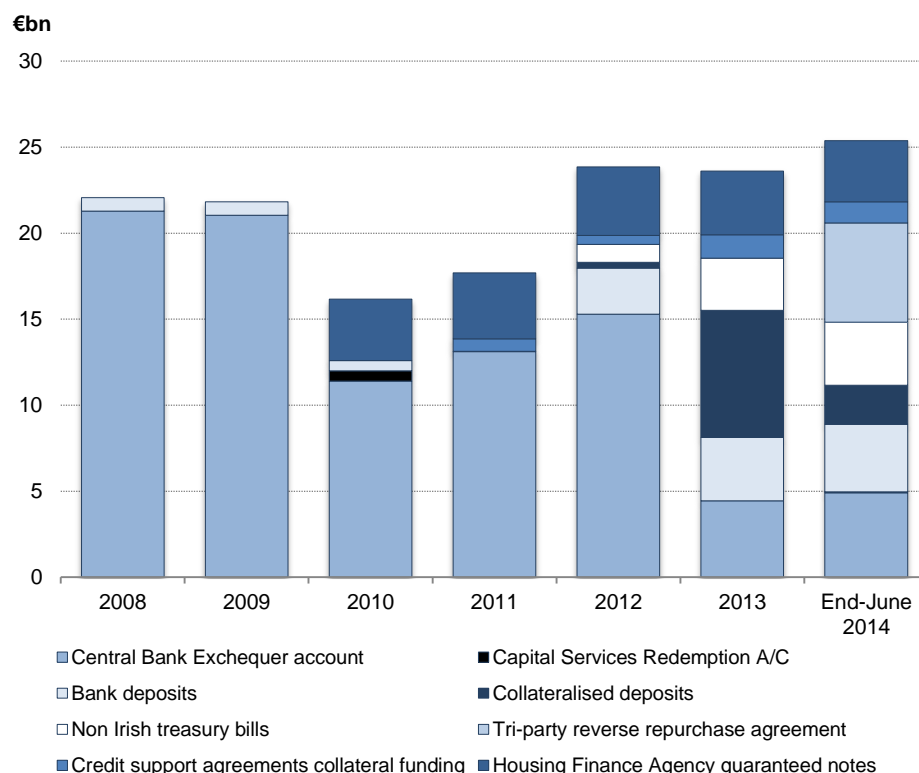
Source: National Treasury Management Agency

- Notes:
- a Figures shown total 99%. The remaining 1% of gross national debt is short-term debt and other forms of medium/long-term debt.
 - b This is the bond coupon which differs from the yield.
 - c This equates to an interest rate of 6-month Euribor plus an average margin of 263 basis points. The rate reflects the relevant rate reset (in December 2013). The NTMA has entered into interest rate swaps to hedge an element of the exposure to interest rate movements. However the rates quoted do not take account of this hedging.
 - d The rate is the estimated all-in fixed euro equivalent cost reflecting hedging costs.
 - e This rate reflects accrued interest and expenses in 2013 as a percentage of average State Savings Schemes balances. The maximum interest rates (AER) payable on the fixed term fixed rate products available for purchase at end-December 2013 ranged from 1.32% to 2.66%.

Cash and Other Financial Assets

- 2.32** Ireland's national debt is defined by the NTMA as the gross national debt incurred by the Exchequer less cash balances and other financial assets held.
- 2.33** The Exchequer held significant balances of cash and other financial assets over the past number of years. At end-2013, a total of €23.6 billion was held. This had increased by 7.5% (to €25.4 billion) at end-June 2014 (see Figure 2.8).
- 2.34** The NTMA's stated intention was to have twelve to fifteen months of advance funding in place when the EU-IMF programme reached its conclusion at the end of 2013 to cover medium and long-term debt redemptions and any Exchequer deficit.

¹ Fixed rate debt also includes EFSF loans disbursed as part of the EFSF's pooled funding mechanism. The cost of these EFSF pooled loans is related to the EFSF's cost of funds in managing the pool and can change from time to time.

Figure 2.8 Cash and other financial assets 2008 – June 2014

Source: Annex A, Figure A5

- 2.35** The composition of the Exchequer cash and financial assets has changed significantly in recent years. At end-2008, almost all were held in the form of deposits at the Central Bank. Such balances accrue interest at the Euro Overnight Index Average rate (EONIA). At end-June 2014, EONIA was 0.336%. In June 2014, a cap was placed by the European Central Bank on Exchequer balances remunerated at EONIA.
- 2.36** Around 79% (€18.5 billion) in cash and other financial assets held at end-2013 was available to the State immediately or at short notice. Housing Finance Agency guaranteed notes of €3.7 billion were not readily realisable. €1.4 billion used to fund collateral deposited with derivative counterparties under credit support agreements, while not readily realisable, are given a cash value that reflects changes in the market value of related derivatives or as the derivatives mature.¹
- 2.37** The NTMA also invests available cash balances in short term bank deposits (including collateralised deposits²) and in non-Irish Treasury Bills. These investments earn a higher rate of return than EONIA but may also carry a higher risk.
- 2.38** At end-June 2014, the NTMA had invested almost 23% of cash and other financial assets (€5.8 billion) in tri-party reverse repurchase agreements with financial institutions.³ The administration of the transactions including settlement, collateral allocation and other functions are carried out by a third party agent (Euroclear). Collateralised deposits are now predominately completed under tri-party agreements. At end-June 2014, the overall weighted average maturity remaining on these agreements was 70 days (53 days if account is taken of collateralised deposits).

1 This is the net of collateral posted of €2.3 billion and collateral received from NAMA (€802 million), IBRC (€102 million) and other counterparties (€44 million).

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

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

Conclusions

- 2.39** The main component of general Government debt is cumulative borrowing undertaken by the NTMA on behalf of the State, referred to as gross national debt. This increased by a net €36 billion (22%) in 2013, mainly due to the issue of floating rate notes to replace the promissory notes (€25 billion) and borrowing required to fund the exchequer deficit (€11.5 billion).¹
- 2.40** At end-June 2014, the gross national debt had risen to €204 billion, up by 3% since end-December 2013. Additional short-term debt and Government bonds account for the majority of the increase.
- 2.41** The NTMA estimates the weighted average cost of servicing the gross national debt at just under 4% at end-June 2014. Around 88% of the gross national debt was at fixed rates, including debt where hedging had been undertaken. The remainder of the debt was at floating interest rates.
- 2.42** At end-2013, the NTMA held cash and other financial assets of €23.6 billion. By end-June 2014, this had risen by just under 8% to €25.4 billion. There is no specific monetary limit set by the Minister for Finance for the level of cash and financial assets maintained by the NTMA. The NTMA has stated that, in order to bolster investor confidence and in accordance with prudent liquidity risk management, it currently aims to maintain cash and other liquid assets equivalent to at least twelve months' Exchequer funding requirements.
- 2.43** The form in which Exchequer balances are held has changed significantly with a move away from holding balances in the Central Bank, to investing in higher yielding (but also higher risk) instruments. Nevertheless, the return on cash and related assets is lower than the average cost of borrowing. As a result, there is a cost associated with maintaining high levels of cash balances.

¹ The balance relates to a reduction of €0.5 billion due to a decrease in cash and other financial assets and some other factors.

Annex A

Figure A1 Cumulative borrowing at redeemable par values, at year-end 2008 to 2013 and end-June 2014^a

	2008	2009	2010	2011	2012	2013	June-2014
	€m	€m	€m	€m	€m	€m	€m
Medium/long-term debt^b							
Government bonds	41,863	70,858	90,102	85,310	87,853	111,007	113,207
EU-IMF programme funding ^c	–	–	–	34,629	55,898	66,942	67,622
Other medium/long-term	483	670	673	673	772	772	892
Short-term debt^d							
Short-term debt	21,783	16,261	6,972	2,920	2,690	2,645	5,727
Other debt							
Borrowings from other State funds ^e	2,605	1,783	1,524	1,696	786	676	788
Government savings schemes ^f	5,723	7,396	10,338	11,546	13,483	15,506	16,011
Gross national debt	72,457	96,968	109,609	136,774	161,482	197,548	204,247

Source: National Treasury Management Agency

- Notes:
- a End-June 2014 figures have not been audited.
 - b Original maturities of more than one year.
 - c The balances are stated net of currency hedging transactions.
 - d Original maturities of one year or less.
 - e The main element of this borrowing relates to the Post Office Savings Bank Fund.
 - f Maturities up to ten years.

Figure A2 EU-IMF programme of financial support for Ireland, December 2013 and end-June 2014^a

Lender	December 2013		End-June 2014 ^b	
	€m	Average term (years) ^c	€m	Average term (years) ^c
IMF	22,528	7.3	22,380	7.3
EFSF ^d	17,881	20.7	17,881	20.7
EFSM	21,700	12.4	22,500	12.3
Bilateral loans ^e	4,833	7.5	4,861	7.5
Total	66,942		67,622	

Source: National Treasury Management Agency

- Notes:
- a The liability outstanding at end-June 2014 differs from the drawdown amount due to the effects of hedging instruments to hedge currency risk, exchange rate movements and adjustment for below par issuance. The balances are stated net of currency hedging transactions.
 - b End-June 2014 figures have not been audited.
 - c Weighted average term from date of drawdown.
 - d The EFSF figures are shown net of a prepaid margin of €530 million. The NTMA confirmed in June 2014 that €485 million of the prepaid margin will be rebated to Ireland in 2016. (The total aggregate liability including the prepaid margin at end-June 2014 was €68.15 billion.)
 - e The bilateral loans are with the United Kingdom, Denmark and Sweden.

Figure A3 Residual maturity profile of government bonds, at year-end 2008 to 2013 and end-June 2014^a

	Under 5 years €m	5 to 10 years €m	Over 10 years €m	Total €m
2008	15,931	11,857	14,075	41,863
2009	25,687	29,296	15,875	70,858
2010	28,298	53,520	8,284	90,102
2011	33,670	43,356	8,284	85,310
2012	30,548	44,733	12,572	87,853
2013	32,490	40,656	37,861	111,007
End-June 2014	35,898	39,488	37,821	113,207

Source: National Treasury Management Agency

Note: a End-June 2014 figures have not been audited.

Figure A4 Residual maturity profile of short-term debt, at year-end 2008 to 2013 and end-June 2014^a

	Less than one month €m	One to three months €m	Three to six months €m	Over six months €m	Total €m
2008	3,880	5,518	5,803	6,582	21,783
2009	4,561	8,628	2,913	159	16,261
2010	2,186	3,286	1,392	108	6,972
2011	2,796	106	18	–	2,920
2012	1,147	1,417	93	33	2,690
2013	445	747	1,428	25	2,645
End-June 2014	2,288	3,305	9	125	5,727

Source: National Treasury Management Agency

Note: a End-June 2014 figures have not been audited.

Figure A5 Cash and other financial assets, at year-end 2008 to 2013 and end-June 2014^a

	2008	2009	2010	2011	2012	2013	End-June 2014
	€m	€m	€m	€m	€m	€m	€m
Central Bank Exchequer account	21,269	21,026	11,399	13,099	15,280	4,432	4,907
Capital Services Redemption Account	—	—	600	—	—	—	53
Housing Finance Agency guaranteed notes	—	—	3,585	3,848	3,982	3,704	3,547
Bank deposits	790	790	580	30	2,680	3,679	3,928
Collateralised deposits	—	—	—	—	340	7,389	2,261
Non-Irish treasury bills	—	—	—	—	1,045	3,041	3,665
Credit support agreements collateral funding	—	—	—	715	523	1,356	1,244
Tri-party reverse repurchase agreements	—	—	—	—	—	—	5,765
Total cash and financial assets	22,059	21,816	16,164	17,692	23,850	23,601	25,370

Source: National Treasury Management Agency

Note: a End-June 2014 figures have not been audited.

Voted Expenditure

3 Vote Accounting and Budget Management

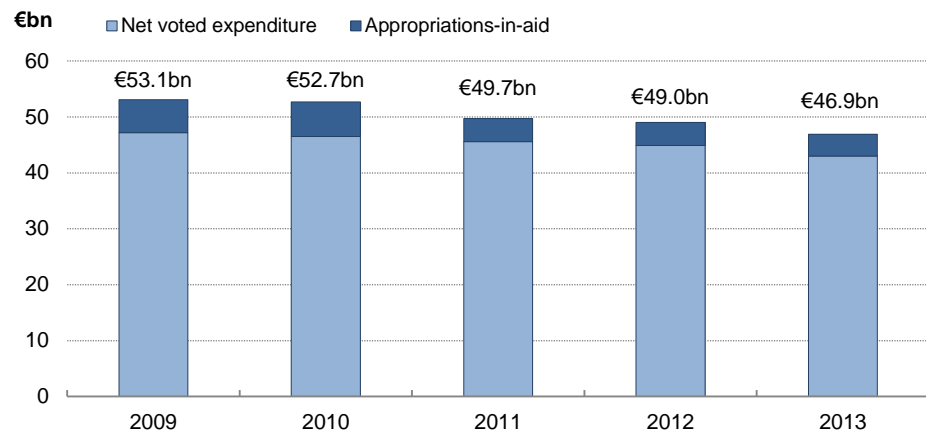
- 3.1** Dáil Éireann provides money for the services of government departments and offices by
- approving estimates of receipts and expenditure for those services in the course of each year
 - giving statutory effect to the estimates in the annual Appropriation Act.
- 3.2** Expenditure is provided for under 'votes', with one or more votes covering the functions of each department or office. The first part of the estimate for each vote (referred to as the ambit) provides an outline of the services to be financed. The ambit is incorporated in the annual Appropriation Act and so represents the purposes for which funds have been authorised by Dáil Éireann.
- 3.3** At the end of each financial year, each department and office is required to prepare an account, known as the appropriation account, for each voted service administered by it. The statutory requirement is for the appropriation account to report the outturn for the year compared with the amount provided by Dáil Éireann.

Results of 2013 Audits of Appropriation Accounts

- 3.4** Audits of the 2013 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.
- 3.5** A summary of the amounts appropriated in 2013 for voted public services is included in Annex A (Figure A1). The outturn for the year is also shown, together with the surplus of appropriations over expenditure.
- 3.6** The final amount appropriated for public services in 2013 was €47.6 billion. This comprised supply grants of €43.7 billion, capital funding carried over from 2012 totalling €107 million and appropriations-in-aid of €3.8 billion.

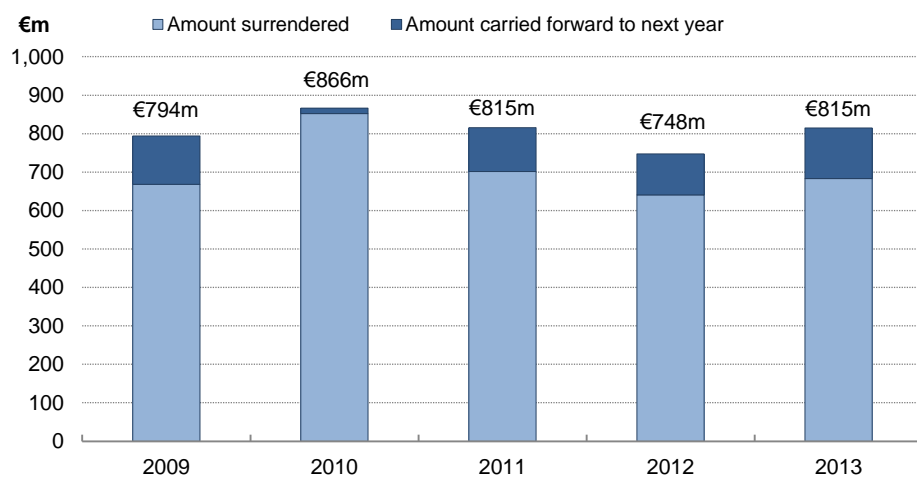
Vote Outturn

- 3.7** Aggregate expenditure and appropriations-in-aid of all votes for the years 2009 to 2013 are summarised in Figure 3.1. The total amount spent by departments and offices in 2013 was €46.9 billion. After deduction of realised appropriations-in-aid totalling €3.9 billion, the net expenditure in the year was €43 billion.

Figure 3.1 Vote outturn, 2009 – 2013

Source: Reports on the Accounts of the Public Services, 2009 – 2013, Annex A

- 3.8** Departments and offices are not permitted to spend more than the amount approved for each vote. When the expenditure in the year is less than the amount provided, the surplus is liable to be surrendered to the Exchequer.
- 3.9** All departments and offices managed within their overall voted allocations in 2013 and surpluses were recorded by all votes. Consequently, no excess vote occurred in 2013.
- 3.10** The 2013 surpluses amounted to €815 million (see Figure 3.2). Of that amount, a total of €132 million was approved for carry over to 2014. The balance of €683 million was due for surrender. The sums liable for surrender or carried over to 2014 for each vote are shown in Annex A (Figure A2).

Figure 3.2 Surplus for surrender, 2009 – 2013

Source: Reports on the Accounts of the Public Services, 2009 – 2013, Annex A

Exchequer Extra Receipts

- 3.11** Certain sums collected by government departments and offices are directed by the Department of Public Expenditure and Reform to be credited to the Exchequer, and not treated as appropriations-in-aid. This includes court fine receipts, and Property Registration Authority fee receipts. Windfall receipts are also usually brought to account in this way, including proceeds of significant sales of property, receipts on foot of surplus income or profits of State companies, interest, dividends or capital repayments, compensation payments and voluntary surrender of salary. Where Exchequer extra receipts arose in 2013, the amounts are shown in notes to the relevant appropriation accounts. The total Exchequer extra receipts recorded by government departments and offices in 2013 was €120 million. The aggregate amount of those receipts reported in each account is set out in Annex A (Figure A3).

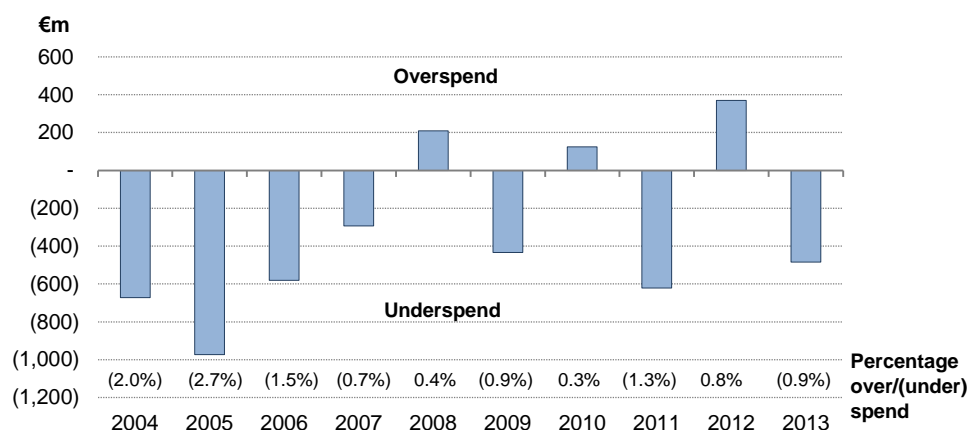
Grants-in-Aid

- 3.12** In addition to covering the ordinary services administered directly by a government department or office, a vote may contain financial provision for a particular activity or service administered by an outside body. This financial provision can take the form of a grant or a grant-in-aid to the body. Grants are subject to all the usual restrictions pertaining to any payment from a subhead and any balance remaining unexpended at the end of the year is liable to be surrendered. A grant-in-aid differs from other voted grants in that any unexpended end-year balance of the sums issued from the vote is not liable to surrender to the Exchequer. In 2013, total issues under grant-in-aid subheads amounted to €2.1 billion.
- 3.13** The Department of Public Expenditure and Reform's *Public Financial Procedures* states that the total amount paid by way of a grant-in-aid may not exceed the amount specified in the estimate, and savings on other subheads cannot be used to increase a grant-in-aid amount. Apart from one case (discussed below), the amounts paid by way of grant-in-aid were equal to or less than the amounts of the subhead provisions provided by Dáil Éireann, and so were compliant with *Public Financial Procedures*.
- 3.14** In the case of payments to regional assemblies from the Public Expenditure and Reform vote, the grant-in-aid paid of €667,000 exceeded the estimate provision of €650,000. Notwithstanding the provisions of *Public Financial Procedures* in that regard, the Department sanctioned 'virement' (the reallocation of savings on another subhead) to cover the excess expenditure on the grant-in-aid subhead. The Department has stated that sanction was conveyed in this case on the basis of the merits of the application and the availability of savings to facilitate it.
- 3.15** The Department has stated that the *Public Financial Procedures* manual is intended to guide departments and public agencies in the appropriate and optimal management of public money. It further stated that the situation outlined in *Public Financial Procedures* in relation to virement and grants-in-aid reflects an administrative rather than a legal requirement and, accordingly, it is at the discretion of the Minister for Public Expenditure and Reform to authorise or prohibit viring into a grant-in-aid subhead. The management of grants, including the status of grants-in-aid is currently under consideration by the Department. The distinction, in practice, between grants and grants-in-aid has been losing its significance and the Department is proposing to have one grant category, with vouched expenditure as the default payment mechanism, with pre-funding arrangements permitted, where appropriate, subject to sanction by the Department. A draft circular on the management of grants is close to finalisation. As such, the issue of viring and grants-in-aid will no longer be of relevance.

Budget Variance

- 3.16** The original estimate amount approved represents the forecast of the amount required to meet the cost of the services to be provided from each vote. The budget variance is therefore the difference between the original estimate of net expenditure and the actual outturn in a year.¹ Figure 3.3 sets out the budget variance for all votes combined, for the years 2004 to 2013.

Figure 3.3 Net expenditure variance from original budget, all votes, 2004 – 2013



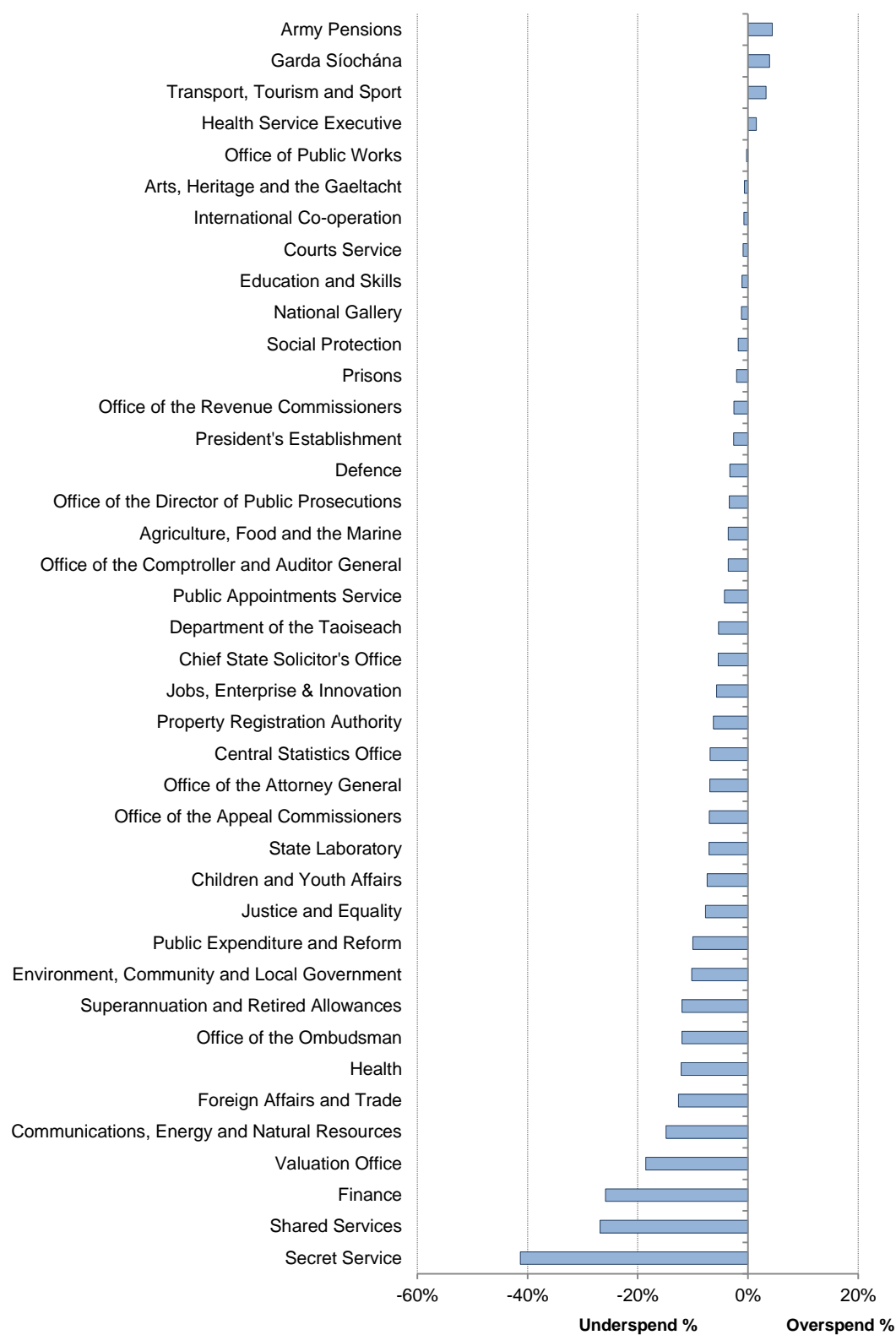
Source: Analysis by the Office of the Comptroller and Auditor General

- 3.17** Between 2004 and 2007, net voted expenditure was less than originally estimated each year. More recently, there has not been a consistent pattern of variances, reflecting the greater challenges in budgeting for public services in the aftermath of the banking crisis. In 2008, 2010 and 2012, net expenditure was greater than originally forecast. 2013 net expenditure was €485 million less than the original forecast.

Budget Variance by Vote

- 3.18** Figure 3.4 sets out, for each vote, the proportionate variance between actual expenditure and the original estimate in 2013.
- There were four votes where the net expenditure outturn was greater than the original estimate. Army Pensions had the largest percentage overspend compared with the original budget.
 - The remaining 36 votes incurred net expenditure less than originally anticipated in the estimates.

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

Figure 3.4 Net expenditure variance by vote, as a proportion of the original budget, 2013

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

Supplementary Estimates

- 3.19** 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.
- 3.20** 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.
- 3.21** Four votes required substantive supplementary estimates in 2013 to increase the overall amount available (see Figure 3.5).

Figure 3.5 Votes with supplementary estimates, 2009 – 2013^a

	2009	2010	2011	2012	2013
Army Pensions	●	●	●	●	●
Health Service Executive	●	●	●	●	●
Garda Síochána	●	●	●	●	●
Transport, Tourism and Sport		○		●	●
Justice and Equality	○	○	○		○
Shared Services					○
Courts Service	○	○	●	●	
Social Protection		●		●	
Jobs, Enterprise and Innovation	○	○	○	○	
Environment, Community and Local Government		○	○	○	
Arts, Heritage and the Gaeltacht	○	●			
Superannuation and Retired Allowances	●			●	
Education and Skills		○			
Foreign Affairs and Trade		●			
Agriculture, Food and the Marine	○				
Children and Youth Affairs	○				
Public Expenditure and Reform			○		
Director of Public Prosecutions	●				
Secret Service	●				
Communications, Energy and Natural Resources	○				

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 2013 Revised Estimates for Public Services. For some votes, different titles may have applied in the year in which a supplementary estimate was approved.

Major Budget Variances by Subhead

- 3.22** There were 26 expenditure subheads across twelve votes in 2013 where there were major variances between the original estimate of expenditure and the outturn – these were cases where the variance was more than €10 million, and represented 10% or more of the original estimate. Receipts were significantly different from the estimate in seven cases. The major subhead variances are outlined in Annex B, together with the explanations for those variances provided by the relevant accounting officers.
- 3.23** The main causes of the major variations included
- under or over estimation of the level of receipts and of the demand for schemes and programmes, including in the Social Insurance Fund
 - improvements in claims administration in the Department of Social Protection leading to reduced claim backlogs in certain schemes and less recourse to basic supplementary welfare allowance, as well as improved recovery of overpayments
 - timing issues, such as delays in or uncertainty regarding timing of events, where related receipts and expenditures anticipated in 2013 have been delayed
 - capital works not anticipated in the budget
 - a court settlement payment not anticipated in the budget
 - savings achieved through rationalisation of central government office accommodation.
- 3.24** In the case of the Garda Síochána vote, no provision was made for expenditure on the GoSafe speed camera contract, on the basis that the cost is funded by receipts from fines. A supplementary estimate providing for the expenditure and receipts is approved each year.
- 3.25** The Health Service Executive (HSE) vote accounted for 29% of all net voted expenditure in 2013. Major variations on four HSE expenditure subheads in 2013 were related to lower than anticipated spending on pension lump sum payments, health facility capital costs and innovative service delivery projects as well as higher than expected payments to the State Claims Agency. There were also major variations for three receipt categories in the HSE vote, with the largest one relating to a shortfall in the planned collection of patient charges for hospital services.

Annex A Vote Financial Outturn

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

Figure A1 provides a summary of the outturn on expenditure and receipts relative to the amounts appropriated for public services in 2013.

Figure A2 shows how surplus appropriations in 2013 were applied – either through deferral of expenditure to 2014, or by surrender to the Exchequer.

Figure A3 shows estimated and realised Exchequer extra receipts.

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

Supply grant	The money granted (or voted) by Dáil Éireann for each of the public services.
Deferred from 2012	Amounts of capital moneys not spent in 2012 and carried over for expenditure on capital services in 2013. The carry over of these sums was approved by Dáil Éireann in the Appropriation Act 2012.
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 refer.
Total appropriations	Sum of the supply grant, deferred 2012 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 the surplus on appropriations-in-aid. The surplus for the year is liable for surrender back to the Exchequer.
Deferred surrender	Amount of capital moneys not spent in 2013 which were carried over for expenditure in 2014. The carry over of these sums was approved by Dáil Éireann in the Appropriation Act 2013.
Surplus to be surrendered	Amount of money appropriated in 2013 but not spent in the year or deferred to 2014, and so required to be surrendered to the Exchequer.
Exchequer extra receipts	Departmental receipts that are not appropriated-in-aid, but are paid directly into the Exchequer. In certain cases, where the receipts are recurrent, an estimate of the amount expected to be recovered is included in the estimate for the vote.

Figure A1 Summary of Appropriations for Public Services in 2013, by Vote

Vote	Service	Amount appropriated				Outturn			Surplus/deficit		
		Supply grants	Deferred from 2012	Appropriations-in-aid	Total	Gross expenditure	Appropriations-in-aid	Net expenditure	Gross surplus	Excess/(deficit) in receipts	Net surplus for the year ^a
		€000	€000	€000	€000	€000	€000	€000	€000	€000	€000
1	President's Establishment	3,062	—	100	3,162	3,105	123	2,982	57	23	80
2	Department of the Taoiseach	22,148	—	870	23,018	21,925	960	20,965	1,093	90	1,183
3	Office of the Attorney General	14,317	—	788	15,105	14,094	768	13,326	1,011	(20)	991
4	Central Statistics Office	39,758	—	2,837	42,595	40,329	3,308	37,021	2,266	471	2,737
5	Office of the Director of Public Prosecutions	37,414	—	975	38,389	37,145	996	36,149	1,244	21	1,265
6	Office of the Chief State Solicitor	29,916	—	1,860	31,776	29,737	1,432	28,305	2,039	(428)	1,611
7	Office of the Minister for Finance	33,187	—	1,675	34,862	27,341	2,732	24,609	7,521	1,057	8,578
8	Office of the Comptroller and Auditor General	5,977	—	5,875	11,852	11,098	5,337	5,761	754	(538)	216
9	Office of the Revenue Commissioners	322,705	—	71,287	393,992	393,062	78,637	314,425	930	7,350	8,280
10	Office of the Appeal Commissioners	442	—	32	474	443	32	411	31	—	31
11	Office of the Minister for Public Expenditure and Reform	36,364	—	5,189	41,553	38,492	5,777	32,715	3,061	588	3,649
12	Superannuation and Retired Allowances	384,600	—	82,000	466,600	427,704	89,224	338,480	38,896	7,224	46,120
13	Office of Public Works	374,044	—	26,931	400,975	399,205	26,041	373,164	1,770	(890)	880
14	State Laboratory	8,119	—	705	8,824	8,489	944	7,545	335	239	574
15	Secret Service	1,000	—	—	1,000	587	—	587	413	—	413
16	Valuation Office	9,121	—	1,400	10,521	8,587	1,160	7,427	1,934	(240)	1,694
17	Public Appointments Service	6,283	—	248	6,531	6,283	269	6,014	248	21	269
18	Shared Services	21,020	—	300	21,320	15,664	282	15,382	5,656	(18)	5,638
19	Office of the Ombudsman	7,437	—	408	7,845	6,925	380	6,545	920	(28)	892
20	Garda Síochána	1,323,071	—	136,486	1,459,557	1,458,240	136,605	1,321,635	1,317	119	1,436

		€000	€000	€000	€000	€000	€000	€000	€000	€000	€000
21	Prisons	311,391	—	17,147	328,538	321,631	16,664	304,967	6,907	(483)	6,424
22	The Courts Service	58,324	—	46,635	104,959	104,647	46,838	57,809	312	203	515
23	Property Registration Authority	31,232	—	1,014	32,246	30,550	1,276	29,274	1,696	262	1,958
24	Justice and Equality	320,073	287	63,863	384,223	359,233	63,575	295,658	24,990	(288)	24,702
25	Environment, Community and Local Government	1,130,116	43,000	77,936	1,251,052	1,148,667	95,369	1,053,298	102,385	17,433	119,818
26	Education and Skills	7,926,906	19,000	580,427	8,526,333	8,423,516	563,985	7,859,531	102,817	(16,442)	86,375
27	International Cooperation	495,929	—	1,150	497,079	493,300	1,156	492,144	3,779	6	3,785
28	Foreign Affairs and Trade	173,843	400	44,048	218,291	200,281	47,998	152,283	18,010	3,950	21,960
29	Communications, Energy and Natural Resources	173,395	10,400	242,601	426,396	393,664	237,231	156,433	32,732	(5,370)	27,362
30	Agriculture, Food and the Marine	995,068	6,000	240,672	1,241,740	1,206,643	241,748	964,895	35,097	1,076	36,173
31	Transport, Tourism and Sport	1,270,582	—	438,567	1,709,149	1,700,501	439,637	1,260,864	8,648	1,070	9,718
32	Jobs, Enterprise and Innovation	760,589	25,000	52,027	837,616	791,949	51,295	740,654	45,667	(732)	44,935
33	Arts, Heritage and the Gaeltacht	250,235	1,200	4,525	255,960	255,612	5,778	249,834	348	1,253	1,601
34	National Gallery	7,677	—	253	7,930	7,843	256	7,587	87	3	90
35	Army Pensions	218,212	—	5,600	223,812	223,667	5,657	218,010	145	57	202
36	Defence	638,757	900	41,675	681,332	666,963	48,436	618,527	14,369	6,761	21,130
37	Social Protection	13,085,236	1,050	235,651	13,321,937	13,107,733	250,003	12,857,730	214,204	14,352	228,556
38	Health	243,742	—	3,916	247,658	219,050	4,836	214,214	28,608	920	29,527
39	Health Service Executive	12,531,471	—	1,362,152	13,893,623	13,872,830	1,372,433	12,500,397	20,793	10,281	31,074
40	Children and Youth Affairs	434,072	—	5,034	439,106	407,160	5,351	401,809	31,946	317	32,263
Total		43,736,835	107,237	3,804,859	47,648,931	46,883,895	3,854,529	43,029,366	765,036	49,670	814,705

Source: 2013 Appropriation Accounts

Note: a The net surplus is comprised of the excess of total appropriations by Dáil Éireann over the gross expenditure together with the surplus on appropriations-in-aid. Any apparent differences in totals are due to rounding.

Figure A2 Application of Surplus 2013 Appropriations, by Vote

Vote	Service	Surplus for the year	Deferred surrender (to 2014)	Surplus for surrender
		€000	€000	€000
1	President's Establishment	80	—	80
2	Department of the Taoiseach	1,183	—	1,183
3	Office of the Attorney General	991	—	991
4	Central Statistics Office	2,737	—	2,737
5	Office of the Director of Public Prosecutions	1,265	—	1,265
6	Office of the Chief State Solicitor	1,611	—	1,611
7	Office of the Minister for Finance	8,578	—	8,578
8	Office of the Comptroller and Auditor General	216	—	216
9	Office of the Revenue Commissioners	8,280	—	8,280
10	Office of the Appeal Commissioners	31	—	31
11	Office of the Minister for Public Expenditure and Reform	3,649	—	3,649
12	Superannuation and Retired Allowances	46,120	—	46,120
13	Office of Public Works	880	—	880
14	State Laboratory	574	—	574
15	Secret Service	413	—	413
16	Valuation Office	1,694	—	1,694
17	Public Appointments Service	269	—	269
18	Shared Services	5,638	—	5,638
19	Office of the Ombudsman	892	—	892
20	Garda Síochána	1,436	—	1,436

Figure A3 Exchequer Extra Receipts 2013, by Vote

Vote	Service	Estimated extra receipts	Extra receipts realised
		€000	€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	—	56
6	Office of the Chief State Solicitor	—	50
7	Office of the Minister for Finance	—	9
8	Office of the Comptroller and Auditor General	—	—
9	Office of the Revenue Commissioners	—	1,161
10	Office of the Appeal Commissioners	—	—
11	Office of the Minister for Public Expenditure and Reform	—	—
12	Superannuation and Retired Allowances	—	—
13	Office of Public Works	—	186
14	State Laboratory	17	17
15	Secret Service	—	—
16	Valuation Office	—	—
17	Public Appointments Service	—	—
18	Shared Services	—	—
19	Office of the Ombudsman	—	13
20	Garda Síochána	5,032	3,927

	€000	€000	€000
21 Prisons	6,424	2,400	4,024
22 The Courts Service	515	—	515
23 Property Registration Authority	1,958	—	1,958
24 Justice and Equality	24,702	—	24,702
25 Environment, Community and Local Government	119,818	72,000	47,818
26 Education and Skills	86,375	—	86,375
27 International Cooperation	3,785	—	3,785
28 Foreign Affairs and Trade	21,960	570	21,390
29 Communications, Energy and Natural Resources	27,362	8,500	18,862
30 Agriculture, Food and the Marine	36,173	16,800	19,373
31 Transport, Tourism and Sport	9,718	4,800	4,918
32 Jobs, Enterprise and Innovation	44,935	23,000	21,935
33 Arts, Heritage and the Gaeltacht	1,601	—	1,601
34 National Gallery	90	—	90
35 Army Pensions	202	—	202
36 Defence	21,130	900	20,230
37 Social Protection	228,556	—	228,556
38 Health	29,527	—	29,527
39 Health Service Executive	31,074	—	31,074
40 Children and Youth Affairs	32,263	2,576	29,687
Total	814,705	131,546	683,159






Source: 2013 Appropriation Accounts





	€000	€000
21 Prisons	—	—
22 The Courts Service	11,960	11,774
23 Property Registration Authority	36,730	36,634
24 Justice and Equality	—	265
25 Environment, Community and Local Government	—	44,183
26 Education and Skills	—	1,621
27 International Cooperation	—	—
28 Foreign Affairs and Trade	—	—
29 Communications, Energy and Natural Resources	—	143
30 Agriculture, Food and the Marine	—	2,199
31 Transport, Tourism and Sport	—	4,738
32 Jobs, Enterprise and Innovation	2,517	7,020
33 Arts, Heritage and the Gaeltacht	—	13
34 National Gallery	—	—
35 Army Pensions	—	—
36 Defence	—	214
37 Social Protection	—	58
38 Health	—	—
39 Health Service Executive	—	5,281
40 Children and Youth Affairs	—	374
Total	56,256	119,936



Source: 2013 Appropriation Accounts

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






Subhead		Explanation provided
Vote 12 Superannuation and Retired Allowances		
Additional allowances and gratuities in respect of established officers and payments in respect of transferred service		Variance ↓ €36 million / 44%
Original estimate	€82 million	The outturn on lump sums paid to retirees during 2013 was lower than had been estimated primarily due to <ul style="list-style-type: none">the number of retirements of established civil servants/prison officers during the year being about 300 less than had been anticipatedthe average lump sum paid to retirees being about €13,700 less than anticipated.
Outturn	€46 million	
Vote 13 Office of Public Works		
Estate portfolio management – new works, alterations and additions		Variance ↑ €10 million / 26%
Original estimate	€38 million	The variance is due to <ul style="list-style-type: none">additional expenditure of €8.5 million on mechanical and electrical works – the allocation for mechanical and electrical works was €2.7 million and the outturn was €11.2 millionan additional payment of €5.5 million to the Housing and Sustainable Communities Agency, which is part of a high court judgement and which was not due to be paid until after 2013 under the agreed schedule of paymentsadditional expenditure of €1 million on the Intreo Programme in Loughreasavings on other projects and programmes mitigating these overspends.
Outturn	€48 million	
<i>Correction – Due to an editing error, a draft explanation of the variance on this subhead was included in the originally published report. The correct explanation is now shown.</i>		
Estate portfolio management – Rents, rates, etc.		Variance ↓ €11 million / 10%
Original estimate	€108 million	The saving achieved was due to continued office rationalisation including lease surrender and renegotiation programmes. The lease surrender programme yielded savings of about €6 million with the surrender of leases on two buildings – the Irish Life Centre and the Nassau Building – contributing €4 million in savings.
Outturn	€97 million	
Vote 20 Garda Síochána		
Communications and other equipment		Variance ↑ €15 million / 107%
Original estimate	€14 million	A technical supplementary estimate is required each year for expenditure on the GoSafe speed camera contract as no funding provision is allocated and receipts from the fixed charge notice system are retained as appropriations-in-aid to fund the system.
Outturn	€29 million	





Subhead		Explanation provided
Safety cameras – certain receipts from fixed charges		Variance  €15 million / 150 times
Original estimate	€0.1 million	A technical supplementary estimate is required each year to enable receipts from the fixed charge notice system to be used to fund the cost of the GoSafe safety camera contract. A nominal amount of €0.1 million is provided in the original estimate allocation.
Outturn	€15 million	
Vote 25 Environment, Community and Local Government		
Voluntary and cooperative housing		Variance  €25 million / 18%
Original estimate	€138 million	There was lower than expected take-up by approved housing bodies of funding available under the Capital Assistance and Capital Advance Leasing Facility Schemes.
Outturn	€113 million	
Water services investment programme		Variance  €45 million / 16%
Original estimate	€286 million	Difficulties for contractors in securing necessary bonds, issues with local authority contributions to project costs, and legal/procurement delays, together with the need to progress the Water Sector Reform Programme, impacted on the level of expenditure and contributed to savings on the subhead.
Outturn	€241 million	
LEADER – rural economy sub-programme 2007 – 2013		Variance  €22 million / 21%
Original estimate	€105 million	An increase in the EU co-financing rate served to reduce the overall cost to the Exchequer of the programme and required adjustments in the allocations to local development companies to be evaluated and put into effect. It was necessary to defer project approvals in the early part of the year pending completion of this process, thus impacting on payments under the programme.
Outturn	€83 million	
Receipts – LEADER – rural economy sub-programme 2007 – 2013		Variance  €22 million / 55%
Original estimate	€40 million	The greater than expected receipts reflected the increase in the EU co-financing rate from 55% to 85% and the level of expenditure achieved in the relevant qualifying financial periods.
Outturn	€62 million	






Subhead		Explanation provided
Vote 26 Education and Skills		
<i>Payments in respect of residential institutions redress and costs associated with the child abuse commission</i>		Variance  €12 million / 18%
Original estimate	€65 million	<p>The overall saving of €12 million comprises</p> <ul style="list-style-type: none"> ▪ €5.9 million due to the Redress Board finalising lower than expected numbers of applications ▪ €5.3 million arising from the Commission on Child Abuse not settling as many third party legal bills as had been expected in 2013 ▪ €0.5 million arising from planning permission not being granted for the memorial to the victims of abuse in industrial schools ▪ other miscellaneous savings which arose due to lower than estimated expenditure on related services and pay costs in the Commission on Child Abuse.
Outturn	€53 million	
<i>Superannuation etc. payable to former staff of universities and institutes of technology</i>		Variance  €17 million / 32%
Original estimate	€53 million	<p>The excess arose from a decision to fund the overall superannuation deficits in the pension control accounts of the five older universities.</p>
Outturn	€70 million	
<i>Building grants and capital costs of universities, institutes of technology and other designated institutions of higher education</i>		Variance  €11 million / 19%
Original estimate	€58 million	<p>€7.1 million of the excess expenditure is attributable to a decision to sanction a capital allocation to Waterford Institute of Technology to meet once-off costs of acquiring a student development. This funding will be fully recouped from the Institute by December 2018.</p> <p>Further excess expenditure arose due to faster than anticipated progress in carrying out enabling and adaptive works on the Grangegorman project to consolidate in that location the Dublin Institute of Technology dispersed student population.</p>
Outturn	€69 million	
<i>Receipts from the European Social Fund</i>		Variance  €21 million / 100%
Original estimate	€21 million	<p>The shortfall in receipts arose principally from a delay in making the claim for expenditure incurred to the European Commission.</p>
Outturn	€1,000	

Subhead		Explanation provided
Vote 29 Communications, Energy and Natural Resources		
Information and communications technology programme		Variance  €12 million / 60%
Original estimate	€20 million	The variance mainly consisted of <ul style="list-style-type: none">▪ a shortfall in spending of €5.7 million due to unanticipated delays in the procurement process for the National Postcodes project▪ a €2.5 million underspend on the digital switchover programme▪ a €1.7 million saving under Phase 2 of the national rollout of the Second Level Schools Broadband Project where the average cost of service provision per school was about one third of the estimated cost▪ delays in ducting projects in Galway and Mayo leading to a further underspend of €1 million.
Outturn	€8 million	
Vote 30 Agriculture, Food and the Marine		
Development of agriculture and food		Variance  €11 million / 41%
Original estimate	€27 million	Under the targeted agricultural modernisation scheme, farmers have two years to complete works that have been approved for grant aid – the grant is a maximum of 40% of the cost. The payments are made to farmers after works are completed. Therefore, expenditure on this subhead is impacted by farmers' ability to access funds. Expenditure was less than estimated as some works approved for grant aid were not completed and the funding provided was not fully drawn down. In addition, an extension of the deadline (to end-February 2014) for completion of work under the Sow Welfare Scheme meant that some payments to farmers that had been expected to be made in 2013 had not in fact been made by the end of the year.
Outturn	€16 million	

Subhead		Explanation provided
Vote 32 Jobs, Enterprise and Innovation		
Enterprise Ireland		Variance ↓ €19 million / 13%
Original estimate	€147 million	The overall saving of €18.8 million comprises <ul style="list-style-type: none">▪ €11.4 million relating to additional own resource income for Enterprise Ireland, from the sale/redemption of equity and venture capital investments, which was used instead of the Oireachtas grant to fund financial support to industry▪ €7 million relating to an under drawdown from the seed and venture capital programmes due to fundraising difficulties experienced by venture funds under the International Fund for Ireland and Development Capital programmes. This in turn led to delays in finalising legal agreements and the timing of drawdowns▪ a saving of €400,000 on capital building operations mainly relating to lower expenditure on buildings, IT infrastructure and maintenance/upgrade of the regional and overseas office networks. In addition, the development plans of Enterprise Ireland client companies have been curtailed or postponed due to the impact of the economic downturn.
Outturn	€128 million	
Vote 37 Social Protection		
Basic Supplementary Welfare Allowance Payments		Variance ↓ €53 million / 33%
Original estimate	€161 million	Improved processing times on primary schemes resulted in less recourse to interim basic supplementary welfare allowance payments. Consequently, recipient numbers and average payment values were lower than expected. Also, recoveries from primary schemes of interim basic supplementary welfare allowance payments made to persons awaiting decisions on claims were higher than expected.
Outturn	€108 million	
Other Working Age – income supports		Variance ↓ €16 million / 26%
Original estimate	€62 million	The savings on income supports that contributed to this underspend include <ul style="list-style-type: none">▪ savings of €16 million due to 68,500 less exceptional needs payments than profiled and offset by €4 million additional costs due to higher average payments than estimated (net saving €12 million)▪ savings of almost €2 million mainly due to 55,800 (15%) fewer other supplements payments as the number of people on schemes was lower than expected▪ humanitarian aid relocation expenses paid in 2013, which were €2 million less than expected.
Outturn	€46 million	
National Internship Scheme – JobBridge		Variance ↓ €14 million / 17%
Original estimate	€82 million	The average numbers were approximately 1,100 (16.5%) lower than the expected uptake of the additional places provided in Budget 2013.
Outturn	€68 million	

Subhead		Explanation provided
Other Working Age Employment Supports		Variance  €22 million / 26%
Original estimate	€86 million	€19 million of the underspend is due to some support programmes being slower to come on stream than anticipated <ul style="list-style-type: none">▪ €16 million savings on the Gateway scheme▪ €2 million underspent on disability activation and employment supports and▪ €1 million in respect of the JobsPlus scheme. Further savings of €3 million were due to less than anticipated demand for the Technical Assistance Training and Technical Employment Support Grant schemes.
Outturn	€64 million	
Family Income Supplement		Variance  €32 million / 14%
Original estimate	€230 million	Backlogs were cleared much quicker than expected leading to 11,200 (40%) more recipient numbers – a variance of €89 million. However, the average amount paid to recipients was €1,400 (18%) less than anticipated reducing the spend by €57 million.
Outturn	€262 million	
Payment to the Social Insurance Fund under Section 9(9)(a) of the Social Welfare Consolidation Act 2005		Variance  €172 million / 12%
Original estimate	€1,486 million	The subvention to the Social Insurance Fund (SIF) was lower than anticipated because <ul style="list-style-type: none">▪ SIF PRSI receipts were €205 million higher than expected▪ this was partially offset by expenditure on SIF schemes being €34 million higher than expected.
Outturn	€1,314 million	
Recoveries of Social Assistance overpaid		Variance  €15 million / 94%
Original estimate	€16 million	Improved recovery procedures were introduced in Budget 2013. A significant number of payments were received in 2013 following a Revenue DIRT data matching project, which resulted in a large number of overpayments being assessed, mainly in respect of Jobseekers Allowance payments.
Outturn	€31 million	
Vote 38 Health		
Statutory and non-statutory inquiries and miscellaneous legal fees and settlements		Variance  €10 million / 53%
Original estimate	€19 million	The saving on miscellaneous legal settlements and fees arises from the length of time taken to settle cases and claims, including claims under the Lourdes Hospital Payment Scheme. As the Department does not have control over the timing of settlements, it is difficult to estimate the number or value of cases which will be settled in a given year.
Outturn	€9 million	

Subhead		Explanation provided
Vote 39 Health Service Executive		
<i>Pension lump sum payments</i>		Variance  €93 million / 60%
Original estimate	€154 million	<p>The estimate envisaged almost 4,000 pension lump sum payments to retirees at an average of about €38,500 per retiree. There were 1,900 leavers from the statutory system in 2013.</p> <ul style="list-style-type: none">▪ €81 million savings were due to 2,100 less retirements than anticipated▪ the average gross lump sum paid (€32,000) was €6,500 less than anticipated – yielding savings of €12 million.
Outturn	€61 million	
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<i>Service developments and innovative service delivery projects</i>		Variance  €39 million / 58%
Original estimate	€67 million	<p>The savings are once-off time-related savings primarily within the 2013 Mental Health allocation relating to the recruitment of staff where the recruitment process was not finalised before year end.</p>
Outturn	€28 million	
<hr/>		
<i>Payments to the State Claims Agency</i>		Variance  €28 million / 29%
Original estimate	€96 million	<p>The original estimate was prepared on the basis that the High Court had begun to agree to settlements in respect of catastrophic injuries on a periodic payment basis, in anticipation of proposed legislation. Periodic payment orders (PPOs) allow for catastrophic injury cases to be settled on the basis of an initial lump sum to deal with up-front costs (e.g. general damages, home alterations, specialist equipment, etc.) followed by annual payments to meet on-going care costs.</p> <p>This estimate was subsequently revised upwards due to a change in approach by the High Court in respect to the settlement of catastrophic injury cases which occurred in late 2012. In the absence of PPO legislation, the High Court has in a number of cases converted the settlements back to traditional lump-sum settlements, where they had previously settled on an interim basis.</p>
Outturn	€124 million	
<hr/>		
<i>Building, equipping and furnishing of health facilities and of higher education facilities in respect of the pre-registration nursing degree programme, including payments in respect of property rental, lease costs, etc.</i>		Variance  €40 million / 12%
Original estimate	€329 million	<p>The procurement of design teams and contractors took longer than anticipated resulting in delays in site commencement by contractors.</p>
Outturn	€289 million	

Subhead		Explanation provided
Receipts – statutory charges in public hospitals, long-stay charges and charges for maintenance in private and semi-private accommodation in public hospitals		
Original estimate	€402 million	Variance  €107 million / 27%
Outturn	€295 million	
		The estimate allocation for this subhead was based on the following assumptions.
		<ul style="list-style-type: none">▪ €31.2 million had been included in respect of proposed legislation to provide for the charging of private patients in public beds. The legislation was not passed in 2013 and the HSE was, therefore, unable to raise these charges.▪ In December 2012, the HSE statutory hospitals received accelerated payments totalling €49.8 million, representing the insurers' estimate of amounts due to the HSE where the claim process had not been finalised. The amounts paid to the HSE during 2013 (as the relevant claims were finalised) were reduced to take account of the accelerated claims received in 2012. The estimate was based on the assumption that a similar arrangement would apply in 2013. No such accelerated payments were received from the insurance companies at the end of 2013.▪ The remaining shortfall mainly arises due to an increase in time taken for debtors to make payments.
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Miscellaneous receipts		
Original estimate	€116 million	Variance  €13 million / 11%
Outturn	€103 million	
		The estimate provision includes variable and once-off receipts which did not materialise in 2013.
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PCRS rebate receipts		
Original estimate	€27 million	Variance  €13 million / 48%
Outturn	€40 million	
		The estimate was based on rebates from pharmaceutical manufacturers being received in respect of drugs dispensed to medical card holders. During 2013, the rebate scheme was extended to the drug payment schemes.
<hr/>		
Vote 40 Children and Youth Affairs		
Youth Justice – Children Detention Schools		
Original estimate	€36 million	Variance  €17 million / 47%
Outturn	€19 million	
		The variance arises primarily as a result of a delay in finalising procurement and contractual arrangements for the commencement of the construction work on the National Children Detention Facility at Oberstown, Lusk, Co. Dublin.
<hr/>		
School age childcare initiative (cash-limited)		
Original estimate	€11 million	Variance  €11 million / 100%
Outturn	€18,000	
		The variance arose because the number of qualifying social welfare recipients identified by the Department of Social Protection for this scheme was lower than originally projected.

Source: Responses by the relevant accounting officers and analysis by the Office of the Comptroller and Auditor General.

4 Accounting for Office of Public Works Agency Services

- 4.1** A department may act as agent for other departments or offices (principals) in the provision of services which it is better equipped to do from the point of view of economy and convenience. Examples of agency services include
- management of construction projects, which are funded through the votes of the relevant departments, but are undertaken by the Office of Public Works (OPW) on their behalf
 - the collection of social insurance contributions by the Revenue Commissioners on an agency basis for the Department of Social Protection, which administers the Social Insurance Fund.
- 4.2** The Department of Public Expenditure and Reform's *Public Financial Procedures* specify that the principal is responsible for policy governing the transactions, while the agent is responsible for efficiency and economy in providing the service. Agency services involve financial transactions between the principal and the agent. Where services are provided on an agency basis, transactions are normally processed through suspense accounts with the service being a final charge in the accounts of the principal.¹
- 4.3** The agent may require the principal to provide cash advances from which to meet payments as they fall due. In such cases, the final charge in the accounts of the principal is the amount certified by the agent as having been actually disbursed by it in the year of account. Any unspent balances held by the agent at the end of the year represent a liability on the agent's balance sheet and an asset on the principal's balance sheet.
- 4.4** The purpose of this report is to outline the extent of agency services provided by the OPW and to examine whether OPW and principals have adequate procedures in place in respect of accounting for agency services.

Office of Public Works Suspense Accounts

- 4.5** OPW acts as an agent for departments and offices in cases where it carries out or awards contracts for capital works on their behalf. Up to the end of 2012, OPW also recouped from principals the cost of maintenance work carried out on premises occupied by departments and offices. From 2013, property maintenance costs for most departments and offices are charged to the OPW Vote, while capital works provided by OPW on an agency basis continue to be borne by principals.² However, since the estimate for the OPW Vote in 2013 was not passed by the Dáil until April 2013, OPW, on an interim basis, accounted for maintenance-type costs through suspense accounts until after that time. OPW stated that, in 2013, the voted allocation in respect of centralised maintenance expenditure was €17 million and the outturn was €19 million.
- 4.6** OPW has stated that, in most cases, principals provide advance funding to it for committed capital projects. Under this system, the principal should also operate a suspense account from where advance payments will be made.

¹ A suspense account is an account to which items are temporarily charged, generally in cases where the correct amount or appropriate destination of the charge is not known with certainty.

² Department of Public Expenditure and Reform circular 1 of 2013 introduced revised procedures for the maintenance of State property assets, except for a number of organisations which will continue to provide funding for maintenance works.

- 4.7** During 2013, OPW received funding of €58 million from principals and made payments to suppliers of €59 million on behalf of those organisations.^{1, 2} In 2013, it operated suspense accounts in respect of 3,700 projects.³
- 4.8** OPW maintains an individual suspense account for each project it undertakes on behalf of principals. Funding received by OPW from principals is credited to the suspense account and expenditure incurred by OPW in discharging agency services is debited to the suspense account. At any time, the balance recorded by OPW in a suspense account represents either
- unspent funds held by OPW on behalf of the principal (credit balance)
 - amounts spent by OPW and due to be recouped from the principal (debit balance).
- 4.9** Figure 4.1 provides an illustration of the accounting treatment that should apply in a situation where OPW is providing agency services.

Figure 4.1 Operation of notional suspense account system for OPW agency services

Event/transaction	Accounting treatment		
	OPW suspense	Department A suspense	Department A vote
Principal pays €5 million advance to OPW	+ €5 million	- €5 million	—
OPW pays €3 million to supplier	- €3 million	—	—
OPW notifies principal of payment to supplier	—	+ €3 million	- €3 million
Closing balances	+ €2 million	- €2 million	- €3 million
Accounting classification	creditor in OPW accounts	debtor in Department A's accounts	expense in Department A's accounts

Source: Office of the Comptroller and Auditor General

1 Includes €11 million receipts and €11 million payments to suppliers in respect of projects carried out on behalf of non-voted principal organisations.

2 Expenditure of €65 million reported by OPW in its 2013 appropriation account (Note 6.3) includes €5.5 million loan repayments to the Local Loans Fund collected from local authorities on behalf of that fund.

3 200 of the projects relate to the *Percent for Art* scheme. Under that scheme, up to 1% of the overall budget for capital construction projects can be used for the procurement of public art associated with the project, subject to financial limits.

Balances on Suspense Accounts

- 4.10** Where an advance funding system is in place, the balances recorded in OPW and principal suspense accounts should be equal i.e. each creditor (or debtor) suspense account recorded by OPW should be matched by an equal debtor (or creditor) suspense account in the books of the principal.
- 4.11** In practice, there can be differences in the balances recorded by OPW and principals at a point in time. OPW stated that it is not always possible to match the balances e.g. where OPW makes payments in the last working days of the year and does not have sufficient time to notify principals, prior to the production of their annual accounts.¹ However, the Accounting Officer in OPW also stated that OPW aims to issue annual statements as close to the year-end as possible and that principal departments were notified of end-2013 suspense account balances between 27 February 2014 and 5 March 2014.
- 4.12** In 2009, OPW received sanction from the Department of Finance for a net charge of €8.5 million on the OPW Vote in respect of maintenance works debts that were deemed to be irrecoverable from principals. At that time, OPW largely operated a system whereby it would pay for maintenance works in the first instance before retrospectively requesting funding from the principal. OPW has stated that all maintenance works carried out were paid for in full and the transaction represented a reconciliation of balances held by principals and did not result in any additional charges to the Exchequer.
- 4.13** In its 2013 appropriation account, OPW reported that, at the end of 2013, it held a net amount of just under €21 million of unspent funds in respect of 35 vote-funded organisations (principal departments).² OPW has stated that most of these funds were for committed projects. In their appropriation accounts, the principal departments reported corresponding OPW debtor balances of just over €11 million. The differences represented funds advanced to OPW by principal departments that have yet to be spent by OPW, but which had been charged in the appropriation accounts. In one case, the principal subsequently reversed an expenditure charge of €7 million in its appropriation account and this has reduced the difference between OPW reported creditors and principals' reported debtors to €2.4 million.
- 4.14** OPW has stated that in a number of cases, principal departments confirmed agreement with the suspense account balances recorded by OPW but subsequently reported different balances in their appropriation accounts.
- 4.15** Figure 4.2 sets out the transactions and balances recorded by OPW and the balances initially reported by principal departments for 2013.

¹ Section C6.7 of *Public Financial Procedures* sets out that, where it may be some time after the year end before the agent can determine the precise amounts disbursed, the principal may bring to charge in the financial year amounts in respect of agency services arrived at on an estimated basis. The estimate, which should be agreed between the principal and the agent, should be adjusted in the next financial year, when final figures are available.

² At the same time, OPW was owed about €915,000 (net) from non-voted principals.

Figure 4.2 OPW agency transactions and balances 2013

Principal department charged	OPW records						Principal records	Variance
	Balance 1 January	Cash received	Payments to suppliers	Adjustments	Percent for Art balance	Principals' funds held 31 December	Funds held by OPW 31 December	31 December
	€000	€000	€000	€000	€000	€000	€000	€000
President's Establishment	–	–	–	–	–	–	–	–
Department of the Taoiseach	(53)	(14)	60	7	–	–	–	–
Office of the Attorney General	(83)	–	56	(11)	–	(38)	–	(38)
Central Statistics Office	(51)	(230)	153	(56)	–	(184)	140	(44)
Office of the Director of Public Prosecutions	(469)	(154)	266	(61)	–	(418)	–	(418)
Chief State Solicitor's Office	(33)	(88)	126	(8)	–	(3)	–	(3)
Finance	(25)	(786)	801	(284)	–	(294)	43	(251)
Office of the Comptroller and Auditor General	16	(12)	15	(19)	–	–	–	–
Office of the Revenue Commissioners	(1,010)	(2,644)	3,716	(159)	74	(23)	564	541
Office of the Appeal Commissioners	(1)	–	–	–	–	(1)	–	(1)
Public Expenditure and Reform	–	(26)	–	20	–	(6)	–	(6)
Valuation Office	(12)	(50)	27	35	–	–	–	–
Public Appointments Service	(2)	(80)	95	(30)	–	(17)	–	(17)
Shared Services	–	–	–	–	–	–	1	1
Office of the Ombudsman ^a	(4)	(1)	19	(16)	–	(2)	–	(2)
Garda Síochána	(2,276)	(2,227)	2,705	(271)	203	(1,866)	2,368	502
Irish Prison Service	(121)	(152)	155	38	37	(43)	–	(43)
Courts Service	(874)	(2,448)	2,518	41	76	(687)	919	232
Property Registration Authority	(97)	–	133	(69)	17	(16)	(32)	(48)
Justice and Equality ^b	(2,052)	(1,339)	2,800	(263)	82	(772)	445	(327)
Environment, Community and Local Government ^c	(588)	(287)	965	(422)	53	(279)	–	(279)

Principal department charged	OPW records						Principal records	Variance
	Balance 1 January	Cash received	Payments to suppliers	Adjustments	Percent for Art balance	Principals' funds held 31 December	Funds held by OPW 31 December	31 December
	€000	€000	€000	€000	€000	€000	€000	€000
Education and Skills ^d	(804)	(6,727)	6,688	(59)	18	(884)	804	(80)
International Cooperation	(1)	–	6	(6)	–	(1)	–	(1)
Foreign Affairs and Trade	(474)	(389)	586	(139)	3	(413)	376	(37)
Communications, Energy and Natural Resources	(300)	(153)	176	(88)	65	(300)	–	(300)
Agriculture, Food and the Marine	(1,112)	(1,363)	1,624	(139)	78	(912)	1,168	256
Transport, Tourism and Sport ^e	(1,704)	(3,027)	2,492	124	37	(2,078)	–	(2,078)
Jobs, Enterprise and Innovation ^f	(224)	(29)	179	(166)	24	(216)	209	(7)
Arts, Heritage and the Gaeltacht ^g	(1,574)	(928)	2,039	164	57	(242)	19	(223)
National Gallery	(116)	–	66	–	50	–	–	–
Defence	(212)	(155)	339	(166)	–	(194)	3	(191)
Social Protection ^h	(2,578)	(12,947)	13,599	(1,976)	80	(3,822)	4,315	493
Health	(49)	(107)	165	(59)	–	(50)	–	(50)
Health Service Executive	(20)	(254)	222	8	19	(25)	–	(25)
Children and Youth Affairs ⁱ	(1,506)	(10,223)	4,703	–	53	(6,973)	22	(6,951)
Total	(18,409)	(46,840)	47,494	(4,030)	1,026	(20,759)	11,364	(9,395)

Source: Appropriation Accounts, 2013 and Office of Public Works

- Notes:
- a Includes the Office of the Commissioner for Public Service Appointments.
 - b Includes the Equality Tribunal, the Probation and Welfare Service, the Reception and Integration Agency and the Insolvency Service of Ireland.
 - c Includes Met Éireann.
 - d Includes FÁS, Commission on Child Abuse and the National Education Psychological Service.
 - e Includes the Irish Coast Guard.
 - f Includes the Companies Registration Office and the Patents Office.
 - g Includes the National Archives.
 - h Includes the Community Welfare Service.
 - i Includes Irish Youth Justice.

Principal Departments with no Suspense Accounts or Zero Balances

- 4.16** The Comptroller and Auditor General's Report on the Accounts of the Public Services 2010 outlined the practice in two principal departments – Transport, Tourism and Sport, and Foreign Affairs and Trade – of charging the appropriation account each year the full amount of any advances made to OPW. The report pointed out that, in accordance with *Public Financial Procedures*, the advances should be charged to a suspense account in the principal's books and the appropriation accounts should not be charged until a matured liability has arisen. The accounting officers in both departments undertook to ensure that the appropriate accounting arrangements would be put in place.
- 4.17** There were fourteen cases at the end of 2013 – for which the total funds held by OPW was €3.3 million – where principal departments either did not operate a suspense account during 2013 or reported a zero balance and therefore did not record OPW as a debtor.¹ Figure 4.3 sets out the five largest of those OPW suspense account balances.

Figure 4.3 Top five balances recorded by OPW for principals that did not operate a suspense account or reported a zero balance, at end-2013

Principal department/office	Balance per OPW records €m
Transport, Tourism and Sport ^a	2.078
Office of the Director of Public Prosecutions	0.418
Communications, Energy and Natural Resources	0.300
Environment, Community and Local Government ^b	0.279
Health	0.050
Total	3.125

Source: Appropriation Accounts 2013

Notes: a Includes €1.7 million held by OPW in respect of the Irish Coast Guard.

b Includes €178,000 held by OPW in respect of Met Éireann.

¹ In ten cases, no suspense account was operated during 2013 and OPW reported that it held funds of €2.9 million in respect of these cases. In the remaining four cases, suspense accounts were operated during 2013 and OPW reported holding total funds of €400,000 in respect of these votes.

4.18 Each principal listed in Figure 4.3 was requested to provide an explanation for not recording a suspense account balance in respect of amounts held on its behalf by OPW at the end of 2013.

- The Accounting Officer in the Department of Transport, Tourism and Sport stated that it had been his understanding that funding provided to OPW during 2013 towards capital projects being undertaken on behalf of the Irish Coast Guard would be expended by the end of the year, or shortly thereafter. He is of the view that charging the payments to the Department's Vote was the optimal business solution because there was no guarantee that the necessary capital funding would have been available in 2014. He further stated that operating a suspense account placed an administrative burden on the Department and that there is no loss to the Exchequer in funding being held temporarily by OPW in this way. However, he also noted that the Department now operates suspense accounts in respect of OPW projects, and that they will be reviewed quarterly to ensure agreement with OPW records.
- The Accounting Officer in the Office of the Director of Public Prosecutions stated that where his office makes payments to OPW in respect of capital works, the expenditure is charged to the vote in the year in which the work is carried out. His office is liaising with the government accounting section in the Department of Public Expenditure and Reform in relation to the appropriate accounting treatment for an amount of €100,000 paid to OPW in 2006 for a refurbishment project that did not subsequently proceed. He also stated that the OPW balance should be reduced by €246,000, as the OPW has clarified to him that this amount relates to a project that is fully complete and that the money is no longer available to his office.
- The Accounting Officer in the Department of Communications, Energy and Natural Resources noted that, historically, it has experienced challenges in reconciling suspense account balances with OPW, particularly in relation to functions that have been transferred to other departments. He stated that following discussions with OPW in relation to suspense account balances, his Department received a refund from OPW during 2013, which reduced its suspense account balance to zero. He added that his Department continues to liaise with OPW with the aim of eliminating such issues. The Accounting Officer in OPW has agreed that €138,000 of the balance reported as held on behalf of the Department is incorrect and is proper to another principal.
- The Accounting Officer in the Department of the Environment, Community and Local Government stated that an advance payment of €200,000 made to OPW during 2013, in respect of works at Met Éireann, should have been charged to a suspense account, but was mistakenly charged to the Department's Vote. €178,000 of that advance payment remained unspent and was held by OPW at the end of 2013. The Accounting Officer stated that the remaining €101,000 held by OPW at end 2013 was an unspent balance dating back to 2008, of which €44,000 has been utilised by the OPW to date in 2014 on elective works carried out on behalf of the Department.
- The Accounting Officers in OPW and the Department of Health have agreed that the €50,000 reported by OPW as being held on behalf of the Department is incorrect and is proper to another vote.

Disparities in Suspense Account Balances

- 4.19** In 15 cases where suspense account balances were reported by principal departments, the departments' records of amounts due to them did not agree with the OPW records. The principal departments with the greatest differences are set out in Figure 4.4.

Figure 4.4 Five largest differences initially reported between OPW and principal departments

Principal department	Amount held		Over/(under), by department
	Per OPW €m	Per department €m	
Children and Youth Affairs ^a	6.973	0.022	(6.951)
Office of the Revenue Commissioners	0.023	0.564	0.541
An Garda Síochána	1.866	2.368	0.502
Social Protection ^b	3.822	4.315	0.493
Justice and Equality ^c	0.772	0.445	(0.327)
Total	13.456	7.714	(5.742)

Source: Appropriation Accounts 2013

- Notes:
- a OPW includes €7 million relating to the Irish Youth Justice Service that was not initially reported as a debtor in the Children and Youth Affairs appropriation account. The Children and Youth Affairs appropriation account has been amended to report the OPW debtor of €7 million.
 - b OPW includes €171,000 in respect of the Community Welfare Service due to OPW that is not reported as a debtor in the Social Protection appropriation account.
 - c Includes balances recorded by OPW and Justice and Equality in respect of the Probation and Welfare Service. OPW also includes balances held totalling €253,000 in respect of the Equality Tribunal, the Reception and Integration Agency and the Insolvency Service of Ireland that are not reported as an OPW debtor in the Justice and Equality appropriation account.

- 4.20** The Accounting Officer in the Department of Children and Youth Affairs has adjusted the appropriation account so that only those amounts disbursed by OPW are charged to the Vote in 2013 and that the appropriate debtor is recorded in respect of funds held by OPW. The appropriation account now reports that OPW held €6.985 million on its behalf at the end of 2013 and the Department is liaising with OPW regarding the residual difference.
- 4.21** The Accounting Officer for Vote 9 Revenue Commissioners stated that Revenue maintains a suspense account to record advances paid to OPW and that matured liabilities are charged to its appropriation account based on OPW notifications of expenditure. She stated that €361,000 of the difference related to OPW expenditure incurred in 2013 that was not notified to Revenue until after its appropriation account was prepared (in March 2014). She stated that the remaining difference (€180,000) relates to payments to OPW that Revenue did not consider to be part of the suspense account, at the time of preparing its appropriation account. She noted that Revenue is engaging with OPW with the aim of improving the timeliness of statements received and facilitating earlier reconciliation of suspense account balances.

- 4.22** An Garda Síochána stated that it carries out reconciliations between its own suspense account and the monthly statements of invoices received from OPW. It is satisfied that €2.368 million was the correct amount held by OPW on its behalf at the end of 2013. An Garda Síochána has acknowledged that about €220,000 of the difference can be attributed to the cost of the Garda station closure programme and an invoice for this sum from OPW is outstanding. Discussions between OPW and An Garda Síochána are ongoing regarding the remaining difference.
- 4.23** The Accounting Officer in the Department of Social Protection stated that, since the start of June 2013, the Department has been receiving monthly reports from OPW containing summary information on suspense account balances and that it investigates any disparities with its own records. She stated that the Department can fully reconcile the amounts recorded in its appropriation account to those monthly reports but that it does not have full access to the backup documentation held by OPW. She stated that further investigation is required to resolve the differences between the Department's records and those of OPW and noted that the matter is being addressed with OPW by officials from her Department.
- 4.24** The Department of Justice and Equality stated that the difference between its records and those of OPW may be the result of timing issues and differences in the accounting policies employed by the two organisations. In particular, it noted that
- a payment of €133,000 to OPW was treated by the Department as a payment for services, and therefore shown as expenditure in the appropriation account, but was accounted for by OPW as an advance payment
 - the OPW balance at the end of 2013 includes €100,000 being held in respect of the set-up and fit-out of Phoenix House, whereas the Department's records indicate that this account was balanced and cleared in November 2013
 - a balance of €4,500 recorded by OPW as due to the Department relates to funding for works carried out on premises vacated by the Department about nine years ago. OPW has confirmed that this suspense account is dormant and arrangements are being made to eliminate it in OPW's books.
- 4.25** Across the other ten cases, the principal departments reported suspense account balances that were, on an aggregate basis, €380,000 less than those reported by OPW.
- 4.26** In one further case where OPW reported that no suspense account was in place, the principal recorded a small balance held by OPW. Balances between OPW and principal departments agreed in five cases, all of which recorded zero balances.

OPW Management of Suspense Account Balances

- 4.27** OPW has indicated that all projects are reviewed on an ongoing basis and that the principal receives regular progress and expenditure reports at key stages of the project. It stated that any queries received are dealt with on a more regular basis. In addition, OPW sends annual statements in respect of each project to principals which set out the opening balance, the receipts, payments and adjustments recorded during the period, and the balance at the end of the year. OPW stated that further information is made available at the request of the principal.

4.28 Details of OPW's arrangements for communicating with principals are set out in Annex A.

4.29 OPW stated that the balances held in principals' suspense accounts are monitored on an ongoing basis and are reconciled to cash balances held in its account with the Central Bank.

4.30 OPW processed in excess of 27,000 transactions on principals' suspense accounts during 2013, with about 21,000 of these accounted for by receipts from principals or payments to suppliers and the remaining 6,000 consisting of adjustments made by OPW. The 6,000 adjustments had a net effect of increasing OPW credit balances (unspent funds belonging to principals) at the end of 2013 by €3 million.¹ The adjustments included

- 2,600 credits to OPW suspense accounts (amounting to €7.5 million) where OPW charged its own appropriation account. OPW stated that these adjustments were made in order to charge its 2013 appropriation account with maintenance costs incurred in 2013 that had been temporarily accounted for through suspense accounts pending the approval of the estimates for the OPW Vote in April 2013
- debit adjustments (amounting to €4.3 million) on principals' suspense accounts made in respect of prior years. OPW stated that, following a reconciliation of non-maintenance suspense accounts, these funds were identified as no longer being required and will be surrendered to the Exchequer.

4.31 A sample of 23 suspense accounts, with net funds of €10 million held by OPW at the end of 2013, was reviewed as part of this examination. Details of the sample are at Annex B. The review showed that

- around €23 million in advance funding was received by OPW in respect of the suspense accounts in the sample, but only just over €13 million has been paid to suppliers. The aggregate unspent balance at the end of 2013 represents 44% of the advance funding received by OPW in respect of the suspense accounts in the sample. OPW stated that so far in 2014, expenditure of €26 million had been incurred in respect of twelve of the sample – €9 million of the balance at the end of 2013 related to those twelve
- the reallocation of advance funding held by OPW from one suspense account to another appears to be commonplace, with 13 of the 23 suspense accounts in the sample having had funds transferred either to or from other suspense accounts
- OPW had not made any repayments of unspent advances to departments in respect of the suspense accounts included in the sample.

4.32 In relation to the transfers noted in 13 of the sample suspense accounts, OPW stated that transfers between suspense accounts are carried out with the consent of the principal department. OPW outlined that in three cases the transfers were of funds to the percent for art fund and in two cases were from non-project-specific suspense accounts used as pre-funding for unforeseen works. In three of the remaining eight cases, the transfers were to close off dormant accounts and in five cases the transfers were to move funds from one project to another.

¹ Comprises adjustments that increased principal departments' balances by €4 million and adjustments that reduced non-voted principals organisations' balances by €1 million.

Views of the Accounting Officer in OPW

- 4.33** The Accounting Officer in OPW stated that *Public Financial Procedures* may need to be reviewed to ensure that agency services can continue to be provided efficiently, as the timely provision of funding to OPW is critical to the efficient and effective delivery of services. Her view is that when a contract is placed by OPW and a demand for funds issues to the principal, this should be deemed a matured liability, with the relevant payment being charged to the principal's vote.
- 4.34** She further stated that the annual estimates process and the system of cash-based accounting pose severe difficulties for departments receiving agency services. She noted that where funds voted to a department in one financial year are not fully spent, there is no guarantee that those funds will be made available in the following year, thereby putting pressure on principals to charge available funds to their votes, as budgets allow. She stated that a robust guaranteed system of multi-annual capital funding is required to address this at least in part. She also stated that the issues raised in this report highlight the need for a move to accrual accounting as envisaged by the Public Service Reform Plan and that the need for a multi-annual budget and expenditure system to remove the restrictions caused by annual funding.

Conclusions and Recommendations

- 4.35** The agency concept is useful as it can optimise certain specialist skills and expertise that have been built up within a particular department by making them available to other departments and offices.
- 4.36** My Office has reported previously that there have been discrepancies between the accounts of OPW and principals in relation to agency services provided by OPW. The primary risk is that incorrect amounts may be charged to appropriation accounts.
- 4.37** Prior to 2013, OPW carried out both maintenance and capital works for departments, on an agency basis, with departments being required to provide advance funding to OPW, accounted for through suspense accounts. Since the transfer of maintenance budgets to OPW (Vote 13) in 2013, the risk of discrepancies in suspense account balances between the records of principals and OPW is reduced.
- 4.38** Ten vote-funded departments did not operate suspense accounts at the end of 2013 in respect of agency services provided by OPW. The total funds recorded by OPW as being held at end-2013 in respect of those departments was over €2.9 million. The balance held by OPW in respect of the Department of Transport, Tourism and Sport represented €2.1 million of this, with smaller amounts recorded in respect of the other departments.

Recommendation 4.1

The Department of Public Expenditure and Reform should issue instructions to departments or offices (principals) receiving agency services from OPW, highlighting the requirement to operate a suspense account where advance payments are being made and the fact that only amounts certified by OPW as having been disbursed by it in the year of account should be charged to the principal's appropriation account.

Secretary General's response

Agreed. *Public Financial Procedures* require transparency and accountability in the management of public money. As outlined in this report, transactions for agency services are normally through suspense, with the final charge on the appropriation account reflecting the amounts actually disbursed by the agent – in this situation, OPW.

In this context, the Department of Public Expenditure and Reform, in its forthcoming circular for the appropriation accounts 2014, will include instructions relating to the appropriate accounting procedures for agency services, in particular, the arrangements with OPW. This issue will also be included in the guidance manual for vote holders, which is prepared in the context of the annual appropriation accounts.

- 4.39** The system of accounting for advance funding for agency services provided by OPW does not appear to be operating efficiently or effectively. During the course of this examination, both OPW and departments receiving agency services from OPW referred to several issues with the current system including
- the large administrative overhead
 - the volume of transactions to be reconciled
 - balances recorded by OPW not being adjusted to reflect the transfer of responsibility for agencies or other departmental bodies between departments
 - an incentive for principals to charge advance payments to votes due to the risk that funding available in one year may not be available the following year.
- 4.40** Over the past number of years, there have been significant transfers of functional responsibility between departments. Such reorganisation can effectively represent a 'merger or acquisition' scenario for departments and there can be significant accounting implications in relation to fixed assets, current assets and liabilities.

Recommendation 4.2

The Department of Public Expenditure and Reform should develop a protocol for the accounting arrangements that are to apply in cases where functional responsibilities are transferred between departments.

Secretary General's response

Agreed. The Department issues instructions periodically to departments regarding the accounting arrangements which apply in transfer of functions situations. These arrangements will be reviewed and a circular to this effect will be prepared and published in 2015.

- 4.41** For a sample of 23 suspense accounts reviewed, the frequency with which funds had been transferred to or from other suspense accounts and the level of unspent balances at the end of 2013 suggests that OPW could adopt a more efficient and effective system for calculating the amount of advance funding to request from principals.

Recommendation 4.3

While the revised funding arrangements in respect of maintenance expenditure introduced during 2013 has significantly reduced the volume of suspense account transactions, the Department of Public Expenditure and Reform should consult with OPW and principal organisations to ensure that an efficient and effective funding system is put in place for agency services.

Secretary General's response

Agreed. The Department is satisfied that OPW, as agent, provides a centralised service to a high standard of expertise which avoids potential problems in respect of procurement, contracting and inter-departmental competition that might arise if departments were to engage in construction projects on their own account. The Department is anxious that the system should operate to the maximum feasible efficiency level and will engage in consultation to that end.

- 4.42** In 2009, OPW received sanction from the Department of Finance for a net charge of €8.5 million to the OPW Vote to enable it to bring its suspense account balances into agreement with principals' records. Further adjustments to suspense account balances were made during 2013 in respect of the revised funding arrangements for maintenance work and the identification of certain funds held that were no longer required.
- 4.43** However, the amounts that OPW has recorded as due to or from principal organisations are still not in agreement with the balances recorded by those organisations. In fact, in all 29 cases where OPW was holding funds in suspense accounts on behalf of principal departments, the balance reported by OPW at the end of 2013 did not agree with the balance recorded by the principal. At the end of 2013, the amount of voted departments' funds initially recorded as held by OPW was about €9.4 million greater than that recorded by those departments. Following an adjustment of €7 million in the case of one appropriation account, the final difference between OPW and departments' balances reported is €2.4 million.
- 4.44** During the course of this examination, departments receiving agency services from OPW highlighted challenges in reconciling suspense account balances with OPW records due to insufficient information being received from OPW and concerns about the timeliness of information received in respect of payments made towards the end of the year.

Recommendation 4.4

OPW should provide principal organisations with regular and timely statements for all suspense accounts in respect of agency services. Information should be provided at a project level, showing the opening balance, transactions (i.e. advances received, payments to suppliers and any adjustments) during the period and the balance of funds held on behalf of principals at the end of the period.

Accounting Officer's response

Agreed. The OPW proposes to make more regular statements available to principals. The statements will be provided at summary level for all principals with the facility to drill down to projects and transactions.

Annex A OPW Formal Communications with Principal Organisations

OPW has provided an outline of the procedures in place for formal communications with principal organisations regarding agency services carried out by it and the related suspense account charges and balances.

Capital Works Projects

Departments and offices wishing to have elective work carried out are advised that they are required to provide advance funding. In some cases, the funding is for a programme of related work or an individual contract. Case officers liaise with the principal post-tender stage to confirm the cost price of the works and to arrange prefunding. Any changes to the scope of works that require additional funds (principal request and unforeseen events) must be cleared with the principal before commitment is given to proceed.

Suspense accounts are set up to account for this funding.

The principal is given regular updates on the progress of the work and in many instances attends site meetings and other project meetings. OPW provides reports showing the expenditure on a project to principals on request.

The principal receives a notification when a project is complete and another when the final retentions stage has been reached.

Some principals have meetings with OPW staff in relation to all their accommodation issues at which time individual projects will be discussed. OPW Accounts Branch circulates end-year suspense account balances to all principals.

Maintenance Works – where funds are provided by Principal Organisations

Department of Public Expenditure and Reform Circular 1 of 2013 sets out the organisations for which maintenance costs will be borne by OPW. A small number of organisations excluded from that circular must continue to provide funds to OPW in respect of maintenance works carried out on its behalf.

Works are carried out by the OPW Property Maintenance section on an agency basis following a request from the principal. A formal requisition for the works is required to mitigate any future disagreement and to ensure the principal has a record of the request.

At the start of each month, bills are issued to principal organisations in respect of the previous month. When the principal has reviewed and is satisfied with these bills, through interaction with the OPW administration staff, it gives its agreement to offset the liability against any funds held by OPW (usually replenished to fund an average of three months maintenance) or by a payment to OPW. Funds are not transferred from advance funding accounts without formal instruction from the principal.

All principals are encouraged to subscribe to the advance funding initiative rather than organising payments on a monthly basis.

Maintenance Works – funded by OPW

With the introduction of Circular 1 of 2013, OPW issue an annual statement to principal organisations where maintenance cost is borne by OPW detailing OPW expenditure on buildings occupied by those organisations.

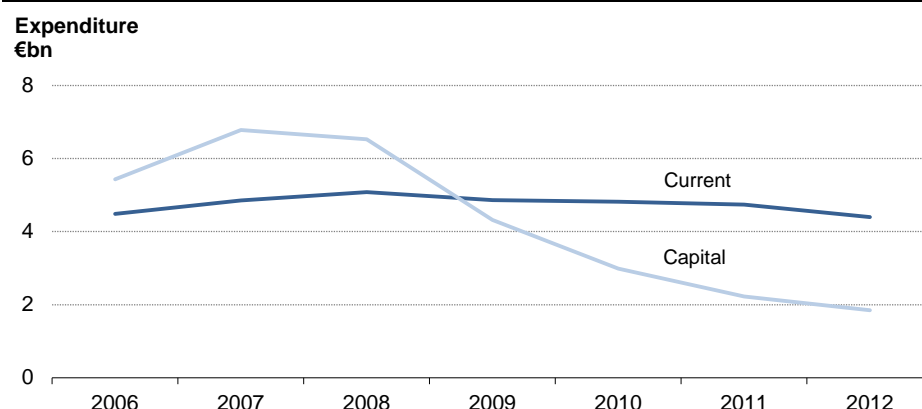
Annex B Sample of OPW suspense accounts – transactions from commencement to 31 December 2013

Principal organisation	Project	Receipts from principal	Funds transferred from other projects	Funds transferred to other projects	Total funds available for project	Payments to suppliers	Refunds to principal	Funds due to OPW / (unspent) at 31 December 2013
		€000	€000	€000	€000	€000	€000	€000
Children and Youth Affairs	National Detention School – new build	(14,183)	–	64	(14,119)	7,542	–	(6,577)
Children and Youth Affairs	National Detention School – maintenance	(283)	(117)	20	(380)	–	–	(380)
Office of the Revenue Commissioners	Thurles office – glazing	(571)	–	27	(544)	543	–	(1)
Office of the Revenue Commissioners	Fairgreen office, Galway – fit-out	(1,001)	–	1,001	–	–	–	–
Office of the Revenue Commissioners	Mount Street office, Dublin – fit-out	–	–	–	–	96	–	96
Garda Síochána	ICT equipment upgrade	(100)	(8)	–	(108)	45	–	(63)
Garda Síochána	Garda Repository, Dublin – works	(238)	–	238	–	–	–	–
Garda Síochána	Miscellaneous properties – elective works	–	(1,737)	–	(1,737)	–	–	(1,737)
Garda Síochána	Garda Memorial	(438)	–	–	(438)	448	–	10
Social Protection	Davitt House, Castlebar – fit-out	–	(1,000)	–	(1,000)	782	–	(218)
Social Protection	Hynes Building, Galway – fit-out	(109)	–	–	(109)	385	–	276
Social Protection	Loughrea office – fit-out	(1,576)	–	1,013	(563)	559	–	(4)
Social Protection	Killarney office, Kerry – fit-out	(726)	(3)	–	(729)	764	–	35
Social Protection	INTREO, Killarney Park office, Kerry	(70)	–	–	(70)	–	–	(70)
Social Protection	Monaghan office – fit-out	(480)	–	–	(480)	411	–	(69)
Social Protection	INTREO, Ballina offices, Mayo	(537)	–	4	(533)	232	–	(301)
Social Protection	Drogheda offices, Louth – fit-out	(511)	–	–	(511)	340	–	(171)
Social Protection	Dun Laoghaire office, Dublin – fit-out	(311)	–	–	(311)	327	–	16
Social Protection	Balbriggan Bus Campus, Dublin	(900)	–	–	(900)	–	–	(900)
Justice and Equality	Tipperary office – percent for art account	–	(41)	–	(41)	–	–	(41)
Justice and Equality	Ardilaun House, Dublin – Refurbishment	(114)	–	97	(17)	17	–	–
Justice and Equality	Phoenix House, Dublin – furniture	(252)	–	–	(252)	279	–	27
Justice and Equality	Phoenix House, Dublin – fit-out	(684)	–	–	(684)	619	–	(65)
Total		(23,084)	(2,906)	2,464	(23,526)	13,389	–	(10,137)

5 Central Government Funding of Local Authorities

- 5.1** Aggregate expenditure by local authorities in 2012 (the last year for which audited information is available) is estimated at €6.3 billion.¹ This comprised around €1.9 billion in capital expenditure, and around €4.4 billion in current expenditure (see Figure 5.1).²

Figure 5.1 Local authority expenditure by type, 2006 – 2012



Source: Department of the Environment, Community and Local Government

- 5.2** Local authority capital spending is spending that results in the creation or acquisition of assets that have a use beyond the year in which they are provided e.g. road construction, building or purchase of houses, creation of local amenities, etc. Local authority capital programmes are financed largely by State grants from a variety of sources, with some funding from borrowings, development levies, own internal resources and property sales.
- 5.3** Current expenditure (sometimes referred to as revenue expenditure) covers the day-to-day running of local authorities, including staff salaries, housing maintenance and pensions. Current expenditure is funded from a variety of sources, including Exchequer and Local Government Fund grants (about 34% of the total in 2012),³ local authority rates (about 33%) and charges for goods and services such as commercial water charges, housing rents and parking charges (about 25%).⁴ The contribution to current expenditure from the different income sources varies between authorities.
- 5.4** As shown in Figure 5.1, capital expenditure by local authorities has been declining year on year since reaching its peak level of €6.8 billion in 2007. Capital expenditure in 2012 was about 17% below the previous year. Local authority current expenditure showed a 7% reduction on the 2011 level.
- 5.5** The objective of this report is to provide an overview of the trends in funds flowing from and through central government sources to local authorities, and of the purposes for which funds have been provided.

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

2 Collation of local authority expenditure outturns for 2013 had not been finalised by the Department of the Environment, Community and Local Government at the time of this report.

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

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

Central Government Transfers

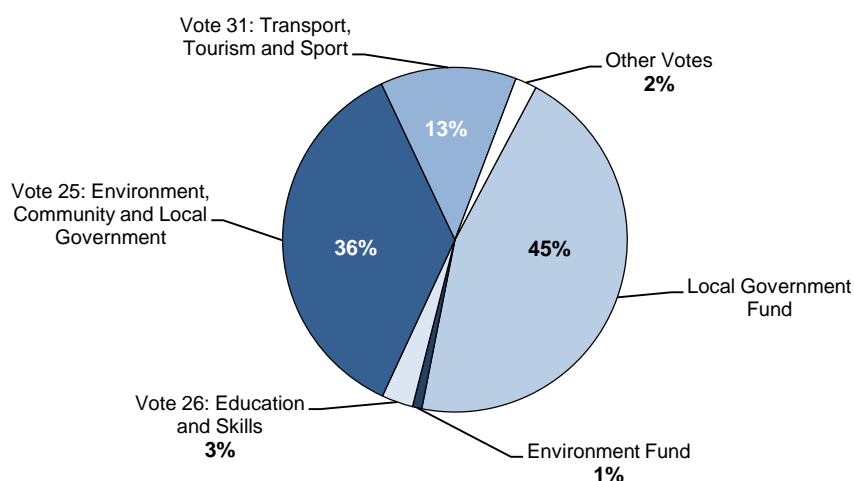
- 5.6** Transfers of funding from central government sources to local authorities in 2013 totalled around €2.4 billion, which represents a decrease of about 17% on 2012.¹ Around 54% of central government funding to local authorities in 2013 originated as Exchequer funding (see Figure 5.2). Some of the Exchequer funding was paid directly to local authorities from voted funds, with the remainder being routed through departmental agencies. The non-Exchequer sourced funding (46% of the total) was provided via the Local Government Fund and the Environment Fund.
- 5.7** The resources in the Local Government Fund are used mainly to provide local authorities with funding for their day-to-day activities and for the upkeep of regional and local roads. In the past, the Local Government Fund has been financed mainly by the proceeds of motor tax. An annual Exchequer contribution was also paid into the Fund from the Vote for the Office of the Minister for the Environment, Community and Local Government (Vote 25). The Exchequer contribution ceased in 2012 and was replaced by the proceeds of the household charge which became payable by owners of residential property from January 2012.² In 2013, just over €23 million (2012 – €114 million) collected in respect of household charge arrears was paid into the Fund.
- 5.8** The household charge was established as an interim measure pending the introduction of a property tax. The new local property tax (LPT) became payable from July 2013 and is administered by the Revenue Commissioners.³ Receipts of €318 million in respect of the LPT in 2013 were paid into the Central Fund of the Exchequer. From 2014, the Minister for Finance will pay into the Local Government Fund an amount equivalent to the LPT proceeds paid into the Central Fund each year.
- 5.9** The Environment Fund is used primarily to support environmental initiatives, campaigns and programmes, many of which are organised at local or regional level under the auspices of local authorities. The proceeds of the plastic bag levy, which is paid by consumers and collected from retailers by the Revenue Commissioners, are paid into the Fund. Receipts from the landfill levy are also paid into the Fund. Disbursements from the Fund are used to assist projects based on their capacity to protect or enhance the environment.

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

² The Local Government (Household Charge) Act 2011. The household charge applied to the year 2012 only. The Local Government Management Agency was responsible for collecting the charge on behalf of the local authorities.

³ The Finance (Local Property Tax) Act 2012. A half-year charge applied in 2013, with the tax coming into full effect in 2014. Any arrears (including late payment penalties) in respect of the household charge for individual properties is included as part of the property tax liability. See Chapter 15 for further details of the Local Property Tax.

Figure 5.2 Sources of central government financing for local authorities, 2013

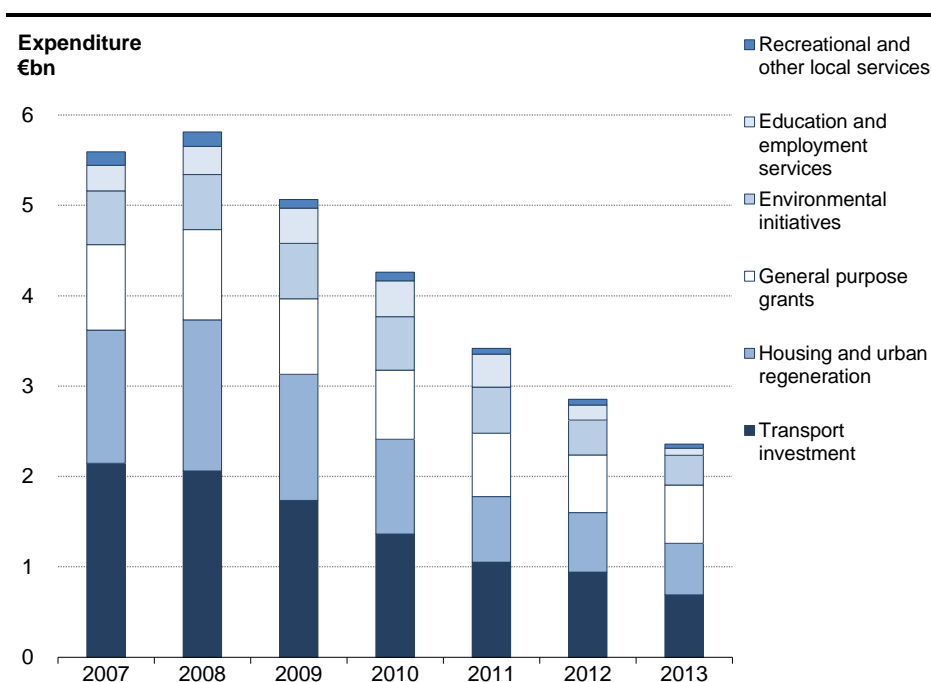


Source: Analysis by the Office of the Comptroller and Auditor General

Application of Funding

- 5.10** Most of the funding sourced from central government and provided to local authorities must be used for specific local authority services. These can be grouped into six broad programme categories. Figure 5.3 presents a breakdown of the transfers to local authorities for 2007 to 2013 showing the programmes being supported (a detailed breakdown is at Annex A).
- 5.11** In 2013, about 80% of the total provision from central government to local authorities was accounted for by three categories. Those were transport initiatives (29%), general purpose grants (27%) and housing and urban regeneration programmes (24%).

Figure 5.3 Central government transfers to local authorities, by expenditure programme, 2007 – 2013



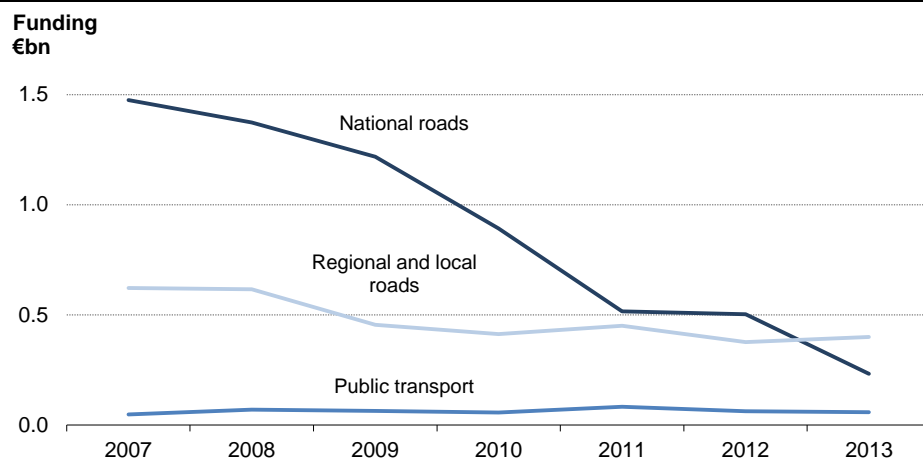
Source: See Annex A

Transport Investment

- 5.12** Improvement and maintenance of national roads is the responsibility of the National Roads Authority, operating under the aegis of the Department of Transport, Tourism and Sport. The National Roads Authority normally uses local authorities as its agents to deliver the projects, and channels expenditure through them.
- 5.13** The Department receives an allocation for the upkeep of regional and local roads from the Local Government Fund. It provides funding to the National Roads Authority which in turn allocates funding to the individual local authorities.
- 5.14** The National Transport Authority, also operating under the aegis of the Department, funds local authorities for improvements in the public transport system. Funding objectives include increased accessibility for older people, improved traffic flows, more routes for cyclists and pedestrians and better access for buses and taxis.

- 5.15** Figure 5.4 shows the trend in the level of funding from central government sources provided to local authorities in respect of the key transport areas in the period 2007 to 2013.

Figure 5.4 Funding to local authorities for transport infrastructure, 2007 – 2013

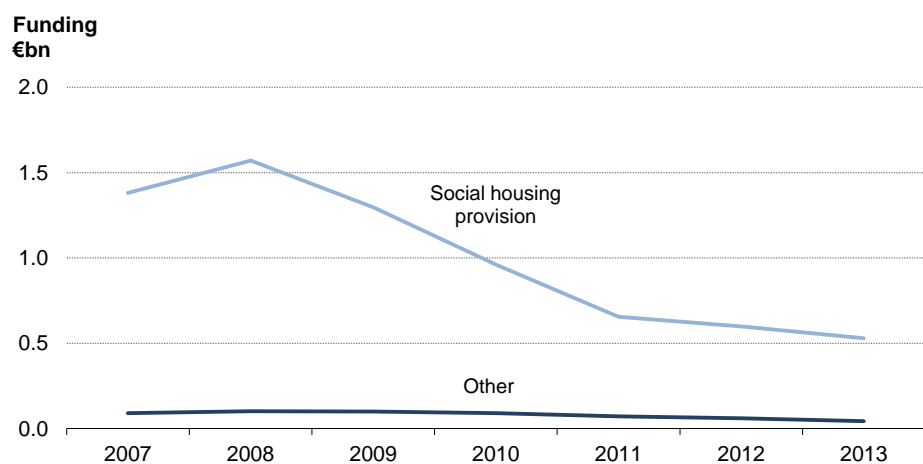


Source: See Annex A

Housing and Urban Regeneration

- 5.16** The bulk of funding for housing and urban regeneration is provided directly to local authorities by the Department of the Environment, Community and Local Government, from voted funds. The funding is used by local authorities for the provision of housing, regeneration and remedial work, traveller accommodation, voluntary and cooperative housing, the Rental Accommodation Scheme, housing adaptation grants, and accommodation for homeless people.
- 5.17** Figure 5.5 shows the trend in the level of funding from central government sources provided to local authorities in respect of housing and urban regeneration in the period 2007 to 2013.

Figure 5.5 Funding to local authorities for investment in housing and urban regeneration, 2007 – 2013

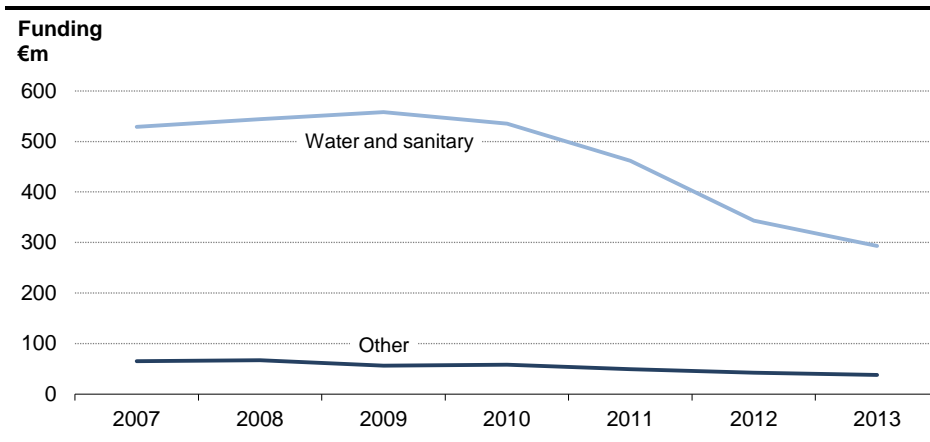


Source: See Annex A

Environmental Initiatives

- 5.18** Almost 90% of the central funding provided to local authorities in support of environmental services in 2013 was directed towards investment in water services, and was primarily funded by the Department of the Environment, Community and Local Government. The remaining funding for environmental initiatives comes from the Office of Public Works (flood relief works), the Local Government Fund and the Environment Fund.
- 5.19** Figure 5.6 shows the trend in the level of funding from central government sources provided to local authorities in respect of environmental initiatives in the period 2007 to 2013.

Figure 5.6 Funding to local authorities for environmental initiatives, 2007 – 2013

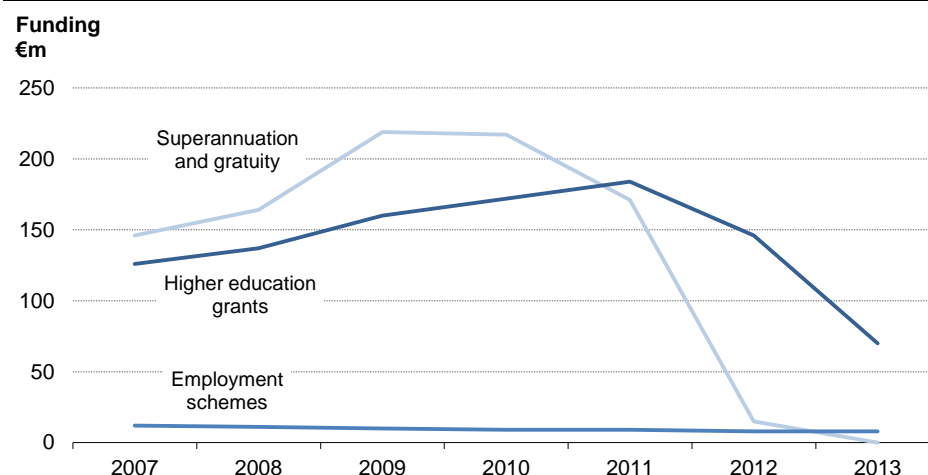


Source: See Annex A

Education and Employment Services

- 5.20** Prior to 2012, higher education grants were awarded by either the relevant vocational education committee (VEC) or local authority. The Department of Education and Skills reimbursed the cost of grants awarded by local authorities. With effect from the academic year 2012/2013, all new students must submit applications for support under the student grants scheme to a national grant awarding authority, called Student Universal Support Ireland. As a result, the amount of funding provided to local authorities for higher education grants has fallen significantly (see Figure 5.7 over). In time, this line of funding to local authorities will disappear.
- 5.21** The Department has also reimbursed local authorities in respect of superannuation benefits and gratuity costs for retired teaching and non-teaching staff of VECs and institutes of technology, who are members of the Vocational Teachers' Superannuation Scheme or the Education Sector Superannuation Scheme respectively. From the end of 2012, responsibility for these superannuation and gratuity payments has transferred from local authorities to the PMG Pensions Section in the Department of Finance.
- 5.22** The figures presented for employment services relate to the reimbursement of incurred expenditure paid by the Department of Social Protection to local authorities for the running of community employment and jobs initiative projects.

Figure 5.7 Funding to local authorities for education and employment services, 2007 – 2013

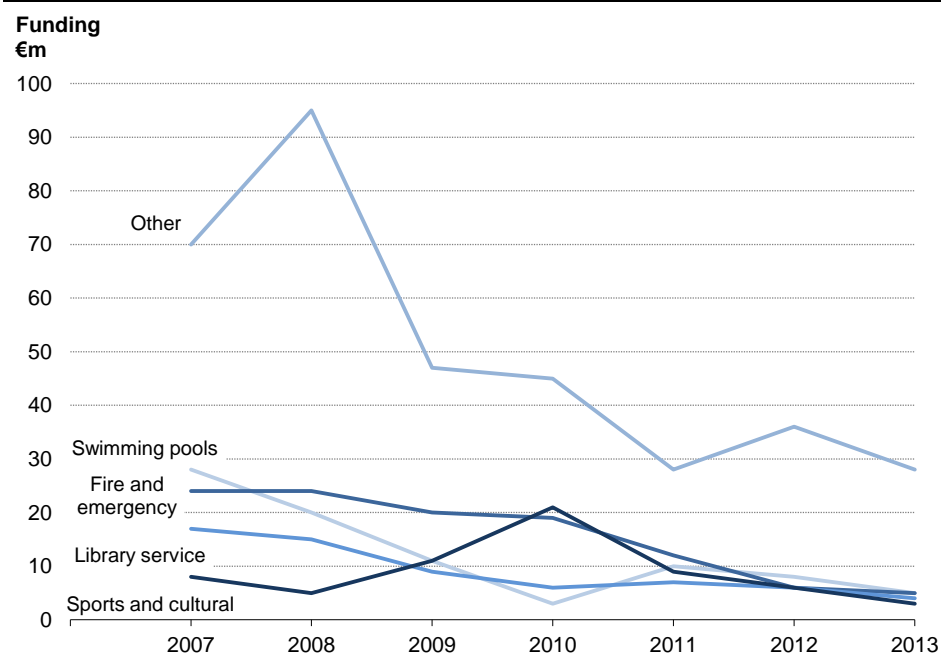


Source: See Annex A

Recreation and Other Local Services

- 5.23** This comprises central government funding for local authority services such as swimming pool construction and maintenance, fire and emergency services, library and archive services, as well as other public amenity and cultural projects.
- 5.24** Figure 5.8 shows the trend in the level of funding from central government sources provided to local authorities in respect of recreation and other local services in the period 2007 to 2013.

Figure 5.8 Funding to local authorities for recreation and other local services, 2007 – 2013

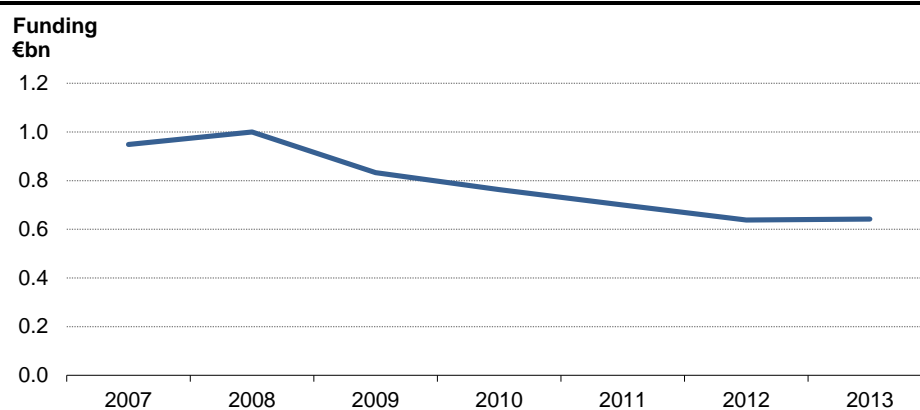


Source: See Annex A

General Purpose Grants

- 5.25** Through the Local Government Fund, the Department of the Environment, Community and Local Government provides funding to local authorities to assist them bridge the gap between their other income sources and the cost of the services they provide, including the local authorities' own administration costs.
- 5.26** Figure 5.9 shows the trend in the level of funding from central government sources provided to local authorities in respect of general purposes grants in the period 2007 to 2013.

Figure 5.9 Total general purpose grants to local authorities, 2007 – 2013



Source: See Annex A

Conclusions

- 5.27** Central government funding to local authorities presents a complicated picture, with transfers coming from a wide range of departments and offices for a variety of purposes. Some streams of funding are delivered directly from funding departments to local authorities, while others are routed through departmental agencies.
- 5.28** Transfers of funding from central government sources to local authorities in 2013 totalled around €2.4 billion. This compares with transfers to local authorities totalling €5.8 billion in 2008. In some cases, the fall in transfers has occurred as a result of the removal of responsibilities from local authorities.

Annex A Central government transfers to local authorities, by expenditure programme, 2007 – 2013

Expenditure Category	2007 €m	2008 €m	2009 €m	2010 €m	2011 €m	2012 €m	2013 €m
Transport investment							
National roads improvement	1,476	1,374	1,218	893	516	503	232
Regional and local roads improvement	622	616	455	412	451	376	399
Public transport (capital payments)	48	70	63	56	83	62	57
	2,146	2,060	1,736	1,361	1,050	941	688
Housing and urban regeneration							
Social housing provision	1,382	1,571	1,297	961	655	598	529
Affordable housing, etc.	64	89	94	84	68	58	43
Other housing supports	6	7	4	6	4	3	1
Urban regeneration	20	5	1	—	—	—	—
	1,472	1,672	1,396	1,051	727	659	573
Environmental initiatives							
Water and sanitary services	529	544	558	535	462	343	293
Flood relief works	14	3	5	17	8	22	10
Waste management	28	27	8	11	11	5	9
Recycling	12	22	14	14	12	4	8
Other environmental measures	11	15	29	16	18	11	11
	594	611	614	593	511	385	331
Education and employment services							
Higher education grants	126	137	160	172	184	146	70
Superannuation and gratuity costs	146	164	219	217	171	15	-
Employment schemes	12	11	10	9	9	8	8
	284	312	389	398	364	169	78
Recreation and other local services							
Swimming pools	28	20	11	3	10	8	5
Fire and emergency services	24	24	20	19	12	6	5
Library service	17	15	9	6	7	6	4
Sports grants, playgrounds and cultural projects	8	5	11	21	9	6	3
Heritage services (architectural heritage)	7	8	6	5	1	1	1
Disability services	15	15	12	7	—	—	—
Miscellaneous capital services	24	40	14	18	11	16	11
Miscellaneous services	24	32	15	15	16	19	16
	147	159	98	94	66	62	45
General purpose grants	948	999	833	763	700	638	642
Total funding provided to local authorities	5,591	5,813	5,066	4,260	3,418	2,854	2,357

Source: The Office of Public Works; Department of the Environment, Community and Local Government; Department of Education and Skills; Department of Transport, Tourism and Sport; Department of Arts, Heritage and the Gaeltacht; Department of Health; Department of Children and Youth Affairs; Department of Justice and Equality; Department of Agriculture, Food and the Marine; Department of Social Protection; Department of Defence; Health Service Executive; Local Government Fund and Environment Fund financial statements (2013 unaudited).

6 The Land Aggregation Scheme

- 6.1** As part of its remit, the Department of the Environment, Community and Local Government (the Department) supported the acquisition of land banks for social and affordable housing by local authorities. Local authorities were required to consider the availability of land for housing in their areas as part of the development of multi-annual action plans. The Department receives annual updates from local authorities on the quantity of land held and the anticipated demand for such land expected to arise in the short to medium term for housing purposes.
- 6.2** The land acquired to create the land banks was purchased with loans from the Housing Finance Agency (HFA).¹ Department sanction was required in order to authorise the borrowing. The sanction was conditional on certain terms and conditions intended to facilitate implementation of the various social and affordable housing programmes. Loans were normally seven year interest-accruing loans with provision to extend the interest accruing period beyond seven years where approval had been given by the Department.²
- 6.3** Loans, including the rolled up interest, could be redeemed when the land was later used for a social housing project for which Exchequer funding was normally provided under the Social Housing Investment Programme (SHIP), subject to the Department being satisfied with the project brief and having regard to the availability of funding under that programme.
- 6.4** The housing sector changed significantly in 2007 to 2008, with subsequent rapid falls in the housing market and a collapse in land values.
- 6.5** The Department recognised that individual authorities could find it difficult to meet the costs of repaying loans as they fell due, especially where there were no plans to develop the land for social housing and the land had a significantly lower resale value.
- 6.6** In response to the difficulties being experienced by local authorities, the Land Aggregation Scheme was established in 2010. The purpose of the scheme was to alleviate the financial burden on local authorities of redeeming loans from the HFA where anticipated development had not proceeded and where loans had fallen due for payment.
- 6.7** Under the scheme, local authorities could transfer residential development land on which there were outstanding HFA loans to a special purpose body called the Housing and Sustainable Communities Agency (the Housing Agency).³ Land was transferred for a nominal fee of €1.
- 6.8** Only land which had reasonable residential development potential and which there were no plans to develop in the short to medium term could be transferred. The Department approved or rejected the inclusion of sites in the scheme following its consideration of an assessment carried out by the Housing Agency.

¹ The HFA was established to provide housing finance to local authorities.

² In a limited number of instances, a twenty year interest accumulating loan or an annuitised loan for greater than twenty years was provided.

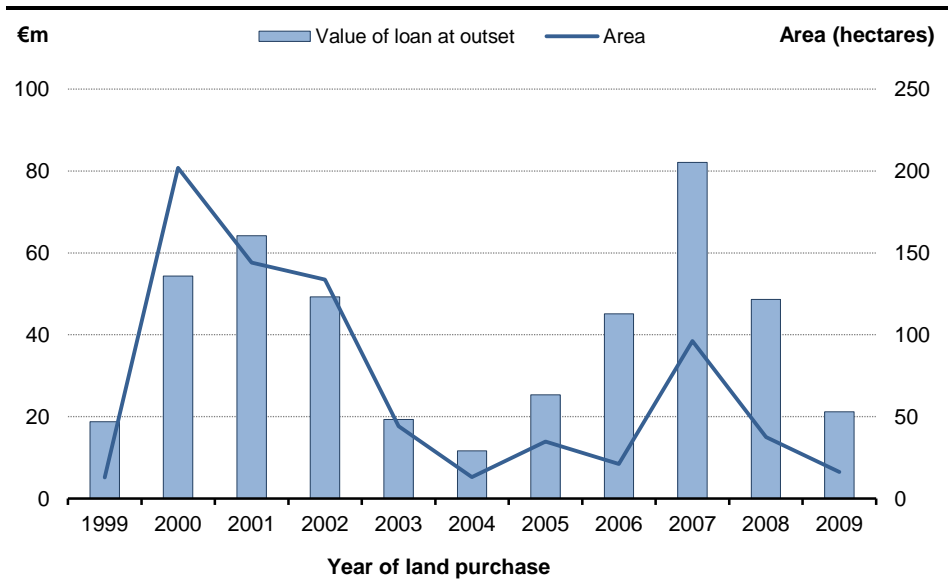
³ A company called the Housing and Sustainable Communities Limited (HSC Ltd) was established for the purpose of managing lands transferred under the scheme. This body was placed on a statutory footing in 2012 and called the Housing and Sustainable Communities Agency. Arrangements are now in place for the transfer, in due course, of all lands to the Agency, including those already transferred to HSC Ltd.

- 6.9** Under the original scheme arrangements, the Department made funds available to the relevant local authority to redeem the maturing loan in full. Recoupment of a loan payment by a local authority could occur prior to the transfer of lands to the Housing Agency.
- 6.10** Under revised arrangements for the scheme introduced in June 2012, the maturing loan was converted to an annuity loan provided by the HFA. Local authorities make annuity payments to the HFA and, on condition that the related lands have transferred to the Housing Agency, may recoup the payments from the Department.
- 6.11** The scheme closed on 11 December 2013. No submissions were accepted after that date. Applications made but not approved by that date were not accepted into the scheme.
- 6.12** There are four principal stakeholders/groups in the Land Aggregation Scheme.¹
- The Department is responsible for overseeing the scheme.
 - The Housing Agency is responsible for assessing the land as suitable for inclusion in the scheme, and managing, developing and utilising the land transferred under the scheme.
 - The HFA is responsible for the arrangement of annuity loans.
 - Local authorities are responsible for the conveyancing process in the transfer of land.

Background to Scheme Development

- 6.13** In 2010, following the development of the Housing Action Plan, the Department sought to quantify with the local authorities how much land had been purchased with a view to development for residential purposes but which there was little prospect of developing in the next ten years. In order to establish the extent of the land bank, housing authorities were requested to conduct audits of such lands.
- 6.14** The land audits required local authorities to identify lands in respect of which there were outstanding HFA loans and that were considered suitable for the Land Aggregation Scheme. However, while the circular stated the funding under the scheme “would only be considered upon receipt of a completed land audit”, this did not preclude the local authority from submitting lands for inclusion in the scheme that were not listed in the initial audit. Three sites that were not included in the land audits were subsequently accepted under the scheme.
- 6.15** The land audits indicated that 259 sites covering 775 hectares with a loan value (capital and interest in 2010) of €500 million was held by local authorities and might be suitable for inclusion in the scheme. The area and purchase cost of land identified in that audit is shown in Figure 6.1. Land purchased in 2002 or prior years accounted for two-thirds of the land area identified and 42% of the value of the land. The greatest expenditure on land acquisition was in 2007.

¹ Annex A describes the responsibilities of stakeholders in more detail.

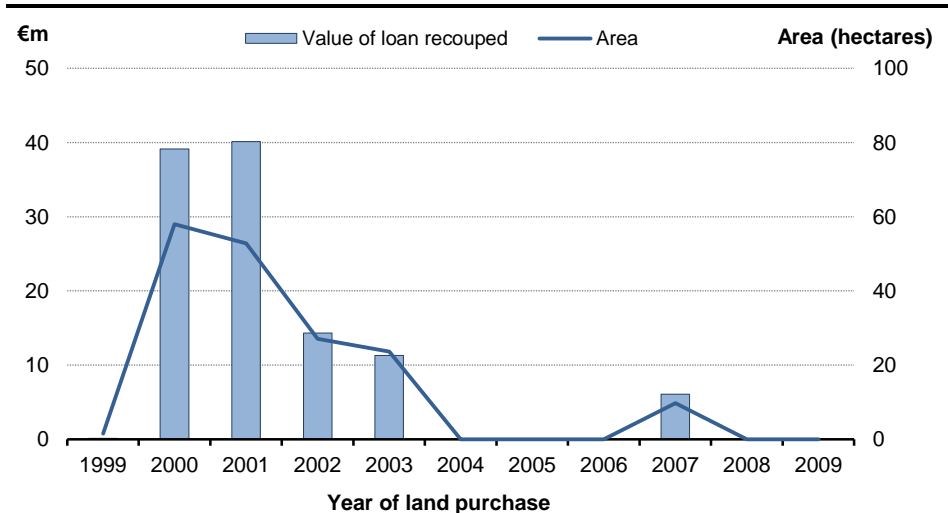
Figure 6.1 Area and cost of land included in land audits, by year of site purchase

Source: Department of the Environment, Community and Local Government

Operation of the Land Aggregation Scheme

Sites Approved under Initial Scheme Arrangements

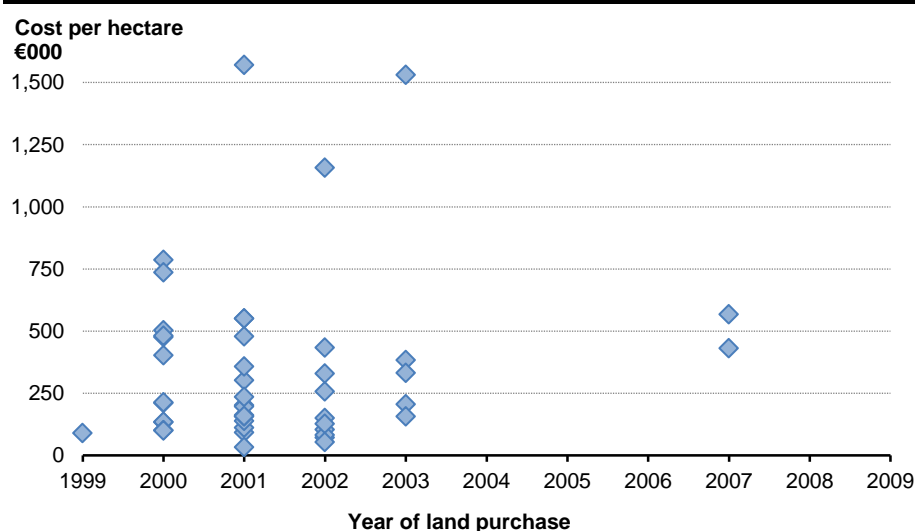
- 6.16** In the period to June 2012, the Department approved the inclusion of 47 sites in the scheme, with an aggregated area of 173 hectares. The area of the approved sites, by year of land purchase, is shown in Figure 6.2.

Figure 6.2 Area and cost of sites approved under initial scheme arrangement (to June 2012), by year of land purchase

Source: Department of the Environment, Community and Local Government

- 6.17** The original cost of land per hectare showed considerable variation (see Figure 6.3). For most of the sites, the original purchase cost varied from €38,000 to around €750,000 per hectare. Three sites were originally acquired at costs between €1 million and €1.6 million per hectare. One site was purchased in 2001 by Dun Laoghaire-Rathdown County Council at a cost of €2.8 million per hectare.

Figure 6.3 Original purchase cost per hectare of sites approved under initial scheme arrangements,^a 1999 – 2009



Source: Department of the Environment, Community and Local Government

Note: a This figure excludes one site purchased in 2001 for €2.8 million per hectare.

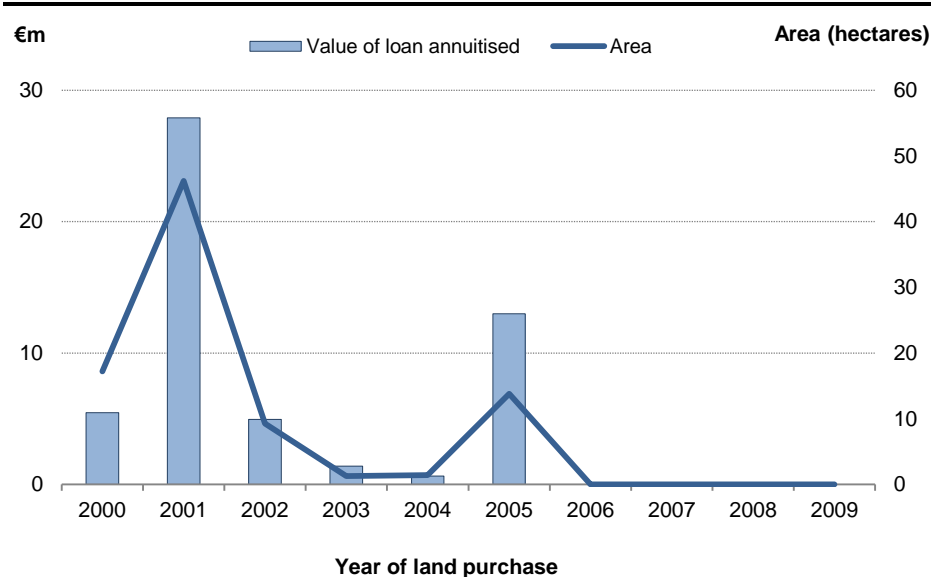
- 6.18** The Department paid €111 million to redeem the 47 loans. The original purchase cost of the land transferred is estimated at around €86.6 million.¹ On that basis, the accrued interest element on the redeemed loans was around €24.5 million. Annex B shows the cost and other details on these sites.

Revision of Scheme Arrangements

- 6.19** In June 2012, revised arrangements were introduced, whereby the loan from the HFA to the local authority was converted to a mortgage of up to 25 years. Capital and interest payments are made by the local authority to the HFA and these payments may be recouped by the local authority from the Department, provided that lands have transferred to the Housing Agency.
- 6.20** Under the revised arrangements, a further 25 sites were approved for inclusion in the scheme, prior to the scheme closing.² The area and cost of sites approved under the revised arrangements, by year of land purchase, is shown in Figure 6.4.

¹ This estimate assumes that, where only part of a site was transferred under the scheme, the land acquisition had a similar value, on average, as the overall site.

² A loan on a further site with an outstanding liability of €50,000 was redeemed in full under the second round of approvals.

Figure 6.4 Area and cost of sites approved under revised scheme arrangements, by year of land purchase

Source: Department of the Environment, Community and Local Government

- 6.21** The original purchase cost of the sites approved under revised arrangements varied from €58,000 to €1.63 million per hectare. The total purchase cost of individual sites ranged from €100,000 to €6.1 million. Annex C discloses the cost and other details of these sites.
- 6.22** Annuitised loans in relation to the 25 sites, with a value of €52.15 million at June 2014, including €12.03 million in accrued interest, were included in the scheme under the revised arrangements.
- 6.23** The annuitised loans give rise to an annual commitment by the Department, if all approved sites are transferred, of €2.68 million per year.¹

Value of Sites Transferred to the Scheme

- 6.24** Land was not valued prior to (or after) transfer to the Housing Agency. The Department explained that as the focus of the scheme was debt alleviation and the management of land already acquired, land valuation prior to or after transfer to the Housing Agency was not considered necessary.
- 6.25** Three sites in the scheme were recently valued and show a reduction of around 80% from the purchase cost per hectare paid 12 years ago. When accrued interest is considered, this suggested that the land transferred in these cases may be worth around 15% of the value of the loans redeemed under the scheme. The Department stated that these valuations should be seen as being a snapshot in time, which did not result in any sale or an actual loss. It also pointed out that these valuations were for land situated outside of major urban areas, in predominantly rural local authorities.

¹ The commitment calculation is based on interest rates remaining constant at 2%. The rates charged by the HFA have fluctuated between 1.3% and 4.6% in the period since 2008.

Partial Transfer of Sites

- 6.26** The Department has stated that there was no formal procedure in place to adjust the proportion of the loan accepted into the scheme where the entire original site purchased was not transferred. The entire site did not transfer in 30 of the 47 sites included under the original scheme arrangements and in 7 of the 25 sites included under revised site arrangements.
- 6.27** Less land than originally purchased would transfer to the scheme where part of the site had already been developed for housing or was sold, the local authority wished to retain part of the site for strategic reasons or part of the site was a special area of conservation or zoned for recreation.
- 6.28** The general practice was that up to 100% of the outstanding loan could transfer to the scheme where more than 75% of the area related to that loan was transferred to the scheme. The Department noted that each case was considered on an individual basis. The assessment did not consider whether the area retained by the local authority was of greater or lesser value per hectare than the area accepted into the scheme.

Status of Applications for Inclusion in the Scheme

- 6.29** Under the original scheme arrangements, land did not need to have been transferred to the Housing Agency in advance of loan redemption by the Department. Under the revised scheme arrangements, the Department does not fund the annuity loan payments until the lands have transferred. In the case of around 28% of sites included in the scheme under the original arrangements, and more than 70% of sites approved for inclusion in the scheme under the revised arrangements, transfers to the Housing Agency remained to be completed at end-June 2014. The status of land transfers is set out in Figure 6.5 below.

Figure 6.5 Summary of land transfer status, June 2014

	Initial arrangements	Revised arrangements	Total
Transferred	34	7	41
Contracts exchanged with outstanding queries	6	2	8
Contracts received and under review	3	4	7
Transfer work in progress	4	13	17
All accepted sites	47	26	73

Source: Department of the Environment, Community and Local Government

6.30 The Department identified reasons for the delayed transfer of land to the Housing Agency as including

- co-operation received from the local authorities following the redemption of the loans (under the initial arrangements) that ranges from very efficient to minimal involvement
- boundary issues and the requirement to ensure that lands submitted for legal transfer are represented correctly in the transfer documentation
- requirement to ensure lands are registered to the local authority with the Property Registration Authority
- land use – land occupied without formal agreement with the local authority or illegally occupied.

6.31 The Department stated that the delay in transferring land to the Housing Agency has been addressed under the revised scheme whereby only payments made after the land transfer has been completed are eligible for recoupment by a local authority.

Rejected Applications

6.32 The Department stated that a key consideration in determining whether an application was suitable for inclusion in the scheme was whether the land has reasonable residential development potential and whether there were any plans to develop the lands for housing purposes in the short to medium term. If land was not suitable for the scheme, the local authority could not recoup from the Department repayments which they had made to the HFA.

6.33 25 sites with associated loans to the value of €37 million were submitted for inclusion in the scheme but were subsequently rejected by the Department. While the Department has not conducted analysis of the reasons why land was rejected, issues identified on sites submitted for inclusion on the scheme include

- the site not being zoned for residential development
- the site being land locked
- the site having an illegal halting site or building on the land
- the site submitted being a small part of the original site purchased, with limited development potential.

Development of Land after Transfer to the Housing Agency

6.34 Following transfer of the land, the Housing Agency is required to prepare a report and implement a strategy for the management, utilisation and ultimate development of the land in question, including valuation in the event of land disposal. The Housing Agency will seek input from the relevant local authority and other interested bodies in respect of the land in question when preparing this report.

6.35 The Department outlined the progress with regard to the disposal or development of sites.

- In one case, a small portion of a site has been disposed of for the development of a community playground.
- The Housing Agency, in conjunction with the Department, is currently considering the development potential of five sites, including two to be used for accommodation for the elderly and for persons with special needs.
- Discussions are ongoing with the Department of Education and Skills in relation to two sites, and with the Housing Agency in relation to the potential of another site.

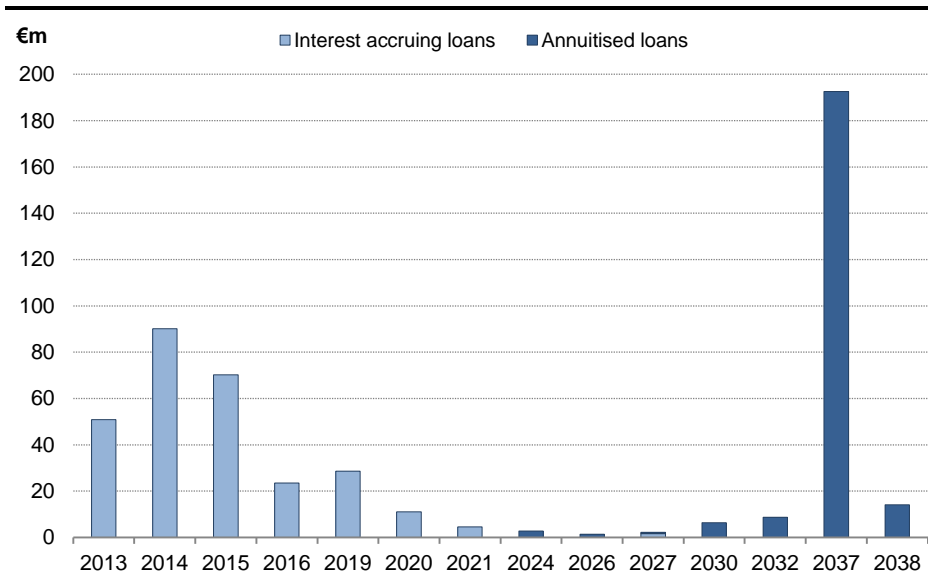
The Department stated that it and the Housing Agency are working in consultation with the local authority sector, through the County and City Management Association, on the development of a land management strategy for lands transferred under the scheme. This is being considered in the context of the new social housing strategy, which the Department has been mandated to prepare by the Government.

Outstanding Loans for Land Acquisition

6.36 The total value of land acquisition loans drawn down from the HFA in the period from 1999 to date is €821 million (see Annex D). A total of €507 million of these loans were outstanding as at 31 December 2013. Annex D discloses outstanding HFA balances in respect of land acquisitions at 31 December 2013. The change primarily reflects the net result of interest accrued, redemption of loans following normal development of land and land aggregation scheme impacts.

6.37 The profile of the maturity of the outstanding loans is shown in Figure 6.6 below. Only three land acquisitions have been approved since 2009. Original interest-accruing loans to the value of €281 million were outstanding, with €226 million owed under annuitised loans. The latter includes loans annuitised under the revised Land Aggregation Scheme arrangements to a value of €52.1 million.

Figure 6.6 Maturity profile of outstanding local authority loans for land acquisition



Source: Department of the Environment, Community and Local Government

Views of the Accounting Officer

- 6.38** The Accounting Officer stated that as part of their remit as housing authorities, local authorities with the support of the Department have built up land banks, primarily to underpin their housing programmes and to ensure that, in a cyclical property market, authorities had available a supply of land to meet housing needs into the future. These land banks were built up over time but were particularly supplemented over the period from 2000 onwards through purchases supported by loan funding supplied by the HFA, and through Part V negotiations.¹
- 6.39** The Accounting Officer stated that one of the responsibilities of the Housing Agency is to act as a central body for the management of the land and it is tasked with ensuring the optimal use of the land bank, including liaising with all relevant bodies on potential future use. The land bank continues to be available for social housing purposes, which is of central relevance in the context of an expected expansion of the Government's social housing programme.
- 6.40** The Land Aggregation Scheme was brought forward as part of a wider response across Government to deal with legacies arising from the dramatic economic downturn in 2007/2008. Its primary purpose was to assist in the unwinding of loans taken out by housing authorities (with the approval of the Department) from the HFA to purchase land for the social and affordable housing investment programmes, and to provide a framework for the future management of such lands. Taking account of the fact that full Exchequer recoupment of land costs in respect of social housing projects was historically the norm, and local authorities would have purchased lands in expectation of Exchequer support for the development of social housing (including in respect of the purchase price of the land), the introduction of the scheme was a reasonable approach for the State to adopt against the background of the significant scaling back in the local authority housing capital programme and the consequential negative implications for the legitimate expectations of local authorities to recover the land costs and repay the associated loans.
- 6.41** In relation to situations where the entire site did not transfer to the scheme whereas the loan did, he stated that a practical view was taken, given the scheme's part aim of reducing local authority debt levels. Where a submission was made by a local authority that included an outstanding loan associated with land acceptable under the scheme, but was also associated with other assets remaining with the local authority then such an application could be accepted into the scheme. Equally, partial loan redemptions were also utilised as an option, where appropriate. He stated that all cases were dealt with on their individual merits, bearing in mind the principle of alleviating the wider financial burden of local authorities, while fully adhering to the terms of the scheme.

¹ Under Part V of the Planning and Development Acts 2000 – 2007, developers are required to set aside a portion of a site for social and affordable housing.

- 6.42** He stated that only land submitted by local authorities to the scheme could be accepted into the scheme. In relation to the 30 of 47 sites referred to where the original site did not transfer in its entirety to the Housing Agency, he said that it is important to note that the entire original site was not submitted in any of these 30 cases. In the remaining 17 cases, the entire original purchased site was submitted and accepted in 16 cases and in one case the entire site was not accepted. He stated that in cases where 100% of the remainder of a land loan was taken into the scheme and less than 100% of the original lands associated with that loan transferred to the Housing Agency, this does not automatically mean that the scheme was used for the entirety of the original loan. For example, where portions of land had already been developed for housing, the portion of the land cost associated with that earlier development would have been recouped previously, reducing the initial loan accordingly. If portions of land were serviced for wider development reasons, while that portion of land may not have been included in the scheme nor would the loan have been reduced in the carrying out of that servicing, the servicing would have increased the value and utility of surrounding lands and made housing more likely in the medium to long term.
- 6.43** He also stated that his Department and the HFA had made significant efforts to address delays in transferring sites and that the rate of transfers is increasing. In that regard, two further sites transferred in July 2014 and work on further transfers will continue to be prioritised.

Conclusions

- 6.44** The Land Aggregation Scheme was established to support local authorities by alleviating the financial burden in servicing loans taken out from the Housing Finance Agency where land acquired for social and affordable housing had not yet been developed.
- 6.45** Loans provided for these sites by the HFA were intended exclusively for the purpose of supporting social and affordable housing development. Many of the unused sites were in ownership from 2002 or earlier. However, the examination of loans approved under the scheme found that
- 25 sites which had been acquired by local authorities for residential development (with an aggregate purchase price of €37 million) were rejected as unsuitable for the Land Aggregation Scheme, in effect because they were, or had become, unsuitable for residential development
 - in the case of 37 sites accepted for transfer under the scheme, the entire original site did not transfer. This was due to the remainder of the site being considered a special area of conservation or zoned for recreation, the local authority wishing to retain that part of the site, or development had already taken place on part of the site.
- 6.46** There are very significant delays in effecting the transfers of many sites to the Housing Agency. This includes some sites where the Department has already paid out under the scheme for redemption of the loans.
- 6.47** Sites were not revalued prior to approval for transfer to the scheme. Three valuations were subsequently obtained by the Department which showed a reduction of around 80% from the original purchase prices paid 12 years previously, before taking financing costs into account.

- 6.48** Interest accrued on the loans accepted into the scheme was included in payments made by the Department. This is estimated at around €24.5 million (28% of the original purchase cost) for the 47 loans transferred under the original scheme.
- 6.49** Accrued interest was also capitalised in the setting up of the replacement annuitised loans. Under the revised scheme arrangements, the annuitised loans will give rise to recording of a commitment in the appropriation account for Vote 25 Environment, Community and Local Government. Annuity payments will continue until 2038.
- 6.50** A commitment under the Vote is not created for a loan accepted into the scheme until the land transfer has been completed. Once all accepted land is transferred to the ownership of the Housing Agency, the local authorities will be eligible to claim recoupment in full, and a commitment (based on current rates of interest), of the order of €2.68 million a year will be noted in the appropriation account.

Annex A Stakeholders in the Land Aggregation Scheme

The Department

- The Department is responsible for overseeing the scheme from a housing policy perspective, as well as processing payments and managing other financial aspects of the scheme. The Department consults with the Housing Agency and local authorities on the progress made on transfer of lands and the potential development of the lands.
- The Department is working in consultation with the Housing Agency which is developing a land management strategy for lands transferred to them under the scheme, in the context of the new social housing policy, a Departmental commitment under the recently approved Construction Strategy, to be published in autumn 2014.
- The Department also has a role in the monitoring and management of the overall debt burden of local authorities and management of the financial repercussions for local authorities following the discontinuance of the scheme.

The Housing Agency

- The Housing Agency provides services in managing, developing and utilising land transferred from local authorities and the National Building Agency under the Land Aggregation Scheme. Services provided by the Housing Agency include
 - initial appraisal of land to determine if it meets general scheme criteria and a due diligence assessment prior to transfer of land
 - management of transferred land
 - developing a strategy for the utilisation of land.
- There is a service level agreement between the Department and the Housing Agency in respect of the services provided.

The Housing Finance Agency

- The Housing Finance Agency (HFA) obtains long term competitive funding from the wholesale capital and money markets and lends at cost to local authorities. The HFA borrows money under a Government guarantee, which enables it to obtain favourable terms in the market.
- Under the scheme revised arrangements, the HFA obtains payment from the local authority directly. The HFA has made arrangements directly with local authorities who have not been able to avail of the scheme to extend interest-only land acquisition loans, on maturity for a further five years, at which point they revert to normal course annuities.

Local Authorities

- Where land is approved for inclusion in the Land Aggregation Scheme, local authorities are required to carry out works identified in the due diligence exercise before the land can be transferred. Local authorities are responsible for the conveyancing process in the transfer of any land. Arrangements are sometimes agreed between the Housing Agency and local authorities on maintaining and securing the transferred land.

Annex B Approved Site Transfers under Initial Arrangements

Local Authority	Purchased				Transferred		
	Year of purchase	Hectares	Purchase	Cost per	Hectares	Value of loan recouped	Cost per hectare
			cost	hectare			
			€000	€000			
Carlow County Council	2001	3.20	635	198	1.89	500	265
Carlow County Council	2001	4.04	559	138	3.23	612	189
Clare County Council	2007-2008	4.40	1,901	432	4.41	2,190	497
Cork County Council	2000	0.82	393	479	0.50	349	698
Cork County Council	2000	2.03	203	100	1.31	242	185
Cork County Council	2000	3.28	2,412	735	2.02	1,474	730
Cork County Council	2001	3.46	1,238	358	2.26	1,127	499
Cork County Council	2001	15.26	2,413	158	13.48	2,789	207
Cork County Council	2002	1.65	89	54	1.65	115	70
Cork County Council	2002	2.76	349	126	1.34	152	113
Mallow Town Council	2007	5.26	2,984	567	5.26	3,877	737
Dun Laoghaire-Rathdown County Council	2001	3.20	8,825	2,758	2.80	10,258	3,664
Fingal County Council	2000	24.21	19,046	787	24.21	26,479	1,094
Galway City Council	2002	5.44	6,250	1,149	2.50	7,006	2,802
Kildare County Council	2000	8.76	3,809	435	7.93	4,751	599
Kildare County Council	2002	8.49	2,793	329	8.49	3,596	424
Kildare County Council	2003	4.04	1,550	384	4.04	1,929	477
Kildare County Council	2003	4.16	653	157	4.16	830	200
Naas Town Council	2001	5.66	8,888	1,570	5.66	11,522	2,036
Laois County Council	1999-2001	1.98	267	135	1.98	343	173
Laois County Council	1999	5.62	508	90	1.50	111	74
Laois County Council	2000	3.10	654	211	3.10	850	274
Laois County Council	2001	1.25	140	112	1.25	178	142
Laois County Council	2003	3.56	762	214	1.72	370	215

Local Authority	Purchased				Transferred		
	Year of purchase	Hectares	Purchase	Cost per	Hectares	Value of	Cost per
			cost	hectare		loan	hectare
			€000	€000		recouped	€000
Limerick County Council	2000	4.17	413	99	3.46	434	125
Limerick County Council	2001	1.71	338	198	0.52	124	238
Limerick County Council	2001	1.67	63	38	1.21	55	45
Limerick County Council	2002	2.34	152	65	1.48	136	92
Limerick County Council	2002	2.37	190	80	2.07	230	111
Meath County Council	2001	4.39	2,100	478	4.39	2,516	573
National Building Agency	2001	2.20	1,227	558	2.20	1,660	755
National Building Agency	2001	3.30	1,947	590	3.30	2,508	760
National Building Agency	2003	1.96	3,000	1,531	1.96	3,328	1,698
Offaly County Council	2002	3.67	381	104	2.87	371	129
Sligo County Council	2001	1.31	210	160	1.31	274	209
Sligo County Council	2001	1.66	152	92	0.22	34	155
Sligo County Council	2003	13.00	11,198	861	11.80	4,828	409
Tralee Town Council	2001	14.33	4,318	301	8.28	5,586	675
Waterford County Council	2000	6.40	857	134	4.30	871	203
Waterford City Council	2002	2.93	1,270	433	2.93	1,620	553
Wexford County Council	2000	2.86	1,260	441	0.95	701	738
Wexford County Council	2000	5.00	1,067	213	4.39	1,253	285
Wexford County Council	2001	2.30	543	236	0.71	283	399
Wexford County Council	2001	3.15	495	157	0.52	111	213
Wexford County Council	2002	10.88	2,793	257	0.73	271	371
Wexford County Council	2002	4.21	635	151	3.40	829	244
Wicklow Town Council	2000	6.03	3,028	502	2.90	1,390	479
Totals		227.47	104,958		172.59	111,063	

Source: Department of the Environment, Community and Local Government

Annex C Approved Site Transfers under Revised Arrangements

Relevant Authority	Purchased				Transferred		
	Year of purchase	Hectares	Purchase cost of land	Purchase cost per hectare	Hectares included in the scheme	Amount transferred to scheme	Cost per hectare of land in scheme
			€000	€000			
Carlow County Council ^a	2002	2.20	735	334	2.20	961	437
Cork County Council	2000	2.46	762	310	2.46	1,067	434
Cork County Council	2000	1.40	444	317	1.40	622	444
Cork County Council	2001	3.63	2,159	595	3.63	3,006	828
Cork County Council	2001	3.98	2,618	658	3.98	3,535	888
Cork County Council	2000	13.35	4,317	323	8.59	3,781	440
Cork County Council	2002	1.30	540	415	1.29	709	550
Cork County Council	2003	1.16	900	776	1.16	1,136	979
Cork County Council	2003	0.13	152	1,169	0.13	254	1,954
Dundalk Town Council	2005	3.09	3,400	1,100	3.09	4,159	1,346
Fingal County Council	2001	7.30	5,523	757	7.30	7,286	998
Fingal County Council	2002	3.34	1,778	532	2.77	1,554	561
Laois County Council	2002	1.49	1,048	703	1.49	1,383	928
Laois County Council	2002	0.92	260	283	0.92	340	370
Laois County Council	2005	1.03	450	437	1.03	554	538
Laois County Council	2005	1.03	1,680	1,631	1.03	2,068	2,008
Laois County Council	2005	0.74	100	135	0.74	123	166
Laois County Council	2005	2.13	1,000	469	2.13	1,244	584
Limerick County Council	2001	2.50	254	102	1.25	99	79
Offaly County Council	2004	1.42	800	563	1.22	622	510
Tullamore Town Council	2005	5.79	3,925	678	4.34	4,837	1,115
Sligo Borough Council	2001	15.18	6,146	405	15.18	8,830	582
Wexford County Council	2001	2.99	174	58	0.76	237	312
Wexford County Council (2 sites)	2001	10.64	3,345	314	5.96	3,744	628
Totals		89.20	42,510		74.05	52,151	

Source: Department of the Environment, Community and Local Government

Note: a A loan on a further site in Carlow (not included) was redeemed in full due to its low value (€50,000).

Annex D Amount borrowed from HFA for residential sites since 1999 and outstanding HFA balances in respect of land acquisition at 31 December 2013^a

Local authority	Amount borrowed since 1999	Outstanding HFA balances 2013
	€000	€000
Carlow County Council	13,282	7,507
Carlow Town Council	2,222	—
Cavan County Council	—	—
Clare County Council	10,900	6,775
Ennis Town Council	3,551	—
Cork City Council	51,619	37,459
Cork County Council	70,160	52,152
Fermoy Town Council	280	338
Skibbereen Town Council	1,200	1,472
Clonakilty Town Council	965	—
Mallow Town Council	3,040	—
Donegal County Council	11,738	2,565
Bundoran Town Council	1,900	2,063
Dublin City Council	76,267	40,096
Dun Laoghaire-Rathdown County Council	42,337	36,458
Fingal County Council	49,287	8,676
South Dublin County Council	—	—
Galway City Council	54,077	31,909
Galway County Council	10,385	2,985
Kerry County Council	29,086	20,693
Tralee Town Council	20,615	14,848
Listowel Town Council	600	699
Kildare County Council	20,482	5,285
Naas Town Council	9,269	—
Kilkenny County Council	—	—
Laois County Council	16,299	8,949
Leitrim County Council ^b	—	1,623
Limerick City Council	10,349	—
Limerick County Council	4,874	1,273
Longford County Council	3,082	2,926
Longford Town Council	1,100	—
Louth County Council	13,931	14,600
Drogheda Borough Council	49,354	40,449

Local authority	Amount borrowed since 1999	Outstanding HFA balances 2013
	€000	€000
Dundalk Town Council	18,786	12,831
Mayo County Council	8,491	6,928
Westport Town Council	3,000	2,717
Meath County Council	28,383	30,344
Monaghan County Council	–	–
North Tipperary County Council	4,248	–
Thurles Town Council	1,651	–
Offaly County Council	9,181	3,225
Tullamore Town Council	5,657	4,762
Roscommon County Council	–	–
Sligo Borough Council	30,673	29,625
Sligo County Council	17,406	9,050
South Tipperary County Council	9,748	8,649
Carrick-on-Suir Town Council	569	405
Clonmel Borough Council	1,800	1,416
Cashel Town Council	203	–
Tipperary Town Council	1,009	–
Waterford City Council	9,790	4,931
Waterford County Council	5,569	1,473
Dungarvan Town Council	5,382	1,042
Westmeath County Council	2,116	1,535
Athlone Town Council	1,300	1,486
Wexford County Council	20,775	9,788
Enniscorthy Town Council	1,366	–
New Ross Town Council	254	–
Wicklow County Council	34,181	25,454
Wicklow Town Council	5,629	2,910
Bray Town Council	8,703	6,640
Total – all local authorities	818,121	507,011
National Building Agency	3,174	–
Total	821,295	507,011

Source: Department of the Environment, Community and Local Government

Notes: a Amounts borrowed from the HFA change as a result of

- accrued interest
- loan issues and redemptions
- refinancing through conversion to annuity loans.

b In 2007, Leitrim County Council raised a loan under the Capital Loan and Subsidy Scheme (CLSS) for a proposed voluntary housing project, which did not progress. Leitrim County Council engaged with the Department and the Housing Finance Agency to review the management of the loan. As a result, in 2013, the loan was transferred at the Council's request, from a CLSS loan to a land acquisition loan.

7 Matters arising from audit of Vote 25 Environment, Community and Local Government in relation to Water Services

Commitments in relation to Irish Water

- 7.1** The Department of the Environment, Community and Local Government (the Department) incurred expenditure in 2013 of €241 million in relation to the water services investment programme. Under the programme, funding was provided by the Department to water services authorities for the provision of major water and waste water schemes to meet key environmental and economic objectives.
- 7.2** The 2012 appropriation account for Environment, Community and Local Government included outstanding commitments at the end of 2012 to a value of €340 million in respect of water projects under the programme.¹ The total cost of the programme from 2007 to 2013 was €2.9 billion.
- 7.3** Irish Water was established as a subsidiary company of Eriva (formerly Bord Gáis Éireann) under the Water Services Act 2013. With effect from 1 January 2014, Irish Water took on responsibility for water services from the local authorities and took over the assets and liabilities related to the authorities' water supply and discharge business. The legal transfer of contractual obligations to Irish Water from the local authorities was effected on 21 February 2014 and 25 April 2014 under orders made by the Minister for the Environment, Community and Local Government.²
- 7.4** As part of the transfer, Irish Water took over responsibility for all capital works funded by the Department under the programme. A provision of €6 million is included in the Department's 2014 estimate in respect of water quality which remains within the remit of the Department and some water sector reform programme costs.
- 7.5** Arising from the transfer of water services functions to Irish Water, the capital commitments previously funded by the Department under the Water Services Investment Programme became the responsibility of that company and, therefore, will not fall to be funded from the Department's Vote from 1 January 2014. With the approval of Government Accounting Section in the Department of Public Expenditure and Reform, the notes to the Department's appropriation account for 2013 do not include information on the water services commitments as at 31 December 2013.

¹ Under standard accounting policies for appropriation accounts, each department discloses details in a note to its appropriation account on the level of commitments outstanding at the year-end including details on any multi-annual capital commitments over €6,350,000. Due to the large number of capital projects funded by the Department, details are only provided in Vote 25 in respect of projects with an expected total cost of €12,697,000.

² S.I. No. 96/2014 – Water Services (No. 2) Act 2013 (Transfer of Other Liabilities) Order 2014. S.I. No. 188/2014 – Water Services (No. 2) Act 2013 (Transfer of Other Liabilities) Order (No 2) 2014.

EU Penalties in relation to Control of Septic Tanks

- 7.6** EC Council Directive 75/442/EEC became European law in July 1975. This established a set of rules for waste management. All member states, including Ireland, were obliged to comply with the Directive within two years. The objective of the Directive was the protection of human health and of the environment against harmful effects caused by the collection, transport, treatment, storage and disposal of waste.

Compliance Proceedings by EU Commission

- 7.7** The EU Commission issued a letter of formal notice to Ireland in December 2003 noting its concern at the absence of national legislation organising the management of domestic waste water disposed of through septic tanks and other individual waste water treatment systems.
- 7.8** In December 2004, the Commission notified Ireland of its conclusion that Ireland had infringed its obligation to fully and correctly transpose the requirements of Directive 75/442 and requested Ireland to rectify that infringement by February 2005.
- 7.9** In May 2008, the Commission brought an action against Ireland in the European Court of Justice (the Court) requesting the Court to declare that Ireland had not fully and correctly transposed the Directive (as amended) into its domestic legislation. The Commission also claimed that Ireland had
- failed to ensure that waste was recovered or disposed of without risk to water, air, soil, plants or animals
 - failed to take the measures necessary to prohibit the abandonment, dumping or uncontrolled disposal of waste
 - failed to implement a permit system for any installation or undertaking treating, storing or tipping waste.
- 7.10** In response, Ireland contended that
- Directive 75/442 did not apply to domestic waste waters disposed of through septic tanks and other individual waste water treatment systems
 - existing national legal instruments fully met the requirements of Directive 75/442.
- 7.11** A Court judgement in October 2009 found that
- Directive 75/442 did apply to domestic waste waters disposed of through septic tanks
 - while the powers of competent authorities (under Local Government Acts and Planning and Development Acts) were adequate, they did not provide for an appropriate system of inspection that would guarantee the level of protection required by Directive 75/442, and therefore, existing national legal instruments did not fully meet the requirements of Directive 75/442.
- 7.12** The Court found that, with the exception of County Cavan, Ireland had failed to fulfil all its obligations under Directive 75/442.¹

¹ County Cavan had adopted Water Pollution (Wastewater Treatment Systems for Single Houses) Bye-Laws in 2004, which included a requirement for an inspection by a competent person at least every seven years.

- 7.13** In November 2010, the Commission sent a letter of formal notice seeking observations from the State on the extent to which the October 2009 judgement had been complied with. The Commission was not satisfied with the replies, and in July 2011, it commenced a further Court action for the failure of Ireland to comply with the judgement. The Commission sought the imposition of a daily fine until compliance was achieved.

Registration and Inspection Regime for Septic Tanks

- 7.14** Legislation to comply with the Directive, the Water Services (Amendment) Act 2012, was passed by the Oireachtas in February 2012. The Act requires the registration of all septic tanks and the development of a risk-based national inspection plan for septic tanks by the Environmental Protection Agency (EPA).
- 7.15** After a public consultation process in March 2012, statutory instruments were signed in June 2012 to outline standards for the operation and maintenance of septic tanks, and their registration. All septic tanks were to be registered by 1 February 2013. A registration fee of €5 was set for the first three months of the registration period and a fee of €50 for registration thereafter.
- 7.16** Following a public consultation process in October 2012, the EPA developed an inspection plan. The EPA's inspection plan was based on a risk model, which was developed in conjunction with the Geological Survey of Ireland and other external expertise. The plan identified areas of priority using a specifically designed method to rank areas by the risk posed by domestic waste water to both human health and the environment. The priority areas were based on levels of risk to sensitive water receptors, for example, drinking water sources, bathing waters, or pearl mussel beds. The plan set out minimum inspection levels for each local authority. The plan required a minimum of 1,000 septic tank inspections to be carried out across all local authorities in the twelve months commencing July 2013.

Imposition of Fine

- 7.17** The Court published its ruling on the enforcement proceedings in December 2012. It found that Ireland had not complied with the requirements of the 2009 judgement by the expiry of the time limit set in the November 2010 notice. Also, it was found that the inspection plan required by the 2012 Act had not been adopted and submitted to the Minister for the Environment, Community and Local Government.
- 7.18** The Commission had proposed that Ireland pay a fine of €4,771 for each day between the date of the 2009 judgement and the date the Court gave its ruling on the 2011 proceedings. The Commission sought a further fine of €26,173 to be levied for each day between the date of that ruling and the date of full compliance. The total penalty proposed by the Commission was €6.86 million.
- 7.19** The Court considered the efforts made by Ireland to comply with the 2009 judgement and the impact of the economic crisis and imposed a lower lump sum penalty of €2 million, which is €1,744 for each day between the date of the 2009 judgement and the date of its ruling on the 2011 proceedings. The Court also imposed a daily penalty of €12,000 from the date of its ruling (19 December 2012) to the date of full compliance. The total penalty imposed by the Court eventually amounted to €2.648 million.

7.20 The EU Commission subsequently concluded that Ireland had complied with the relevant judgement from 12 February 2013, when the EPA submitted their inspection plan to the Minister. On 19 February 2013, the EPA launched the national inspection plan for domestic waste water treatment systems.

7.21 In March 2013, the Department paid the fine imposed by the Court to the EU Commission.

Completeness of Registration

7.22 The 2011 census reported that there were almost 500,000 septic tanks and individual waste water treatment systems in Ireland at that time. By February 2013, when the EPA national inspection plan was launched, 410,000 households had registered their systems, with 447,000 households having done so by 3 September 2013. The first cycle of the plan covered the period from 1 July 2013 to 30 June 2014.

7.23 The Department stated that the Local Government Management Agency, which manages the domestic waste water treatment system register on a shared service basis on behalf of the local authorities, has advised that the number of systems registered as at 31 July 2014 was 450,620. Based on census 2011 information, this suggests a registration compliance rate of over 90%.

Outcome of Inspections

7.24 In an interim review of the national inspection plan published by the EPA in April 2014, for the period between 1 July 2013 to 28 February 2014, the main findings were that

- local authorities in 22 counties had commenced inspections
- 423 full inspections were carried out in the period
- 199 systems passed and 224 failed i.e. a compliance rate for finalised inspections of 47%
- Carlow, Limerick, Louth, Meath and Westmeath had completed their allocation for the year by the end of February 2014.

7.25 The EPA interim report contains a breakdown, by county, of inspections that have taken place and the number of non-compliant treatment systems for which advisory notices were issued. The review indicated that of the 224 failures, the most common problems found were owners not properly operating or maintaining their treatment systems, including not having their systems de-sludged at appropriate intervals. Inspections have also identified a number of instances of leakages and surface ponding of effluent and other problems causing a risk to human health or the environment. The review reported that in 138 cases (33% of completed inspections), it was the opinion of the inspector that the system constituted or was likely to constitute a risk to human health or the environment. The Department has stated that all failures revealed through inspection will involve a risk to human health or the environment to a greater or lesser degree and when making or reviewing the plan, the EPA is required to have regard to risks or potential risks to human health and the environment. However, the Department is not in a position to comment regarding the seriousness or extent of those risks or of the seriousness of those systems which have failed inspections.

- 7.26** The EPA report also states that local authorities that have completed their allocation of inspections under the inspection plan should continue to carry out inspections under the plan as they see fit, as further inspections will be required under future cycles of the plan. The EPA subsequently informed the local authorities that a further 500 inspections should be carried out during the period July to December 2014.
- 7.27** The Department has stated that it does not have any direct role in monitoring the implementation of the EPA's plan by the local authorities. However, the Department stated that the EPA has advised it that inspections have now commenced in all counties and that it intends to carry out a review of the first year's operation of the inspection plan shortly. The Department understands that a public consultation regarding this review will be carried out in September 2014 with the aim of developing a new inspection plan for the five years commencing in January 2015. The Department stated that the number of inspections to be carried out under the new plan is a matter for the EPA.

Conclusions

- 7.28** A fine of €2.648 million was charged to the appropriation account of the Department in 2013 for non-compliance by Ireland with part of the EU Directive dealing with domestic disposal of waste water through septic tanks or other individual systems. The EU Commission had warned Ireland of the potential breach in 2003.
- 7.29** Under the Water Services (Amendment) Act 2012, all septic tanks must be registered with local authorities. The Department estimates that at the end of July 2014 over 90% of systems had registered.
- 7.30** The results of the first round of risk-based inspections revealed a significant failure rate of systems at over half of those inspected. While all failures represent a potential risk to human health or to the environment, care must be taken in interpreting the results of the initial inspections, as the inspection plan was based on prioritising higher risk areas. In order to establish the overall level of compliance across the State, inspection of a random sample of systems would need to be undertaken.

8 Operation of the Emergency Call Answering Service

- 8.1** All emergency calls made in the State are handled by the Emergency Call Answering Service (ECAS). The ECAS is operated from three centres, located in Ballyshannon in County Donegal, Navan in County Meath and Eastpoint Business Park in Dublin. Emergency calls are received in the centres and forwarded to the relevant emergency service i.e. An Garda Síochána, the ambulance service, the fire services or the Irish Coast Guard.
- 8.2** In accordance with an EU Directive, there is no charge for the person making a call to the emergency services.¹ Instead, in Ireland, a call handling fee is payable by the presenting telephone network and/or the telephone call service provider.² The ECAS is funded entirely by the call handling fee.
- 8.3** In September 2007, the Department of Communications, Energy and Natural Resources (the Department) issued an invitation to tender to six companies for the provision and operation of an emergency call answering service. Four tenders were received by the closing date of December 2007. One of the four tenders did not meet the qualification criteria and as a result it was not accepted for further evaluation.
- 8.4** The remaining three tenders received were evaluated by an evaluation committee which comprised personnel from the Department, the Commission for Communications Regulation (ComReg),³ representatives of the emergency services and a consultancy firm. The evaluation was based on award criteria published in the invitation to tender i.e.
- compliance with system requirements and quality of the system design
 - quality and credibility of the business plan and tendered call handling fee
 - quality of insurance cover
 - quality of implementation process proposed and the exit plan
 - compliance with the draft concession agreement provisions.
- 8.5** The evaluation committee awarded the highest ranking to the tender submitted by BT Communications Ireland (BT) and recommended that contract negotiations be initiated with BT. The committee also noted that if the negotiations with BT were found to be unsuccessful or unsatisfactory, then contract negotiations could be conducted with the second ranked tenderer.
- 8.6** A concession agreement was entered into by the Minister for Communications, Energy and Natural Resources and BT on 12 February 2009, to establish, operate, manage and maintain the emergency call answering service. The contract duration was for a period of five years, with the option to extend it for up to two additional years.
- 8.7** The concession agreement set the initial call handling fee at €2.23. The fee is reviewed annually and is revised to take account of changes in call volumes and costs incurred by the operator. The first review of the fee took place in December 2010. As a result of that review, the call handling fee increased by 50% to €3.35. Following further changes in later reviews, the fee was set at €3.08 for the year ending February 2015.

1 Directive 2002/22/EC on universal service and users' rights relating to electronic communications networks and services (Universal Service Directive), March 2002.

2 Section 58C, Communications Regulation (Amendment) Act 2007.

3 The statutory body responsible for the regulation of the electronic communications sector (telecommunications, radio communications and broadcasting transmission) and the postal sector.

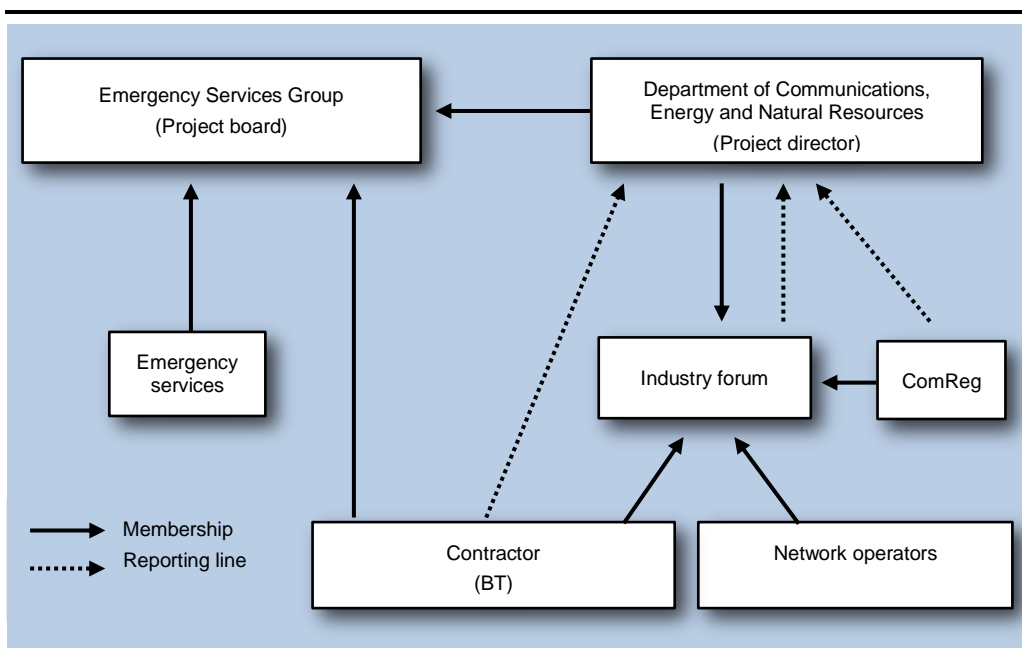
8.8 In light of the increases in the call handling fee since the start of the contract with BT, an examination was undertaken to ascertain whether

- the contractual arrangements in place for the provision of the emergency call answering service are adequate
- the process for setting the call handling fee is adequate
- the arrangements in place for monitoring and assessing service provision are sufficient.

Contract Management Arrangements

8.9 The concession agreement described the management structure that should be established to oversee the ECAS. The structure proposed included a project board and a liaison committee. The governance arrangements in place to oversee the ECAS are set out in Figure 8.1.

Figure 8.1 Governance arrangements for ECAS



Source: Office of the Comptroller and Auditor General

8.10 The Department has confirmed that the project board was established, and is referred to as the Emergency Services Group. It meets quarterly and comprises senior representatives of the Department (which chairs the Group), BT and the emergency services. While functions of the Group are set out in different parts of a schedule to the concession agreement, no formal terms of reference for the Group are available.¹ Formal minutes of the meetings are not recorded. The Department stated that formal minutes are not recorded to allow full and open discussion on all aspects of the service.

¹ Schedule 18 to the concession agreement is over 100 pages in length.

- 8.11** The stated aim of the liaison committee proposed in the concession agreement was to facilitate communication on all matters between the Department and BT. It was to meet quarterly and minutes would be recorded. It was also planned that the Department (on behalf of the committee) would prepare a report based on the minutes of each meeting setting out the details of the issues discussed. The committee was also to carry out an annual review of the contractor's performance. However, the Department has confirmed that the liaison committee was not established. As a consequence, the annual performance reviews specified in the concession agreement have not been carried out.
- 8.12** When this issue was raised with the Department, the Department stated that the concept of a liaison committee was considered at a time when there was no reporting on the quality of the service being provided by the previous operator. The Department stated that alternative structures to facilitate discussion of issues of concern between the Department and BT were developed and that the role envisaged for the liaison committee is now achieved through a meeting, at least quarterly, between a Department representative and the operator's representative.¹ The Department also pointed out that, while annual performance reviews are not carried out, monthly performance reviews are undertaken by the Department and ComReg in consultation with the operator.
- 8.13** ComReg has a statutory regulatory role in respect of ECAS, which is
- to review the maximum call handling fee that the ECAS provider may charge²
 - to report to the Minister on the operational performance of the ECAS.³
- 8.14** An industry forum was also established in 2011 in order to report on service performance and present an operational review of ECAS. It also provides an opportunity to discuss any related issues. The forum comprises members of the Department, ComReg, BT and industry representatives and it meets quarterly.

Emergency Call Handling Fee

- 8.15** The call handling fee for each 12-month period is set in advance and is calculated by dividing the total costs that it is expected BT will incur, by the forecast volume of calls.
- 8.16** While the concession agreement between the Department and BT was signed in February 2009, the previous operator (Eircom) continued to provide the service until 13 July 2010. After that date, the ECAS was fully operational, under the management of BT.
- 8.17** Figure 8.2 sets out the estimated amounts payable to BT from July 2010 to February 2014.

¹ The Department has assigned responsibility for the operational aspects of the ECAS to a staff member within the Department.

² Section 58D, Communications Regulations (Amendment) Act 2007.

³ Section 58G, Communications Regulations (Amendment) Act 2007.

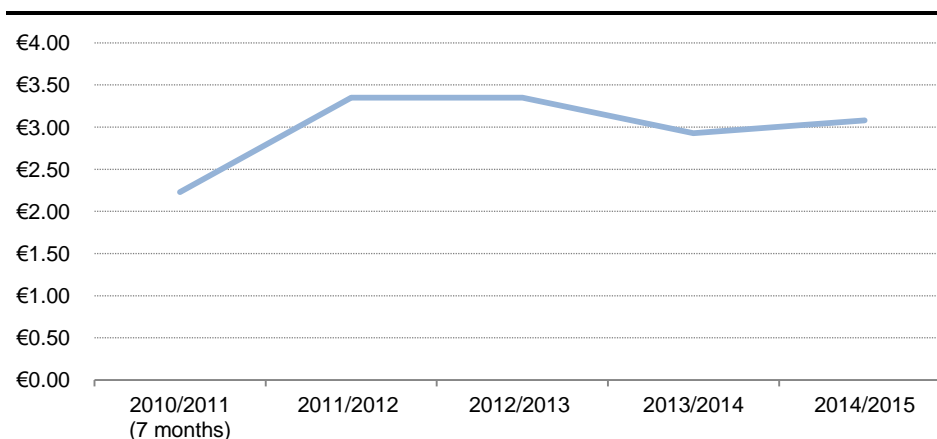
Figure 8.2 Amounts payable to ECAS provider (BT), July 2010 – February 2014

Year	Amount payable €m
Period ending 11 February 2011 (7 months)	3.86
Year ending 11 February 2012	9.42
Year ending 11 February 2013	9.30
Year ending 11 February 2014	7.76

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

8.18 ComReg carries out an annual review of costs and call volumes.¹ The reviews consider the actual costs and call volumes to date and the estimated costs and call volumes for the remainder of the contract period. In assessing the costs, ComReg decides what costs are reasonable and therefore allowable. ComReg's reviews also consider the revenue received and estimated revenue to be received in order to decide if BT's costs have been recovered. If the revenue is less than or greater than the assessed costs, the under or over-recovery of costs is taken into account when setting the call handling fee for the next period. Based on this information, ComReg recommends the fee to be applied for the following 12-month period.

8.19 From inception of the contract to date, there have been four reviews. Call volumes have been considerably lower than was envisaged at the outset of the contract and costs have been lower than anticipated. The call handling fee has fluctuated as set out in Figure 8.3.

Figure 8.3 Call handling fee, July 2010 – February 2015

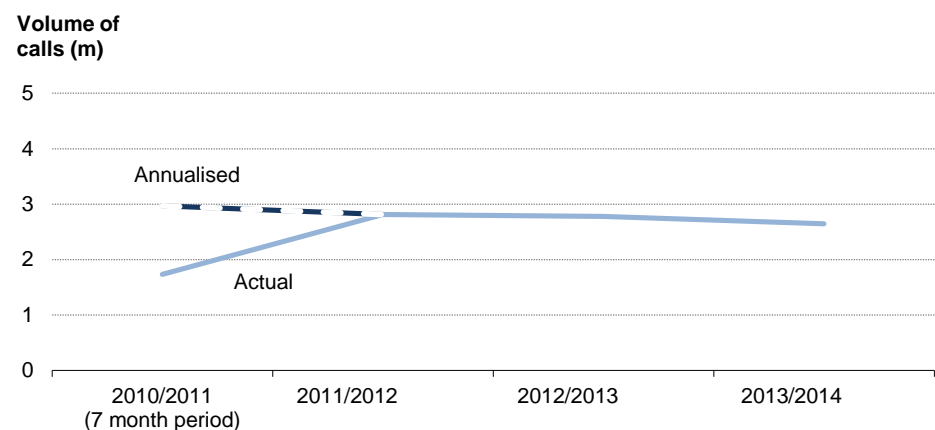
Source: Commission for Communications Regulation

¹ ComReg engages consultants to assist in carrying out the reviews.

Call Volumes

- 8.20** In September 2007, when the Department issued the tender seeking a company to provide the ECAS, the actual call volumes from 2000 to 2006 were provided. In the five years prior to the year of the tender competition, the volume of emergency calls was between 4.5 million and 5 million annually. When submitting tenders, tenderers were requested to base their calculations on an estimated annual call volume of 4.8 million. The Department stated that in setting the call volumes for the purposes of the tender competition, the primary concerns were to ensure that all calls to ECAS would be answered quickly and routed to the correct emergency service and that the service would be adequately resourced to cope with any sudden increases in demand.
- 8.21** In the period from 2009, the volume of emergency calls has been much lower than anticipated when the service was tendered.¹ The principal reason for this was remediation work carried out by Eircom on faulty lines that were generating a high number of false emergency calls. Since this issue was rectified by Eircom, the number of calls has stabilised at approximately 2.8 million calls per annum (see Figure 8.4). In the absence of any change to costs, the lower than anticipated call volumes would have caused an increase of around two-thirds in the call handling fee.

Figure 8.4 Emergency call volumes, July 2010 – February 2014^a



Source: Commission for Communications Regulation

Note: a Each 12-month period is from 12 February to the 11 February of the following year.

- 8.22** The Department stated that the call volumes included in the tender documents were based on figures provided by Eircom. While there were indications at the time that the call volumes could fall, partly due to the remedial work being undertaken by Eircom, the Department had no way of identifying the impact of the remedial action being undertaken.
- 8.23** I asked the Department if it was satisfied that more realistic projected call volumes could be provided in any future tender competitions to identify an ECAS service provider. The Department stated that it has gained considerable experience and knowledge in the provision of the service since 2010 and is now in a better position to make an informed decision on future call volumes. There are now detailed statistics available about call volumes which were not available at the time of the original invitation to tender in 2007.

¹ The annual average number of calls between 2002 and 2008 was 4.7 million. In 2009, the number of calls fell to 3.6 million.

- 8.24** At the time of the tender, operators were asked to provide a sensitivity analysis of their business plans, demonstrating the impact of changes in the main assumptions on the viability of the plan and on the call handling fee. The successful operator included some sensitivity analysis in its tender – for example, how changes in the average time taken to answer calls would impact on the call handling fee. The analysis noted that any reduction in the volume of calls would impact the cost per call and that the majority of costs were fixed and staff related. As an example, it stated that a 50% drop in the number of calls would lead to a 100% increase in the call handling fee. The Department record of bids did not show any evidence that the two other operators in the tender competition whose tenders were evaluated had provided a sensitivity analysis.¹

Analysis of Costs

- 8.25** The Act specifies that BT may recover costs that are determined by ComReg to be reasonable.² The costs of providing the ECAS comprise operating costs and finance costs.

Operating Costs

- 8.26** Operating costs comprise pay and non-pay costs. The pay costs have two elements – the cost of call operators and the payroll costs of BT staff involved in the provision of ECAS.
- 8.27** The call operators are provided by a specialist call centre company which is sub-contracted by BT. BT pays a fixed hourly charge to the call centre company for the required hours. As part of the review process, ComReg reviews the level of staffing and the hourly rate paid to the sub-contractor in order to ensure that both are reasonable.
- 8.28** The BT staff cost relates to staff solely dedicated to the ECAS and support staff that are assigned to ECAS as required. At the end of 2013, there were 12 BT staff dedicated to the provision of the ECAS on a full-time basis. In addition to this, there are support staff, such as technical and engineering staff, that are charged as required to ECAS.

¹ Neither of the other two tenderers provided an analysis of how changes to the main assumptions would affect the call handling fee. One tenderer stated that there would be no variance in the business plan; the other tenderer provided information on how the provision of additional services would affect the call handling fee.

- 8.29** The main non-pay costs relate to premises, network provision and network maintenance. BT leases premises for two of the call centres and there are management charges for both of those premises also. For the third centre, BT utilises space within the specialist call centre company's premises and the costs associated with this are included as a general overhead in the hourly rate paid to the company for the operators.

Finance Costs

- 8.30** The finance costs are the costs associated with financing the project over the duration of the contract and comprise
- annual depreciation charge
 - guaranteed rate of return
 - allocation towards a contingency fund
 - prior period under-recovery
 - cost of capital rebate.

² Reasonable costs are defined in the concession agreement as including "...contributions to the sinking fund, all necessary costs incurred by the contractor in the normal course of business, such as capital outlay, depreciation, heating and lighting, labour, the annual monitoring costs and the final monitoring costs of ComReg, adjustment for any over or under-recovery of the guaranteed return for any previous call handling fee periods and costs that may be incurred as a result of having to comply with any law."

Set-up Costs and Annual Depreciation Charge

- 8.31** The main focus of the first review carried out by ComReg was to establish the reasonableness of the initial investment made by BT in establishing the ECAS. The ECAS operating system is located in two secure equipment centres. The initial capital investment deemed reasonable by ComReg was approximately €11 million, while a further €232,000 of the set-up costs were disallowed. Some additional capital investment has also been required over the life of the contract.
- 8.32** The annual depreciation charge is calculated on the investment in the ECAS. BT is writing the cost of that investment off over the life of the contract (five years) which means that the depreciation charge is just over €2 million per annum.
- 8.33** I asked the Department how it would ensure that BT would not benefit from an unfair advantage if it took part in the next tender competition given that it would already have the necessary infrastructure in place to provide the service. The Department stated that it will consider options while preparing the tender documentation to ensure the award criteria confer no advantage on BT compared with other potential bidders.

Guaranteed Rate of Return

- 8.34** The agreement between the Department and BT specifies a guaranteed rate of return on the capital sum invested – in effect, an agreed cost of capital – which applies for the duration of the contract. In the tender documents, the Department stipulated a base rate of return (4.2%) on the eligible investment. Tenderers then proposed a margin to be added to the base rate provided in the tender. The final guaranteed rate of return in the contract between the Department and BT is 6.63% (4.2% plus a margin of 2.43%). The Department stated that a base rate of return was included in the invitation to tender in order to encourage competition and assure potential respondents that an appropriate rate of return would be available on their investment. While BT recoups its investment at a steady rate over the life of the contract through depreciation, the guaranteed rate of return in each year of the contract is calculated on the gross book value of its capital investment. On this basis, the guaranteed rate of return is around €750,000 each year.
- 8.35** I asked the Department what was the basis for setting the base rate of return at 4.2% in the tender documents that issued. The Department stated that the base, or risk-free, rate of return used was the Euribor one-week rate at 3 September 2007. This rate was selected on the basis that the tender was open to applicants from other EU countries and was advertised in the Official Journal of the EU. The September 2007 rate was the most recent available rate prior to the issue of the tender documents. The Department added that once the premium rate was added by the tenderers, the base rate was no longer considered.
- 8.36** The consultant which ComReg contracted to assist with the 2011 and 2012 reviews of the call handling fee noted in both reports that the method of calculation being used was different to traditional approaches where the cost of capital is generally calculated as a percentage of the net book value. Because BT is recouping its capital investment over the life of the contract through a depreciation charge, in effect, its actual return on its capital investment is significantly higher than the guaranteed rate of return of 6.63% set in the concession agreement.

- 8.37** The Department pointed out that the Act states that, in determining the maximum call handling fee, ComReg “shall have regard to the need for the ECAS operator to cover the reasonable costs likely to be incurred by it in operating the service and, in particular, to recover a guaranteed rate of return for providing the ECAS.”¹ Consequently, the Department considers that it is required to ensure that a guaranteed rate of return is the basis for remunerating the ECAS operator.

Contribution to Contingency Fund

- 8.38** Under the terms of the agreement with the Department, BT is required to pay €250,000 per annum into a contingency fund. The fund is held and managed by the Department, and the funds are ring-fenced to be used solely for the ECAS. The principal purpose of the fund as set out in the concession agreement is to cover any under-recovery by the contractor at the end of the contract period. The Department has stated that the fund could also be used

- to address special demands that may arise and have to be addressed immediately for security or operational reasons
- to fund enhancements to the ECAS in certain limited circumstances
- to cover step in rights if required
- to manage transition costs to a new operator at the end of the concession agreement.

- 8.39** To date, €250,000 has been withdrawn from the account. This was used to fund the establishment of an emergency SMS service. The annual payment to the contingency fund is included in the costs incurred by BT for fee setting purposes.

Cost of Capital Rebate

- 8.40** The initial call handling fee of €2.23 per call was based on an estimated 4.8 million emergency calls per annum (400,000 per month). However, because the volume of calls received was less than two-thirds of that level in the initial period of operation (up to February 2011), the receipts were not enough to cover BT’s assessed costs in providing the service. BT was therefore allowed to recover the cost through an adjustment to the fee in subsequent periods.
- 8.41** Because BT did not recover the assessed costs in the initial period, it had to finance the under-recovery of those costs. BT is compensated for this by way of a ‘cost of capital’ rebate which is based on the estimated interest cost resulting from the self-financing arrangements. The rebate is treated as a reasonable cost and is spread over the remaining life of the contract.
- 8.42** There has not been an over-recovery of costs by BT in any year to date. However, if this were to happen, the costs over-recovered would be deducted in the calculation of the call handling fee in the following period. An over-recovery of costs at the end of the contract period would be refunded by BT into the contingency fund. Similarly, an under-recovery of costs by BT at the end of the contract period would be refunded by the Department to BT from the contingency fund. The aim is that by the end of the contract period all reasonable costs incurred by BT will be recovered.

¹ Section 58D (3),
Communications Regulation
(Amendment) Act 2007.

Annual Reviews of Costs

8.43 In carrying out each annual review, ComReg reviews BT's costs to determine what is reasonable and accordingly may be recouped via the call handling fee. The review covers actual costs incurred to date and projected future costs.





8.44 Each review focuses on a particular aspect of the ECAS. The reviews to date have focused on the following

- 2010 review – the capital expenditure incurred by BT in providing the ECAS
- 2011 review – operating costs
- 2012 review – operating costs and resourcing model
- 2013 review – a general assessment of the previous cost savings and call volumes.

It is proposed that the 2014 review will focus on the methodology used by BT to compile and calculate the performance data submitted in the monthly performance reports.

8.45 A summary of the four reviews from 2010 to 2013 is set out in Figure 8.5.

Figure 8.5 Summary of reviews carried out on the call handling fee

Operating period (Review date)	Findings	Outcome: movement in call handling fee
February 2011 to February 2012 (December 2010)	<ul style="list-style-type: none"> ▪ Set-up costs reasonable ▪ Volume of calls lower than projected 	 50% to €3.35
February 2012 to February 2013 (November 2011)	<ul style="list-style-type: none"> ▪ Costs lower than forecast ▪ Volume of calls lower than projected ▪ Some expenditure disallowed ▪ Hourly rate to call operator too high 	 Remaining at €3.35
February 2013 to February 2014 (October 2012)	<ul style="list-style-type: none"> ▪ Costs at forecast level ▪ Volume of calls higher than projected 	 12.5% to €2.93
February 2014 to February 2015 (October 2013)	<ul style="list-style-type: none"> ▪ Costs lower than forecast ▪ Volume of calls lower than projected 	 5% to €3.08

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

8.46 Key findings of the four reviews to date have been

- the set up costs were, broadly, determined to be reasonable and were admitted as allowable expenditure
- the hourly rate paid initially by BT to the call centre operator was reviewed in November 2011 and deemed not to be reasonable. ComReg reduced the allowed rate by 19% which was applied retrospectively from June 2011
- some costs have been lower than expected due to the lower than forecast call volumes. The Department noted that as the volume of calls has reduced, the number of hours required of ECAS operators by BT has also been reduced
- some costs submitted by BT were disallowed.

- 8.47** Overall, projected costs since 2012 have stabilised at around 20% lower than the costs projected for the first year of the contract. This offsets, in part, the impact of the reduction of over 40% in the call volumes, resulting in a net increase of around 38% in the call handling fee for the 2014/2015 period when compared with the fee at the start of the contract.

Legal Challenge

- 8.48** A legal case was taken against ComReg in 2011 by a network provider in relation to the first review of costs. The network provider challenged the manner in which ComReg made the decision on the call handling fee and the absence of an appeal process in respect of the new fee. Judicial review proceedings were withdrawn in August 2011. ComReg incurred legal costs of just over €310,000 (net) in respect of this case.
- 8.49** Since the settlement, ComReg has carried out a formal consultation process as part of the annual reviews of the call handling fee. In doing so, ComReg issues a consultation and draft determination paper seeking the views of interested parties on a number of key principles related to the inputs required to ensure that the maximum call handling fee permitted is reasonable. Submissions are considered by both ComReg and the consultants contracted to assist with the annual review prior to publishing the final determination setting out the fee that will apply for the following 12 months.

Monitoring of Service Performance

- 8.50** Each month, BT prepares a report which includes data on a number of key areas, one of which is BT's performance against certain service parameters. The parameters were specified in the concession agreement signed by both parties in February 2009, and can be amended if required during the life of the contract. If this is necessary, BT must submit a request to the Department who in turn must approve the request before it is progressed. Figure 8.6 sets out the parameters and the performance level expected.
- 8.51** BT sends the monthly reports to the Department and ComReg for review. BT also presents the reports at the quarterly meetings of the Emergency Services Group and the industry forum. Each monthly report presents the performance for the current month and the two previous months. The reports are reviewed by the Department and ComReg in order to identify any instances where performance in achieving the service parameters is diminishing or outside the specified targets. Any failures to meet the required parameters are discussed with the operators and remedial action is taken.
- 8.52** The Department stated that while an annual review of performance is not undertaken as envisaged at the time the agreement with BT was signed, the monthly reporting (and hourly when issues are identified) provides a more effective mechanism for review of the service.¹

¹ Reports on the operation of the service can be provided by BT giving hourly breakdowns of performance in order to enable the Department representative review the functioning of the service while an operational issue is ongoing.

Figure 8.6 Parameters used to measure performance

Parameter	Measurement frequency	Performance level and measurement period
ECAS availability	Monthly	At least 99.999% One year
Average speed of answer	Hourly and daily	No more than 1.3 seconds One day
Percentage of calls answered in 5 seconds	Hourly and daily	At least 97.5% One day
Accessibility index ^a	Quarter hours and daily	At least 85% One day
Customer or emergency service complaints	Monthly	No more than two per month or one for every 200,000 calls
Standards certification	Annually	Annual certification inspection
Average call handling time	Hourly and daily	No more than 36 seconds One day
Average call routing time	Hourly and daily	No more than 15 seconds for 90% of routed calls One day
Average call abandon rate	Hourly and daily	No more than 12% One day
Call handling accuracy ^b	Monthly (50 calls chosen randomly per operator centre per month)	At least 99% Monthly

Notes: a This parameter measures the percentage of quarter hours where 85% of calls are answered within five seconds, ignoring calls abandoned within five seconds.

b This parameter measures the quality of the call operator's performance when handling calls. BT monitors a sample of recorded calls each month to ensure that operators are adhering to training principles and procedures.

- 8.53** ComReg has stated that its monthly review of the performance reports is linked to the annual review of the call handling fee as the parameters are used to inform the resource model considered by ComReg as part of the annual review. The annual review of the call handling fee also considers the performance of BT as it includes visits to the three call centres and the two data centres. ComReg has also visited BT's monitoring centre in Belfast as part of the annual review of the call handling fee. The purpose of these visits is to ensure that BT's infrastructure is adequate and operating as required.
- 8.54** The monthly reviews by ComReg focus on once-off or occasional instances where performance does not meet the performance levels specified in the concession agreement.
- 8.55** As part of this examination, a sample of the performance reports submitted by BT was reviewed. The reports covered the period January 2013 to April 2014. Over that period, the reports indicated that the performance standards were consistently met by BT.

- 8.56** I asked the Department how it validates the results in the performance reports generated by BT. The Department stated that it has access at all times to the raw data generated by BT's computer system and that it has regularly checked and vetted the quality and classification of the calls. The Department has carried out these inspections on an unannounced basis and has, at no stage, identified any inconsistencies in the performance reports generated by BT. The Department also pointed out that, as part of ComReg's annual review of the call handling fee later this year, an independent consultant will be engaged to formally review and test the methodology by which BT compiles and calculates its performance reports.

Conclusions and Recommendations

- 8.57** The emergency call answering service is fully funded by the companies operating the telephone networks from which emergency calls are made. The companies are charged a handling fee for each call made. The fee is regulated by ComReg, based on the expected cost of providing the service and the anticipated volume of emergency calls. Annual revisions of the call handling fee take account of any under or over-recovery of costs by the service operator in prior periods.
- 8.58** The call handling fee for 2014/2015 is around 38% higher than the fee when the contract commenced in 2010. Over the period 2010 to 2014, the level of calls received has been substantially lower than initially expected when the service was put out to tender. This led to a sharp increase in the call handling fee for 2011/2012. Some costs fell due to the lower call volumes being handled and the annual reviews revised or disallowed some other costs.
- 8.59** The concession agreement between BT and the Department set out how the emergency call answering service should be overseen. The structure envisaged comprised a project board and a liaison committee. The project board has no formal terms of reference – instead, the functions of the board are referred to at various sections of one of the schedules to the concession agreement. Formal minutes of the group's quarterly meetings are not recorded. A liaison committee, to facilitate communication on all matters between the Department and BT, envisaged under the concession agreement was not established. However, alternative structures were put in place to facilitate communication between the Department and BT.

Recommendation 8.1

Formal consolidated terms of reference for the Emergency Services Group should be put in place. Additionally, in order to ensure that adequate records of the Department's oversight of the operation of the emergency call answering service are maintained, the Department should ensure that formal records are kept of meetings of the Group.

Accounting Officer's response

Agreed. The Department notes that while the structures already in place have ensured that the required service quality is delivered and have provided robust reporting arrangements, it is in the process of agreeing formal terms of reference for the project board. In addition, all future project board meetings will be minuted.

Performance Reviews

- 8.60** BT reports monthly on its performance against service delivery standards specified in the concession agreement. The reports are reviewed by ComReg and the Department and instances where performance fails to meet the specified standard are raised and addressed with BT. The reports are also presented at the quarterly meetings of the Emergency Services Group and the industry forum. Overall, performance standards are being met.
- 8.61** Although set out in the concession agreement, no annual reviews of performance by BT have taken place. However, ComReg plans to engage an independent consultant to formally review and test the methodology by which BT compiles and calculates its performance reports. This review will form part of ComReg's annual review of the call handling fee and is expected to take place by the end of 2014.

Recommendation 8.2

While the monthly reviews of performance currently being carried out allow the Department and BT to respond to issues as they arise, a formal annual review and report would allow an overview of performance over a period to be provided to the public and interested parties. The Department should consider publishing an annual review of performance in order to report on performance for the year, the issues encountered (if any) and how those issues were addressed.

Accounting Officer's response

Agreed. The Department is putting arrangements in place for annual reporting on the performance of the ECAS. ECAS is performing to a consistently high standard and exceeding all of the performance levels set out in the concession agreement. The average speed of answer for a caller to ECAS is 0.6 seconds which is one of the fastest in Europe and calls are passed to the appropriate emergency service on average within 6.35 seconds with details of the emergency and the location of the caller.

Rates of Return

- 8.62** As part of the tender competition to select a service provider for ECAS, the Department specified a base rate of return (4.2%) which would apply to the operator's eligible investment. The tenderers were invited to indicate what margin would be added in order to arrive at the final guaranteed rate of return which would apply for the duration of the contract. The Department used the Euribor one-week rate as at 3 September 2007 as the base rate stipulated in the tender documents. The contract between the Minister and the ECAS operator was not signed until 14 months after the closing date for receipt of tenders. As a result, any reductions in market interest rates would have resulted in an additional benefit to the contractor. If market interest rates rose significantly, the contractor was not obliged to enter the contract.
- 8.63** No financial advice was requested from the National Development Finance Agency (NDFA) in relation to the setting of the base rate of return in the tender. One of the principal functions of the NDFA is to advise state authorities on the optimal financing of public investment projects. State bodies are obliged to consult with the NDFA for projects with capital investment in excess of €20 million and may do so, if they so choose, for smaller projects.

- 8.64** The guaranteed rate of return, which is specified in the concession agreement as 6.63%, is calculated annually on the gross book value of the contractor's investment for the full period of the contract. Because BT is also recouping its investment through an annual depreciation charge, in effect the actual return on the capital invested is significantly higher and increases over the life of the contract.

Recommendation 8.3

The Department should consider consulting with the NDFA on any future projects, of a similar size and involving similar complex structures, in order to ensure that the most appropriate terms are agreed, including advice on whether it is appropriate to specify a base rate of return.

Accounting Officer's response

Agreed. The Department complies with relevant regulations and guidelines in relation to capital investments. However, as the capital element of the establishment of ECAS was €11 million, which is considerably less than €20 million limit, and no financial instrument was involved, it was not considered necessary to consult with the NDFA.

9 Accounting for National Gallery of Ireland Expenditure

- 9.1** Dáil Éireann grants (votes) money to each supply service annually on foot of proposals resulting from the estimates process. The annual Appropriation Act gives statutory effect to the estimates for each supply service voted by the Dáil for that year. The Act specifies the net amount of authorised expenditure on each service together with the amount of departmental receipts that may be applied as appropriations-in-aid of each vote.
- 9.2** The annual appropriation by the Dáil of money to the expenditure limit set and the accounting for that money to the Dáil is a key element of the public financial process. As a general principle, government accounting is on a gross basis with all expenditure and all receipts shown separately. Receipts cannot be netted against expenditure, and surplus receipts cannot be used without Dáil approval to meet excess expenditure.¹
- 9.3** As Accounting Officer, the Director of the National Gallery of Ireland is responsible for preparing its appropriation account under the Exchequer and Audit Departments Act 1866, and for the administration of the Gallery. Under its establishing legislation, the Gallery also has a board of governors and guardians with responsibility for overseeing its activities. This includes oversight of the management of the Gallery's funds. The Director also reports to the Board.
- 9.4** The Gallery was granted the net amount of €7,677,000 for the salaries and expenses of the Gallery including grants-in-aid for 2013, and a sum of €253,000 to be applied as appropriations-in-aid, almost all of which (€252,000) relates to pension related deductions from staff salaries.
- 9.5** The Gallery has access to other sources of (non-voted) funding from activities such as retail shops and restaurant, donations and benefactions, fundraising, exhibitions and sponsorship. Over the last three years, this funding amounted to an average of 17% of the annual net exchequer grant and is not accounted for in the Gallery's appropriation account.
- 9.6** Other national cultural institutions such as the National Museum and National Library are funded by way of annual grant from the Department of Arts, Heritage and the Gaeltacht. In those cases, own resources from sales, corporate events, sponsorships, etc. amount to under 5% of the respective Exchequer grants.
- 9.7** In addition to the cash-based annual appropriation account, the Gallery prepares accrual financial statements that are designed to give a comprehensive account of all of its income and expenditure and its state of affairs.² The latest accrual financial statements for the financial year 2011 were certified on 12 September 2014. The delay in certification arose from implementation of substantial changes in the format of the account for 2011 to align with accounting practice for similar organisations.

¹ The Department of Public Expenditure and Reform's *Public Finance Procedures* (section C2) outlines the procedure to be followed where Vote holders exceed the expenditure level set for a year, and an 'excess vote' results.

² The annual financial statements are prepared under Section 35 of the National Cultural Institutions Act 1997.

- 9.8** In recent years, the Gallery has used own resource funding, with the approval of the Board, for the purposes of charging some operating costs that would normally be funded from the appropriation account. The Board's view is that it is the responsibility of Government to provide adequate funds to maintain the Gallery's public services, which includes operating costs. However, it has only reluctantly agreed to utilise its own funds in order to make up the current shortfall in operating costs.
- 9.9** When audit testing was conducted in relation to the 2012 appropriation account, it was noted that some operating expenditure was charged to own resources where expenditure on the same activities in the previous year was charged to the Vote. When this was queried with the Gallery, it explained that because its Exchequer grant had been cut by 40% since 2008, it was necessary to fund some operating costs (€156,500 in 2012) from Gallery reserves, by the authority of the Board. It stated that the policy applied was to charge all operating costs to the Vote subject to available Exchequer funding.
- 9.10** In the context of audit of the appropriation account for 2013, the Gallery provided details of expenditure of €298,000 charged to own resources for some operating costs that would normally be charged to the Vote (see Figure 9.1).

Figure 9.1 Expenditure financed from Gallery own resources, 2013

	Charged to own resources	Total for similar activities charged to Exchequer
	€000	€000
Salaries	143	4,836
Security and incidental expenses (including lecture tours and transport of pictures)	71	597
Board fees and expenses	26	—
Office equipment and external IT services	15	230
Premises expenses	38	803
Conservation	5	39
Total	298	6,505

Source: National Gallery of Ireland

Views of the Accounting Officer

- 9.11** The Accounting Officer explained that under its establishing legislation, the Board has sole responsibility and authority to manage its own resources as it sees fit, in the best interests of the Gallery. He stated that the Gallery was fortunate to have at its disposal an alternative source of funds which, in the absence of adequate funds from the Exchequer in its annual Vote, may be utilised to maintain its service standards and to further the interests and objectives of the Gallery. He also stated that this expenditure is, by its nature, discretionary and that core costs, such as permanent staff, utilities, and security costs, are funded by the Exchequer. The Gallery's financial statements, which are audited by the Comptroller and Auditor General, cover all activities in addition to the annual appropriation account and these financial statements reflect costs from all sources.

Conclusions

- 9.12** The situation whereby the Gallery has access to and applies its own resources outside of the annual estimates process bypasses the spending limit control objective of the annual estimates process and the gross accounting principle required under public financial procedures. In addition, the Gallery is obliged to produce two sets of financial statements, on two different accounting bases.

Recommendation 9.1

The Department of Arts, Heritage and the Gaeltacht, in consultation with the Department of Public Expenditure and Reform, should consider including all resources of the Gallery within the appropriations process. Restricted funds from non-Exchequer resources (such as fundraising) can be accounted for within existing appropriation accounting rules. Alternatively, consideration should be given to treating the Gallery, like other national cultural institutions, as a grant subhead within the estimate for the Department of Arts, Heritage and the Gaeltacht, with appropriate and timely financial reporting on a comprehensive basis.

Director's response

Not agreed. Including all Gallery reserves within the estimate/appropriation process would be seriously detrimental for the Gallery. It would mean that all unspent unrestricted revenues obtained by the Gallery, which would include donations, benefactions and bequests, would be required to be surrendered to the Exchequer, annually. This would instantly and severely undermine the Gallery's ability to raise funds and the confidence and willingness of donors/patrons to give funds for the benefit of the Gallery and Irish society. Making such a change when the Gallery, with the support of Government, has committed to expending substantial resources in expanding its fundraising activities, would severely compromise the Gallery's fundraising effort.

The alternative recommendation to convert the Gallery Vote into a grant from the Department of Arts, Heritage and the Gaeltacht is an idea that was rejected by the Board when it was mooted several years ago, principally because it compromises the Gallery's perceived independence from central government, thereby making fundraising much more difficult. The current Board has not had an opportunity to consider the potentially substantial consequences of this recommendation and would require more time to be able to provide a comprehensive response.

Response of Secretary General of Department of Arts, Heritage and the Gaeltacht

Agreed. In the interest of transparency, Exchequer funding should in future be provided through a subhead of the Vote for Arts, Heritage and the Gaeltacht. The National Gallery Vote will cease to operate on 31 December 2014 and an agency statement setting out expected receipts and payments for the coming year will be provided in the Revised Estimate for 2015 prepared by the Department of Public Expenditure and Reform.

10 Regularity of Social Welfare Payments

- 10.1** The Department of Social Protection (the Department) is required to ensure that the expenditure it incurs has been applied for the purposes for which the money was made available by Dáil Éireann, and that its financial transactions conform with the authorities under which they purport to have been carried out. Financial transactions are considered to be 'regular' when both of these conditions are satisfied.
- 10.2** Payments in excess of entitlement under the terms of welfare schemes are 'irregular'. Such payments can arise due to
- claimant fraud – where the claimant intentionally provides incomplete or inaccurate information in order to receive benefits, or deliberately fails to inform the Department of relevant changes in circumstances
 - claimant error – which arises when the claimant has provided inaccurate or incomplete information, or failed to report a relevant change in circumstances (such as an increase in means or a change in medical condition), but there is no clear fraudulent intent on the claimant's part
 - departmental or administrative error – where benefits are paid incorrectly due to inaction, delay or mistakes made by the Department's staff.
- 10.3** I have referred in my audit certificates on the 2013 Appropriation Account for Vote 37 and the 2013 Account of the Social Insurance Fund to the level of irregularity of scheme payments, which I consider to be material in the context of each account.

Fraud and Error Surveys

- 10.4** The Department undertakes fraud and error surveys of social welfare schemes. The surveys involve reviews of a random sample of claims in payment to establish if the claimant is entitled to a payment and if so, whether the correct amount is being paid. The surveys assist the Department in identifying scheme risks and the need for any changes to the control measures in place.
- 10.5** The Department has set out its programme of fraud and error surveys to be carried out over the next five years in its Compliance and Anti-Fraud Strategy 2014 – 2018 which was published in April 2014. Two surveys which had been scheduled for 2013 are now planned to be undertaken in 2014 – illness benefit and invalidity pension.

Estimates of Level of Fraud and Error

10.6 Because fraud and error surveys are focused on randomly selected cases in payment, the survey results provide a basis for estimating the underlying level of payments in excess of entitlement – whether due to fraud or error – for each scheme surveyed.

10.7 Figure 10.1 sets out estimates of the scale of fraud and error for schemes where surveys have been carried out.

Figure 10.1 Estimated level of fraud and error in surveyed schemes

Account and scheme	Year of survey ^a	Estimated level of fraud and error		Scheme cost 2013
		Scheme ^b	Department ^c	€m
Vote schemes				
Family Income Supplement	2005	3.3%	n/a	262
State Pension (non-contributory)	2007	1.9%	n/a	952
Jobseeker's Allowance	2012	4.6%	3.1%	3,109
Disability Allowance	2010	18.4%	4.1%	1,141
One-Parent Family Payment	2011	7.1%	2.7%	978
Child Benefit	2012	0.5%	0.5%	1,900
Rent Supplement	2013	6.0%	5.0%	373
Social Insurance Fund schemes				
Illness Benefit	2006	0.4%	n/a	649
State Pension (contributory/transition)	2008	1.1%	n/a	4,121
Jobseeker's Benefit	2011	2.5%	1.6%	560
Widows'/Widowers'/Surviving Civil Partners' Contributory Pension	2013	0.8%	0.7%	1,350

Source: Department of Social Protection

Notes: a Base year for latest scheme survey. More than one survey has been undertaken for some schemes.
 b Includes cases which were subsequently successfully appealed.
 c Net loss to welfare system taking account of cases where disallowed scheme claims are succeeded by claims/dependent payments on other schemes or where appeals are successful. The survey reports do not disaggregate these two categories.

10.8 Welfare schemes are funded through the Vote for Social Protection and the Social Insurance Fund (SIF). Vote funded schemes are mainly in the nature of social assistance, often based on means tests. SIF schemes are generally in the nature of social insurance in that eligibility is dependent on the level of the claimant's PRSI contributions.

Vote Funded Schemes

- 10.9** There is wide variation in the level of fraud and error found by surveys of Vote funded schemes. Apart from child benefit which is a universal payment (i.e. not means tested), the estimates range from 1.9% of scheme expenditure in the case of the non-contributory State pension to 18.4% for the disability allowance scheme. Surveys in more recent years include an adjustment to the estimate to take account of cases successfully appealed or found to be ineligible for the scheme surveyed but entitled to a payment under another scheme, either as the claimant or as a dependent. In the case of the disability allowance scheme, this adjustment reduces the estimate to a net fraud and error rate of 4.1%.
- 10.10** The surveyed Vote schemes account for €8.7 billion of 2013 expenditure. The extent of fraud and error in schemes that have never been surveyed and which account for a further €2.6 billion of expenditure, is not known.

SIF Funded Schemes

- 10.11** There is also variation in the level of fraud and error in the four SIF schemes surveyed. Estimates range from 0.4% for illness benefit to 2.5% for jobseeker's benefit. The State pension (contributory/transition) and jobseeker's benefit schemes accounted for 56% of the €8.4 billion SIF scheme expenditure in 2013. These schemes each have estimated levels of fraud and error in excess of 1% of expenditure.

Latest Survey Results

- 10.12** The Department has completed fraud and error surveys of three schemes in the past year – jobseeker's allowance, rent supplement and widows'/widowers'/surviving civil partners' contributory pension. An analysis of the results of those surveys is set out in Figure 10.2.

Figure 10.2 Estimated level of fraud and error – latest survey results

	Percentage of scheme payments, by value		
	Scheme fraud and error rate	Reinstated or transferred claims	Net fraud and error rate
Jobseeker's Allowance			
Due to fraud	1.5%	0.1%	1.4%
Due to error	3.1%	1.4%	1.7%
Total	4.6%	1.5%	3.1%
Rent Supplement			
Due to fraud	3.2%	0.3%	2.9%
Due to error	2.8%	0.7%	2.1%
Total	6.0%	1.0%	5.0%
Widows'/Widowers'/Surviving Civil Partners' Contributory Pension			
Due to fraud	0.3%	0.1%	0.2%
Due to error	0.5%	–	0.5%
Total	0.8%	0.1%	0.7%

Source: Fraud and Error Survey Reports, Department of Social Protection, June/July 2014

Jobseeker's Allowance

- 10.13** Jobseeker's allowance is a payment to unemployed people aged between 18 and 66. In order to qualify, they must satisfy a means test and must be
- habitually resident in the State
 - capable of working, and
 - available for and genuinely seeking work.
- 10.14** At the end of 2013, there were 295,000 recipients of jobseeker's allowance. Expenditure in 2013 amounted to just over €3.1 billion.
- 10.15** A random sample of 1,000 cases in payment in September 2012 was selected for review as part of the fraud and error survey. Ultimately, 987 cases formed the basis for the survey as reviews of 13 cases were not concluded in time for inclusion in the survey results. The survey took a total of 21 months to complete.
- 10.16** The extent of fraud and error identified by the survey represented 4.6% of expenditure. The previous survey of jobseeker's allowance in 2009 identified a fraud and error rate of 3.1%.
- 10.17** When account is taken of cases successfully appealed or transferred to other social welfare schemes, the net rate of fraud and error in the latest survey is 3.1%. This was measured 12 months after the survey commenced.
- 10.18** Based on the survey results, the Department estimated that the weekly gross amount of fraud and error under the jobseeker's allowance scheme was €2.68 million.¹
- 10.19** Of the 987 cases included in the survey results
- 85% were assessed as requiring no change to their payment
 - customer errors were identified in 119 cases
 - departmental errors were identified in nine cases
 - fraud was suspected in 21 cases.
- 10.20** The cases of suspected fraud involved
- failure to provide documentation requested
 - means in excess of limits identified
 - claimant not available for work (for example, living abroad)
 - claimant found not to be entitled to dependent adult payment.

¹ The survey report noted a 95% confidence interval range from €1.9 million to €3.4 million.

- 10.21** The survey identified casual claimants (i.e. those who found work for a day or two at a time) as one of the higher risk groups. It estimated that the level of fraud and error for the population of casual claimants was around 6.8%. The survey recommended
- an acceleration of the roll-out of the 'scanning project' for casual claimants whereby a claimant's work pattern is verified by their employer in advance of payment certification
 - active follow up of claimants where employer details are not furnished for scanning.
- 10.22** The Accounting Officer has indicated that scanning is now in place for 65% of all casual claimants and that its roll-out to the full casual claim load is being actively progressed.

Rent Supplement

- 10.23** Rent supplement is part of the supplementary welfare allowance scheme and available to people living in private rented accommodation who cannot provide for the cost of their accommodation from their own resources. The rented accommodation must be suitable for the claimant's needs, the rent payment should be below the maximum rent limit set by the Department and the claimant must satisfy a means test.
- 10.24** Expenditure on rent supplement in 2013 amounted to €373 million and at the end of 2013, there were some 80,000 recipients.
- 10.25** A random sample of 1,000 cases in payment in March 2013 was selected for review as part of the fraud and error survey. The survey took 16 months to complete.
- 10.26** Claims with commencement dates in 2013 were excluded from the survey as these were considered to have been recently assessed. The Department has since decided, following a review of its sampling procedures, that recently awarded cases will not be excluded from future surveys.
- 10.27** The gross rate of fraud and error identified by the survey was 6% of expenditure. When account is taken of cases successfully appealed or transferred to other social welfare schemes, the net rate of fraud and error is 5%. The estimate of excess payment for the UK housing benefit scheme, which is similar to rent supplement, is 5.8%.¹ The UK report also identified underpayments to claimants amounting to 1.6% of the entitlement due.
- 10.28** The Department estimated that the weekly gross amount of fraud and error under the rent supplement scheme was almost €390,000.²
- 10.29** Of the 1,000 cases included in the survey
- 84% were found to be in order
 - customer errors were identified in 55 cases
 - departmental errors were identified in 67 cases
 - 38 cases of suspected fraud were identified.

¹ *Fraud and Error in the Benefit System: Preliminary 2013/14 Estimates*, Department for Work and Pensions, May 2014.

² The survey report noted a 95% confidence interval range from €289,000 to €491,000.

10.30 The majority of suspected fraud cases arose because

- the claimant failed to respond to the survey and the subsequent termination of the claim
- the review identified that the claimant had moved
- previously undisclosed means were identified.

10.31 Departmental analysis of the survey results identified two factors as having the most influence on the likelihood of a case being non-compliant with scheme conditions

- the division of the Department dealing with the case – the divisions with the highest percentage of fraud and error cases were Dublin Central (32%) and Midlands North (25%) while the average across all divisions was 16%
- to whom the payment was made – cases paid directly to the client had an 18% rate of fraud and error while those paid to a nominated person (usually the landlord) had a 10% rate.

10.32 The survey recommended that

- while the value of departmental errors identified was low, errors in the calculation of rent supplement should be addressed as a priority. In that regard, clarification on rent supplement calculations has already issued and guidance on specific issues is expected to be rolled out before the end of 2014
- efforts should continue to ensure that customers are aware of the conditions of the scheme and of their obligation to report any change in circumstances
- forms issued to customers should stress the implications of providing false information or concealing information
- the supplementary welfare allowance best practice manual should be reviewed to reflect the survey results and current review practices, and the survey findings should be incorporated into training initiatives.

Widows'/Widowers'/Surviving Civil Partners' Contributory Pension

10.33 Widows'/widowers'/surviving civil partners' contributory pension is a weekly payment to the husband, wife or civil partner of a deceased person. It is based on the social insurance record (PRSI) of either the claimant or their late spouse or civil partner. In order to qualify, a person must not be cohabiting.

10.34 Allowances may also be payable for living alone, fuel and where the claimant is over 80. These increases have additional qualifying conditions which must be satisfied.

10.35 At the end of 2013, there were 117,000 recipients and total expenditure in 2013 was €1.3 billion.

10.36 A random sample of 1,000 claims in payment in August 2013 was selected for review as part of the fraud and error survey. The survey results are based on 947 cases as reviews of 39 cases were not concluded in time for inclusion in the survey results and 14 cases were deceased. The survey was completed in just under one year.

10.37 Irish resident claims were reviewed by social welfare inspectors while claimants living outside the State were asked to complete a certificate confirming their continuing eligibility for the scheme.

- 10.38** The gross rate of fraud and error identified was 0.8% of expenditure. The net rate, after taking account of cases successfully appealed or transferred to other social welfare schemes is 0.7%.
- 10.39** The Department estimated the gross amount of fraud and error in the scheme at almost €190,000 per week.¹
- 10.40** Of the 947 cases included in the survey results
- 92% were found to be in order
 - 37 cases were identified as having customer errors
 - departmental errors were found in 36 cases
 - four cases of suspected fraud were identified.
- 10.41** The four suspected fraud cases arose due to cohabitation, re-marriage, or non-disclosure of means in respect of entitlement to fuel allowance.
- 10.42** The majority of error cases related to the payment of one or more of the additional allowances. The survey noted that the majority of these cases arose because of a change in the claimant's living arrangements (either by moving into a nursing home or a change in household composition) resulting in a loss of entitlement to the allowance.
- 10.43** The survey identified the higher risk groups as claimants with fuel allowance and non-resident claimants.

Classification of Cases

- 10.44** The objective in reviewing sampled cases is to establish whether the claimant is entitled to a payment or whether, due to fraud or error, there is no entitlement or the rate of payment is incorrect. This requires that cases are tested fully for all possible breaches of regulations which should usually require the reapplication of all normal checks and tests of entitlement. Each case is then classified as 'no change', 'fraud', 'claimant error' or 'departmental error'.
- 10.45** In each of the three recent surveys, a number of cases were treated as 'no change' even though reviews were not carried out.
- Claimants had left the scheme or moved to other schemes or programmes after the sampling date. There were 194 such cases in the jobseeker's allowance scheme, 74 in the rent supplement scheme and three in widows'/widowers' surviving civil partners' contributory pension scheme. Had these cases been excluded from the survey results, or replaced by other randomly selected cases, the results of the jobseeker's allowance and the rent supplement surveys could have been significantly different.
 - Claimants were unavailable for interview or otherwise failed to respond. Fourteen cases from the widows'/widowers'/surviving civil partners' contributory pension scheme have not been reviewed for those reasons.² The treatment of these as 'no change' cases is inconsistent with the treatment of cases where reviews are not completed in time for inclusion in the survey results and which are excluded from survey results.

¹ The survey report noted a 95% confidence interval range from €102,000 to €277,000.

² Payment was initially suspended in these cases but was subsequently re-instated for six who have made some form of contact with the Department.

10.46 In addition, there were 128 cases with changes to entitlement in the rent supplement scheme due, for example, to the revision of maximum rent limits or the identification of means variations, which were not treated as fraud or error. This may result in an underestimation of the rate of fraud and error. However, the Department noted in its survey report that

- it is not administratively feasible to review all rent supplement claims immediately following the revision of rent limits but that these are reviewed in line with divisional timeframes
- variations in means are an acceptable feature within the administration of the scheme and managed by regular review and monitoring.

Although these cases resulted in changes to entitlement, they were considered by the Department to be 'normal movement' within the scheme, and are not classified as fraud or error.

10.47 The survey reports indicate that cases that move to other social protection payments, will in future surveys, be examined for eligibility at the survey sample date. With regard to the 14 widows'/widowers'/surviving civil partners' contributory pension scheme cases that have not been reviewed, the survey report noted that because the scheme is a long term contributory scheme, a person may be away from home when initial contact is made by the Department and, therefore, this is not an indicator of fraud or error. It stated that the more likely outcome in respect of these cases is 'no change' to entitlement.

Survey Coverage of Schemes

10.48 The Department began to carry out fraud and error surveys in 2003. Figure 10.3 shows the latest survey date and the next scheduled survey date for schemes with expenditure in excess of €100 million. The largest schemes (those over €1 billion) have all been surveyed at some point and some have been surveyed more than once.¹ By the end of 2015, all schemes over €500 million will also have been surveyed. For those schemes however, where a new survey has been scheduled, the time interval to the next scheduled survey is significant, ranging from seven to ten years.

10.49 Only two of the ten schemes in the €100 million to €500 million category have ever been subject to a fraud and error survey. There are plans to survey the household benefits package, family income supplement, back to work allowance and basic supplementary welfare allowance payments between 2015 and 2017.

¹ For example, jobseeker's allowance was surveyed in 2003, 2009 and 2012, disability allowance was surveyed in 2005 and 2010, and one-parent family payment was surveyed in 2003, 2007 and 2011.

Figure 10.3 Fraud and error survey coverage

Scheme	Expenditure 2013 €m	Last survey year	Next scheduled survey
Expenditure in excess of €1 billion			
▪ State Pension (contributory/transition)	4,121	2008	2016
▪ Jobseeker's Allowance	3,109	2012	–
▪ Child Benefit	1,900	2012	–
▪ Widows'/Widowers'/Surviving Civil Partners' Contributory Pension	1,350	2013	–
▪ Disability Allowance	1,141	2010	2018
Expenditure between €500 million and €1 billion			
▪ One-Parent Family Payment	978	2011	2018
▪ State Pension (non-contributory)	952	2007	2017
▪ Invalidity Pension	708	–	2014
▪ Illness Benefit	649	2006	2014
▪ Jobseeker's Benefit	560	2011	–
▪ Carer's Allowance	555	–	2015
Expenditure between €100 million and €500 million			
▪ Rent Supplement	373	2013	–
▪ Maternity Benefit	293	–	–
▪ Household Benefits Package (Vote and SIF)	290	–	2015
▪ Family Income Supplement	262	2005	2015
▪ Fuel Allowance (Vote and SIF)	228	–	–
▪ Back to Education Allowance	187	–	–
▪ Respite Care Grant	120	–	–
▪ Back to Work Allowance	120	–	2017
▪ Basic Supplementary Welfare Allowance	108	–	2016
▪ Domiciliary Care Allowance	104	–	–

Source: Department of Social Protection

Conclusions and Recommendations

- 10.50** The Department has an obligation to put in place systems to prevent and detect fraud and to ensure payments to claimants are correct based on the relevant current scheme criteria. Fraud and error surveys are a useful tool in providing assurance and in developing strategies to deter and detect fraud. Results of fraud and error surveys provide assurance that there is a high level of compliant payments and that most welfare recipients are being paid the correct amounts. However, there is a material level of payment in excess of entitlement on many schemes.
- 10.51** The Department has carried out at least one fraud and error survey on all of its large schemes and all schemes with expenditure in excess of €500 million (in 2013) will have been surveyed by the end of 2015. While some of the larger and more risky schemes have been surveyed more than once since fraud and error surveys were introduced in 2003, the planned length of time between surveys is of concern particularly for the more risky schemes. This ranges from seven to ten years. Few schemes in the €100 million to €500 million category have been surveyed to date.

Recommendation 10.1

The Department should ensure that the more risky larger schemes are surveyed more frequently or introduce a system of continuous review as previously recommended.

Accounting Officer's response

Agreed. At least two surveys each year are scheduled in the Department's survey programme. Some schemes, where the risk of fraud and error is greater, such as jobseeker's allowance, disability allowance and one-parent family payment, have been surveyed more frequently than major schemes where the risk of fraud and error is low.

The Department believes that a critical issue to be considered in relation to the use of continuous surveys is the level of resources required. The matter will be kept under review and implementation considered as resources allow.

- 10.52** At a technical level, the Department has improved its survey process so that the results have become more reliable. The Department's decision not to exclude recently awarded cases from future surveys is appropriate, particularly because there may be undetected departmental errors in such cases. Reviews of those cases may not require the full range of eligibility checks or requests to claimants for documents if satisfactory evidence is already available from a recently completed check at the award stage.
- 10.53** There is scope, however, for further improvement in the survey process.
- The three most recently completed surveys include a number of cases where reviews of entitlement have not been carried out but which nevertheless have been treated as 'no change' for the purpose of the survey.
 - The rent supplement survey identifies a number of cases where the amount of the entitlement had changed but which were treated as 'no change', for example, where revised rent limits had not been applied by the Department or where the claimant's means had changed. The Department classifies such cases as 'normal scheme movement', but they should more appropriately be treated as cases of fraud or error.

Recommendation 10.2

Cases should only be included in the survey results if a review of entitlement has been completed. Where this results in the exclusion of a significant number of cases, oversampling can be used to provide replacement cases.

All cases found to have an entitlement different to the amount paid should be treated as either fraud, claimant error or departmental error.

Accounting Officer's response

Not agreed. There will always be an unavoidable time lag between selection and review of cases, and it is inevitable that there will be 'normal movement' in some of these cases. The dynamic nature of most social welfare schemes needs to be taken into account in arriving at the survey results. It is not the case that all claims resulting in a change in entitlement are fraud or error. It is considered appropriate, for example, where a person finds work legitimately after the sample date, to treat that case as being in order and part of the legitimate movement on the scheme. The Department has taken a view that such cases are low-risk given the actual circumstances of the cases.

There are logistical reasons why changes to eligibility criteria, such as means, cannot be implemented immediately. In the case of the rent supplement survey, changes were identified that were not considered fraud or error because of the specific circumstances of that scheme. The rent supplement scheme is a scheme with significant movement as a result of customers' changes in circumstances, expired lease agreements, change of ownership in property, increase in market rents and transfers to social housing options. There were over 45,000 new claims registered for rent supplement and just over 56,000 claims closed during 2013 in respect of an average claim load of above 80,000 claims.

Oversampling has resource implications that will lead to further delays in finalising the survey. However, the Department will consider this further.

11 Control of Supplementary Welfare Allowances

- 11.1** Supplementary welfare allowances are designed to provide assistance to those whose means are insufficient to meet their needs or the needs of their dependants. The allowances may take the form of a weekly income support payment, weekly or monthly payment supplements to provide for specific ongoing needs, and/or a single one-off payment to meet a specific need. All of the payments under the scheme which is administered by the Department of Social Protection (the Department) are made on the basis that the person cannot meet the need from their own resources or from other available sources. The main categories of supports available are described in Figure 11.1.
- 11.2** To qualify for supplementary welfare allowance, the applicant must be living in the State, satisfy the 'habitual residence' test and a means test, and have already applied for any other benefit or allowance to which they may be entitled. Where the person is capable of work, they must have registered with one of the Department's employment services offices. In addition, to qualify for any of the supplements to meet specific needs, the applicant must meet any relevant qualifying conditions and demonstrate that the need exists and that they are unable to meet all or part of that need.

Figure 11.1 Categories of supplementary welfare allowance payments

Basic supplementary welfare allowance	A weekly payment to those who have either applied for another social welfare scheme but are awaiting a decision, or who do not qualify under any other scheme. It is designed to provide recipients with a minimum weekly income.
Rent supplement	Assistance with rental costs of those living in private rented accommodation.
Mortgage interest supplement^a	Payment to assist with the interest portion of a homeowner's mortgage repayments.
Exceptional needs	A payment to meet a non-recurring expense, for example, the purchase of essential household items or funeral expenses.
Urgent needs	A payment to a person who would not normally qualify for supplementary welfare allowance but who has an urgent need, such as a requirement to purchase essential items in the aftermath of a flood or fire.
Diet supplement^b	Payment towards the cost of a number of specified diets which have been medically prescribed.
Heating supplement	Assistance with exceptional heating needs arising from ill-health or infirmity.
Back to school clothing and footwear allowance	Assistance towards the cost of uniforms and footwear for children attending school.
Other supplements	The scheme provides generally for the payment of a supplement in a situation where it is deemed to be warranted.

Notes: a The mortgage interest supplement scheme has been discontinued for new applicants from January 2014.

 b The diet supplement has been discontinued for new applicants from February 2014.

- 11.3** The scheme is administered mainly by the Department's community welfare service which operates in departmental local offices and in local health centres. The exception is the back to school clothing and footwear allowance which is administered as a separate non-statutory scheme and paid centrally.
- 11.4** Up to October 2011, the supplementary welfare allowance scheme was administered by the Health Service Executive (HSE) on behalf of the Department.¹ Since the Department assumed responsibility for the administration of the scheme, over 420 smaller community welfare service offices have been closed and consolidated into larger centres.

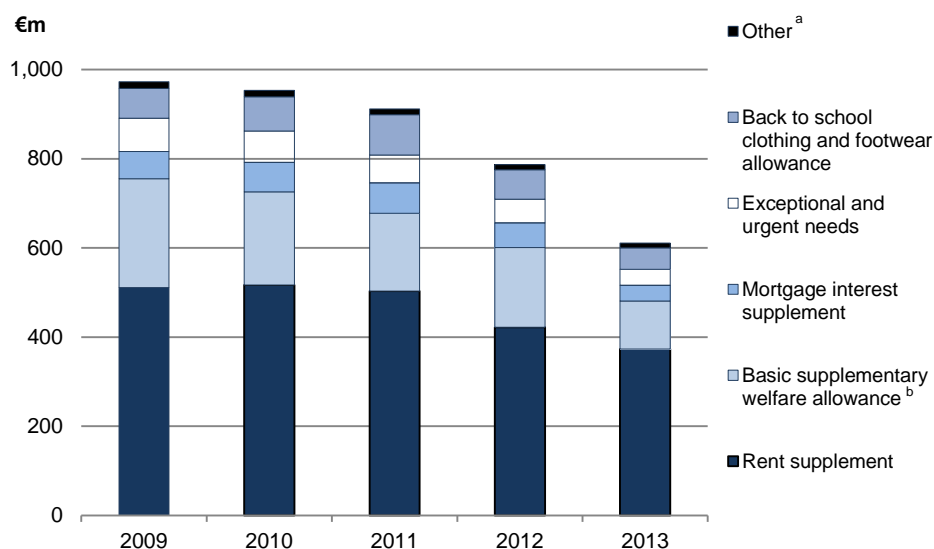
Payment Irregularities

- 11.5** In 2012, two cases were identified of possible irregularities in supplementary welfare payments involving departmental employees. The total estimated loss was €1.2 million with the loss in one of the cases estimated to exceed €1 million. The matters have been reported by the Department to An Garda Síochána and investigations are on-going.
- 11.6** The controls over the supplementary welfare allowance scheme were examined as part of the audit of the 2013 Social Protection Vote. The audit examined the administration of the scheme and the controls in operation in community welfare service offices in two locations – Clondalkin and Letterkenny. For a sample of cases in each location, the audit tested the take-on controls, inspected the supporting documentation available to substantiate the claim and the rate of payment, and examined the level of review of claims in payment. The operation of other controls, including the extent to which management audit of random samples of cases was being carried out, was also examined in both offices. The procedures in place for monitoring the operation of controls were also reviewed as well as the results of departmental audits and inspections.
- 11.7** As the cases of suspected internal irregularities are still the subject of Garda investigation, the details of those cases are not included in this report. They do not relate to operations in Clondalkin or Letterkenny.

Scheme Expenditure Trends

- 11.8** Expenditure on supplementary welfare was €611 million in 2013. Over 90% of expenditure was on basic supplementary welfare allowance, rent supplement, mortgage interest supplement and exceptional/urgent needs payments. Scheme expenditure has fallen by 37% over the five years to 2013 (see Figure 11.2).

¹ Under that arrangement, scheme payments were charged to the Department's Vote. A payment was made to the HSE towards its administrative costs.

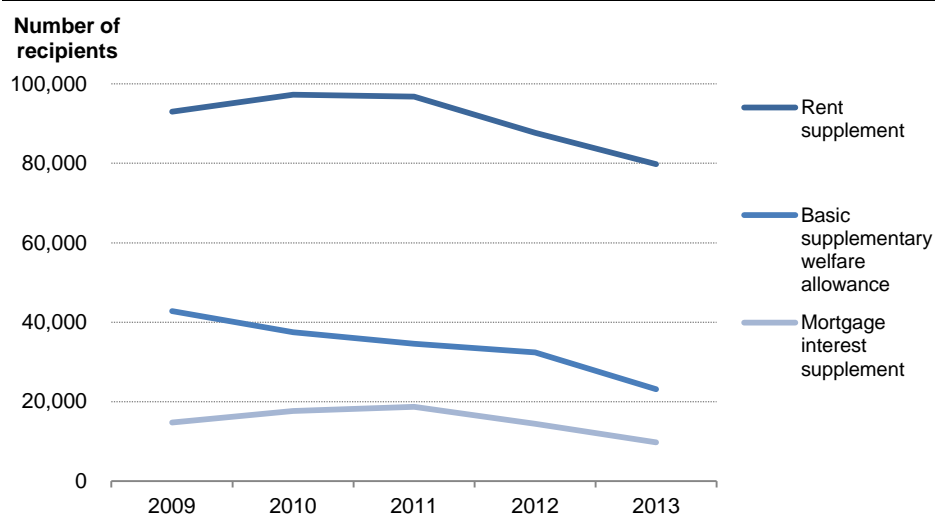
Figure 11.2 Supplementary welfare allowances scheme expenditure, 2009 – 2013

Source: Department of Social Protection

Notes: a Other includes diet supplement and heating supplement.

b Basic supplementary welfare allowance expenditure is net after taking account of any amounts recouped from other schemes – if the allowance is being paid to a claimant who is awaiting a decision on a claim under another scheme and that claim is subsequently approved, the supplementary welfare allowance paid is recouped from the other scheme. Total amount recouped in 2013 was €134 million (€115 million in 2012).

11.9 Basic supplementary welfare allowance, rent supplement and mortgage interest supplement are ongoing payments to recipients provided that eligibility is maintained. The number claiming in each of these categories has reduced significantly in the last five years (see Figure 11.3).

Figure 11.3 Number of recipients of on-going supplementary welfare allowance payments, 2009 – 2013

Source: Department of Social Protection Annual Statistical Report 2013

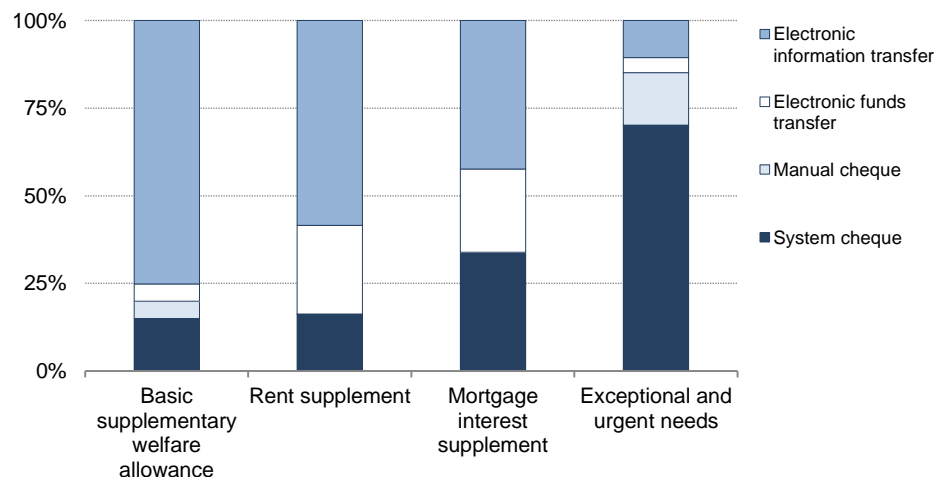
Payment Methods

11.10 Supplementary welfare allowance payments can be made by one of the following methods

- electronic funds transfer (EFT) – the amount is paid directly to a bank account
- electronic information transfer (EIT) – the Department notifies An Post of the payment details and the claimant receives the payment at a post office on presentation of their public services card (or social welfare services card)
- cheque – either a system cheque printed centrally based on the details entered onto the system and posted to the claimant, or a manual cheque written by the officer approving the claim. Departmental procedures require that manual cheque payments be kept to a minimum and should only be used where the situation is urgent and immediate payment is required.

11.11 In 2013, there were just under 4.6 million payments made for the four main categories of supplementary welfare allowance. The volume of payments by payment method under each of those categories is presented in Figure 11.4.

Figure 11.4 Method of payment by category, 2013



Source: Department of Social Protection

11.12 Overall, one in five payments in 2013 were made by cheque. Over one third of mortgage interest supplement payments were by cheque, with one in six rent supplement payments also by cheque. In the case of exceptional and urgent needs, 85% of payments were by manual or system generated cheques. The nature of these payments tends to require greater recourse to cheques, for example, where payment is required immediately. Exceptional and urgent needs payments are one-off payments to recipients. The number of times in the year a person can claim and receive an exceptional or urgent needs payment is not limited.

11.13 The Department is currently examining cheque payments with a view to transferring them, in so far as possible, to EFT payments.

- 11.14** The amount that can be paid by manual cheque is limited to a maximum of €500 per cheque. Out of the 1.1 million cheques issued in 2013, 7% were manual cheques with a total value of €14.7 million. The average value of manual cheques issued was around €180.

Scheme Risk Management

- 11.15** The nature of the risks associated with each welfare scheme varies and therefore, the Department's control policy for a welfare scheme needs to be designed to take account of the particular scheme risks. In the case of the supplementary welfare allowance scheme, there are a number of factors that affect the risk profile.

- There are several different categories of payment.
- Some payments are on-going and some are one-off.
- In some cases, payment is required on the spot.
- Each category of payment has different claimant profiles.
- There are a number of different payment methods.

This means that the risks are not necessarily the same for all categories of payment within the scheme.

Incidence of Fraud and Error

- 11.16** The Department carries out fraud and error surveys of individual schemes whereby a random sample of claims in payment is reviewed to establish if the claimants are entitled to the payments and whether the correct amounts are being paid. These surveys assist the Department in establishing the risks associated with the scheme with a view (if necessary) to improving the control measures it has in place. The results of fraud and error surveys also provide the Department with an opportunity periodically to estimate the underlying level of payments in excess of entitlement in a scheme.
- 11.17** The most recent fraud and error survey of any category of supplementary welfare allowance was a survey of rent supplement. The survey, the results of which were reported in July 2014, found payments in excess of entitlement amounting to 6% of total expenditure – 3.2% arising from fraud and 2.8% due to error.¹ Expenditure on rent supplement in 2013 was €373 million. The estimate of excess payment for the UK housing benefit scheme, which is similar to rent supplement, is 5.8%.² The UK report also identified underpayments to claimants amounting to 1.6% of the entitlement due.
- 11.18** The UK's income support scheme is similar to basic supplementary welfare allowance. It provides for certain categories of claimants who have no income or are on a low income. The latest estimate of the level of excess payments on that scheme is 4% and the level of underpayments is reported as 1%.²

Risk Assessment

- 11.19** For any welfare scheme, control measures are required which take account of regular assessments of the risks associated with the scheme. Such assessments should be informed by the outcomes of the programme of claim reviews, the results of fraud and error surveys and ongoing consideration of the environmental risks associated with the scheme.

¹ Chapter 10 presents further details of the results of the rent supplement fraud and error survey.

² **Fraud and Error in the Benefit System: Preliminary 2013/14 Estimates**, Department for Work and Pensions, May 2014.

- 11.20** The most recent risk assessment on supplementary welfare allowance was completed in 2008 by the HSE. In 2012, the Department stated that it was updating the risk assessment documents for all areas, including supplementary welfare allowance.

Risk Monitoring and Investigation

- 11.21** The Department's risk management processes are integrated with its business planning. Managers are required to identify risks facing their areas including operational and financial risks and manage these as part of the business management process. This includes a requirement to report on risk management, including key internal control measures, on a quarterly basis.
- 11.22** In January 2013, following identification of the two cases of possible internal irregularities, the Department issued a circular to all managers which set out the minimum internal control requirements for supplementary welfare allowances. Also in 2013, the Department's Internal Control Support Unit (ICSU) commenced more rigorous monitoring of compliance with key management controls at local level. The Department assigned five additional staff to ICSU in 2013, bringing the staff complement to 15.
- 11.23** The Department has stated that both irregularity cases occurred in the same division and, as a result, a dedicated management audit unit was set up in the area. The unit is responsible for carrying out the management checks for all community welfare service areas within the division. Five higher executive officers were assigned to the unit, which to date has carried out an examination of over 3,400 files that did not identify any significant control issues.
- 11.24** The Department's Internal Audit Unit has carried out two audits of supplementary welfare allowance areas since local managers were reminded of the internal control requirements in January 2013. The ICSU completed inspections of five areas between December 2013 and March 2014.

Control Policy

- 11.25** There are a number of elements to the current control policy for supplementary welfare allowance including
- take-on controls – checks are carried out on applications to ensure that the assistance is only provided to those who meet the qualifying criteria and that the correct amount is paid
 - review of claims in payment – regular review of claims that are being paid (some claims are selected for review where changes in circumstances are identified as a result of data provided by other public sector entities)
 - management controls – checks of random samples of claims and regular monitoring of payment reports as well as internal audit reviews and control monitoring inspections
 - cash controls – controls over receipts which mainly arise from recoveries of overpayments.

Take-on Controls

- 11.26** Claimants for supplementary welfare allowance are required to complete, sign and date an application form, and provide relevant documentation to support their claim. The evidence necessary to support a claim varies with the category of payment but includes evidence of identity, proof of address and evidence of means. The application and supporting documentation are checked, and further evidence is sought where necessary. A decision is then made on whether to award the claim or not, and the amount to be paid is calculated. The officer making the decision is required to prepare and sign a decision report. The application of these controls for claims paid or put into payment in 2013 was reviewed for a sample of cases in both offices visited.
- 11.27** The issues noted from an examination of 57 cases in the Clondalkin office and 50 cases in the Letterkenny office are summarised in Figure 11.5.

Figure 11.5 Results of review of take-on controls for sample of cases

	Number of cases	
	Clondalkin	Letterkenny
Number of cases examined	57	50
No issues identified	12 (21%)	14 (28%)
Issues identified^a		
Appropriate application form(s) not on file ^b	5 (9%)	—
Application form not complete	22 (39%)	3 (6%)
Key supporting documentation not on file	25 (44%)	29 (58%)
Decision report not on file	20 (35%)	14 (28%)
Payment errors ^c	5 (9%)	3 (6%)

Source: Analysis of results of examination of sample of cases by Office of Comptroller and Auditor General.

Notes: a The examination identified more than one issue with some cases.

b More than one application is required for some categories of payment.

c Includes four cases where the claimant should not have received the payment and four where the amount paid was incorrect.

- 11.28** The appropriate application forms were either not on file or not fully completed in almost half of cases examined in the Clondalkin office. Supporting documentation, including proof of identification, proof of address and EFT mandates, was not evident in a large number of cases in both offices. A third of cases did not have a decision report on file. In eight cases mainly involving departmental error, the payments made were incorrect, including two cases where payment was made twice.

11.29 Local management in both offices have responded to the audit findings presented above.

- Clondalkin local management stated that they have reminded staff of the importance of properly completed documentation to support all payments. Staff were also issued with reminders and copies of the relevant departmental circulars and best practice guidelines. All cases reviewed as part of the audit are being examined to ensure that all relevant documentation is on file and procedures are being followed. In relation to the particular cases identified, one payment has been suspended, three have been recalculated and an overpayment has been assessed in another case.
- Letterkenny local management stated that they will follow up the details of these cases and, where appropriate, have the file papers completed. In relation to ten cases where EFT mandates were not on file, the details were provided by the claimant on their application form and it was not considered necessary to request a mandate. In 26 cases where proof of identification was not on file, it was the practice when the scheme was administered by the HSE not to file evidence of identity where the claimant was known to the community welfare officer. Evidence for cases such as these is being updated on an ongoing basis.

11.30 Similar issues were identified in the seven recent examinations carried out by the Internal Audit Unit and the ICSU. Those examinations included a review of a total of 227 cases and the findings are summarised in Figure 11.6.

Figure 11.6 Review of cases by Internal Audit and ICSU

Issue	Number of cases where issue identified
Appropriate application forms not on file	30 (13%)
No photographic identification on file	119 (52%)
No bank statements on file	92 (40%)
Insufficient supporting documentation on file	86 (38%)
Payment rate or method incorrect, or unable to determine based on documentation	50 (22%)

Source: Department of Social Protection, Internal Audit Examinations September and October 2013, and Internal Control Support Unit Inspections, November 2013 to March 2014.

11.31 The Department indicated that management in each of the offices inspected by the Internal Audit Unit and the ICSU have accepted the recommendations of the examinations and have taken steps to ensure that all relevant documentation, reviews and checks will be carried out in the future, including the provision of additional training, as necessary. The Department noted that the introduction of the public services card will remove the necessity to hold photographic identification on customer files.

Review of Claims in Payment

11.32 Regular reviews of entitlement are an essential control for the monitoring and oversight of any payment made by the Department. Some categories of supplementary welfare allowances are 'one-off' payments and therefore periodic review is not required. On-going payments, such as the basic supplementary allowance, rent supplement and mortgage interest supplement, have prescribed reviews set out in departmental guidelines (see Figure 11.7).

Figure 11.7 Frequency of reviews of claims in payment

<i>Payment Category</i>	<i>Review Strategy</i>
Basic supplementary welfare allowance	Weekly review.
Rent supplement	Home visit once a year where necessary ^a and a financial review at least twice a year.
Mortgage interest supplement	Home visit once a year where necessary ^a and a financial review at least twice a year.
Other supplements	Review frequency based on assessment of likely changes.

Source: Department of Social Protection, Supplementary Welfare Allowance Best Practice Manual, 2013.

Note: a Factors considered in deciding whether a review is necessary include the likelihood of a change in circumstances, evaluation of how long a need for the payment will continue and legislative changes influencing rates of payment.

11.33 The Department's processing system for the scheme generates daily 'warning' reports in relation to basic supplementary welfare allowance cases for review. The reports list cases in receipt of the allowance pending a decision on a claim for another welfare payment. The reports are checked to ensure that a decision is still outstanding. The reports also list other cases that are scheduled for review. In the Letterkenny office, cases are marked as reviewed on the 'warning' report. In Clondalkin, the reports are not retained so it is not possible to establish if cases were reviewed.

11.34 The extent to which reviews were carried out for the 44 rent supplement and mortgage interest supplement cases examined is set out in Figure 11.8.

Figure 11.8 Issues identified with reviews for sample of rent supplement and mortgage interest supplement cases

	Number of cases	
	Clondalkin	Letterkenny
Number of cases examined	19	25
Findings		
No evidence of home visit	6	7
No evidence of recent home visit	3	18
Evidence recent home visit carried out	10	–

Source: Analysis of results of examination of sample of cases by Office of Comptroller and Auditor General.

11.35 The Internal Audit and ICSU examinations found that there was no evidence that the required reviews were carried out for 42 (18%) of the 227 cases inspected.

11.36 The Department indicated that home visits are undertaken having regard to the level of risk associated with individual cases and it would not be an efficient use of resources to carry out home visits in respect of all rent and mortgage interest supplement claimants on an annual basis.

Management Controls

- 11.37** The principal management controls are regular review of payment reports and regular checking of random samples of claims (management audits). Such controls are critical for one-off payments or short duration claims where periodic review of entitlement is not always feasible.

Payment Controls

- 11.38** Management controls over supplementary welfare payments include
- clearance by the area manager of system-generated cheques for more than €2,000 prior to payment
 - weekly review of all payments of over €2,000 that have issued by EFT
 - quarterly examination of cheque book usage.
- 11.39** In both Letterkenny and Clondalkin, the audit found that the examination of manual cheque books was not taking place. The audit also found that in Clondalkin, the weekly review of payment reports was not being performed. The Letterkenny area manager stated that a check is carried out on weekly reports but evidence of this is not retained.
- 11.40** In four of the seven areas examined by Internal Audit and ICSU, the weekly review of EFT payments was not being carried out as required. Lapses in relation to checking of manual payments were also noted in four areas.

Nominated Payments

- 11.41** Supplementary welfare allowance legislation provides for payment directly to suppliers on behalf of claimants in respect of, for example, repairs to appliances or payment of rent to a landlord. In such cases, the claimant is required to complete a nominated payments form authorising the Department to pay the supplier.
- 11.42** In Clondalkin, it was noted that Department staff directed claimants to a single supplier for repairs and maintenance of appliances. However, the level of payments to the supplier was not monitored. Local management stated that the use of a single supplier will be reviewed.
- 11.43** In the seven areas reviewed by Internal Audit and ICSU, the failure to use authorisation forms for nominated payments was noted. One location was found to have a large number of exceptional needs payments to nominated payees without quotations or receipts for the works carried out. Internal Audit also found that one area directed customers to a specific supplier.

Management Audits

- 11.44** The Department's policy is that a sample of 5% of transactions for the previous month and 1% of the previous three months' transactions is selected at random every month, to be checked to ensure that the payment is in order. Officers conducting the checks are required to satisfy themselves that
- all procedures, guidelines and legislation have been adhered to
 - all forms are completed and signed by the claimant and a departmental officer as appropriate
 - the correct payment rate and method have been applied
 - the address is correct
 - in the case of manual cheque payments, the payment corresponds with information on the file and the cheque book, and it was necessary to make the payment by way of manual cheque
 - there were no apparent conflicts of interest, for example, whether staff members who are known to be related to or close friends of the claimant had been involved in processing the claim.
- 11.45** The checklist which is required to be completed for each case should be reviewed by the local manager. Cases selected but where the checks have not been completed within four months are included in a report which is forwarded to the area manager, divisional manager and ICSU. A summary by region of cases where checks were outstanding for more than four months at December 2013 is set out in Figure 11.9.
- 11.46** Overall, at December 2013, there were just over 5,000 cases which had been selected for checking but where the checks had not been completed four months after selection. While there are just over 300 locations with no checks outstanding for more than four months, there are six locations each with more than 100 outstanding. The Department pointed out that the information on checks outstanding is at a specific point in time and that the administration of the scheme is undergoing substantial ongoing transformation.

Figure 11.9 Supplementary welfare allowance management audits outstanding for more than four months, at December 2013^a

Region	Number of community welfare locations	Cases selected for audit but check outstanding	Average per location	Highest number outstanding at a location
Cork Central	41	93	2	17
North East	22	782	36	82
West	54	424	8	115
North West	35	94	3	43
Midlands North	33	391	12	74
Mid Leinster	39	222	6	57
South West	38	15	—	8
Mid West	40	133	3	39
Midlands South	35	194	6	46
South East	21	59	3	25
Dublin South	46	182	4	80
Dublin North	54	367	7	222
Dublin Central	94	2,068	22	412
All regions	552	5,024	9	412

Source: Department of Social Protection

Note: a Excludes back to school clothing and footwear allowance cases (2,633) and rent units in Mid Leinster (698) and Dublin North (981).

- 11.47** The Clondalkin office was visited in August 2013, at which time the management audits for April 2013 were not yet completed. For those cases where the audits were recorded as completed, the checks had not been carried out by an officer of the appropriate grade and the required checklist had not been completed.
- 11.48** In response to the audit findings, local management in Clondalkin have indicated that the delay in conducting the management audits was in order to improve the area manager's understanding of supplementary welfare claim processing and while the clerical support officer completing the checklist was not an appropriate grade, the area manager checked all claims subsequently and cleared them on the system. They have stated that all checklists and checks are now in compliance with procedures.
- 11.49** In Letterkenny, management audits were up to date in October 2013. However, seven of the 32 cases reviewed during the audit that required follow-up action had no evidence of the action taken. In addition, 12 of the 32 cases had been checked by an officer who at some point had processed that case. Local management stated that actions by an officer subsequent to the original decision, such as recertification of an on-going payment, do not preclude that officer from carrying out the check. In their view, the critical factor is that checks are not carried out by officers on any claim on which they authorised the initial payment.

11.50 The Internal Audit and ICSU examinations of seven supplementary welfare allowance areas found that

- in four areas, the area manager was not carrying out the required check on management audits completed
- in one area, supporting documentation in relation to checks was not on file
- one area was not maintaining checklists.

Control of Cash Recoveries

11.51 Cash received in departmental offices arises mainly from recoveries by the Department of previous overpayments. Departmental policy requires that¹

- official receipts are issued for all cash recoveries and a notice of this policy is clearly displayed to members of the public
- a cashbook is maintained to record cash on hand
- amounts lodged are reconciled to bank statements quarterly
- regular lodgements are made and amounts of cash and cheques on hand do not exceed €1,000.

11.52 In the community welfare service office in Clondalkin, there was no cashbook or receipts book at the time of the audit (August 2013). Local staff stated that no recoveries had been received in the year to date. Local management have since stated that receipts books have been issued and the importance of issuing receipts highlighted.

11.53 In the community welfare service office in Letterkenny, a cashbook is maintained and receipts are issued when cash is recovered. However, there was no evidence of management review of the cashbook. Examination of receipt books and the cashbook identified a receipt issued which was not recorded in the cashbook. Two instances were identified where cash received in respect of overpayments was not recorded on the overpayment debt management (ODM) system. Local management indicated that this was due to an oversight and that reviews of the cashbook would now commence. In addition, staff have been reminded of the procedures for recording cash receipts on the ODM system.

11.54 The reviews by Internal Audit and ICSU found that five of seven areas did not maintain a cashbook or display a notice signalling the policy of issuing receipts. In one case, receipts books were not being used and in another, a handwritten receipt was issued by the officer in respect of cash received with an official receipt issued by the area manager at a later date. Three areas did not have procedures for handling cash. In one case, cash in excess of €1,000 was on hand.

11.55 The Department issued a new circular on cash recoveries to staff in July 2014. The circular sets out the guidelines and procedures that must be followed and includes new documentation and returns that staff are now required to use.

¹ These procedures are the minimum internal control requirements as set out by the Department in a circular to all managers in January 2013.

Conclusions and Recommendations

- 11.56** The supplementary welfare allowance scheme is unusual in that it has a number of different categories of payment, each with different risks and different claimant profiles. Risk is increased because in some cases payment is one-off and may be required immediately. This also gives rise to a need for different payment methods. The last formal risk assessment of the scheme was completed in 2008, at a time when the scheme was administered by the Health Service Executive (HSE).
- 11.57** Two cases of possible internal irregularities with significant estimated losses underline the risk associated with the scheme. The Department's response to those cases included a re-iteration to staff of the minimum internal control requirements and the introduction of central monitoring of the extent to which local offices are completing management audits. Additional staff were assigned to the Department's Internal Control Support Unit (ICSU) in 2013, and a dedicated management audit unit was established in the division where the possible irregularities took place.
- 11.58** This report reflects the results of audit work and the work of ICSU and Internal Audit conducted several months after those control enhancements. The findings indicate that there were significant issues with the operation of key controls in relation to the scheme. This includes a widespread backlog in the completion of management audits and failure to carry out reviews of payments – controls which are particularly important in preventing and detecting internal fraud. The Department needs to address these issues as a matter of urgency.
- 11.59** In some situations, the Department makes payments directly to suppliers on behalf of claimants. Departmental audits and inspections found that the required claimant authorisation was not obtained for all such cases. A practice of using single suppliers for particular goods or services was also noted. While there may be advantages in using single suppliers in some circumstances, there are risks that best value may not be obtained where proper procurement procedures are not followed, and that certain suppliers are favoured.

Recommendation 11.1

The Department should carry out an up-to-date risk assessment to identify and document all of the risks associated with the supplementary welfare allowance scheme. Such documentation should clearly set out the different risks that arise on each category of payment. Regular fraud and error surveys of different elements of the scheme would also assist in identifying risks and tracking the level of excess payments over time.

Accounting Officer's response

Agreed. The Department will undertake a risk assessment of supplementary welfare allowance as soon as possible. A fraud and error survey has recently been completed on the rent supplement scheme. This has assisted the Department in identifying the main areas of risk and has highlighted control issues that need to be addressed in the future operation of the scheme. A further fraud and error survey on basic supplementary welfare allowance is scheduled to be undertaken in 2016. In 2014, following the investigation of the cases of possible internal irregularities, strengthened controls were put in place including the automatic issue of an advice slip to claimants following a manual payment. In addition, all system cheques issued on a particular day to a claimant where the value of the combined payments is greater than €2,000, are now retained pending approval at assistant principal level in the relevant division.

Recommendation 11.2

The Department should establish why the current controls do not operate at all times, and consider ways of embedding those controls in the day-to-day work of all local offices. Consideration should be given to the use of seminars and local discussion in regard to how the controls set out are to be implemented at a practical level.

Accounting Officer's response

Agreed. Since the transfer of the community welfare service to the Department in 2011, there has been significant restructuring and re-configuration of the service. This required re-training and familiarisation by staff of a wide range of duties which had an effect on the operation of internal controls. Monitoring the implementation of the necessary controls is now a priority for the Department. This will be reflected in the continued inclusion of specific targets as part of the performance management and development process and in monthly divisional management meetings which are chaired by two assistant secretaries.

In addition, the staff development unit ensures that all staff receive appropriate training and new training modules currently being designed will strengthen the focus on control and audit. ICSU has commenced a presentation programme that provides control awareness training to community welfare service staff (six presentations have been delivered so far this year). The best practice manual is continuously updated and all changes to schemes and practices are circulated to staff. Revised cash receipt guidelines and the development of a new debt management system will also enhance controls.

Recommendation 11.3

The Department should continue to monitor the extent to which the prescribed management audits are being completed. Internal audits and ICSU inspections should focus on those locations with the greatest backlog of audits in both absolute and percentage terms. The quality and depth of reviews undertaken should also be monitored.

Accounting Officer's response

Agreed. ICSU monitors the operation of management audits and where there is evidence of the checks not being carried out in a timely manner, it is brought to the attention of the divisional manager. In addition, ICSU has commenced a national inspection programme. Non adherence to the management audit requirement is used as part of the risk analysis in determining the ICSU inspection programme. ICSU and Internal Audit collaborate on an ongoing basis to ensure the widest possible coverage. Management audit training is provided by the staff development unit.

Recommendation 11.4

The Department should amend its risk management system to provide for periodic confirmation by managers that key controls are operating in their area.

Accounting Officer's response

Agreed. This is required as part of the Department's business planning and risk management process. All business areas are required to report quarterly on risk management including an assessment of the current levels of control in place. This includes an update on the action plan to mitigate the risk and a re-assessment of the risk ranking. To further reinforce these processes, divisional managers will be reminded of the need to confirm that key controls are operating to the required level. In addition, this will be a standing item for monthly meetings between regional managers, divisional managers and area managers.

Recommendation 11.5

The Department should monitor the level of payments made to suppliers and ensure that proper procurement procedures are followed.

Accounting Officer's response

Agreed. This form of payment is generally used where the needs of the customer are best served to ensure that money is used for the intended purpose. The purchasing or contractual relationship is between the customer and the supplier. The Department will review its policy in relation to payments to suppliers to enhance control and procurement procedures. This will be a considerable piece of work and will be carried out in a number of steps commencing in autumn 2014.

12 Farm Assist

- 12.1** Farm Assist was introduced in 1999 as an income support scheme for low income farmers. The scheme is administered by the Department of Social Protection (the Department). Those eligible for Farm Assist receive a weekly payment, the amount of which varies with their number of dependants and their means. A person may qualify if they have income from other employment. Expenditure on the scheme was €99 million in 2013, down from €108 million in 2012.
- 12.2** To qualify for Farm Assist, an applicant must
- be aged between 18 and 66 years
 - be engaged in farming
 - satisfy a means test.
- 12.3** An applicant is considered engaged in farming if they farm land which they own or lease, and use for the purposes of husbandry.¹ There is no threshold set in terms of the scale of the farming activity that should be undertaken to qualify. Means from all sources are assessed in accordance with the specific rules of the scheme and total weekly means are calculated.
- 12.4** Farm Assist recipients may have entitlement to secondary benefits as well as access to activation, education and developmental programmes.
- 12.5** The standard personal rate of payment for Farm Assist in 2013 was €188 a week. The payment is increased where the claimant has an adult and/or child dependants.² The amount payable in each case is the excess of the personal rate, plus any additions for dependants, over the person's assessed weekly means. If those means exceed the personal rate plus any additions, the person is not eligible.
- 12.6** Claimants are required to make an annual declaration of on-going entitlement and of any changes in circumstances or means. There is also an obligation on recipients to notify the Department of any changes that may affect qualification for the scheme as they arise.
- 12.7** The scheme was examined as part of the 2013 audit of the Social Protection Vote. The examination involved a review of the controls in place over claims put into payment, the supporting documentation on file for claims and the level of entitlement review taking place. Visits were made to Department offices in Ballina, Baltinglass, Letterkenny, Mullingar and Waterford, and a sample of cases was examined in each location.

¹ Husbandry means the working of land with the object of extracting produce.

² The weekly rate for an adult dependant is €124.80 with €29.80 for each child dependant.

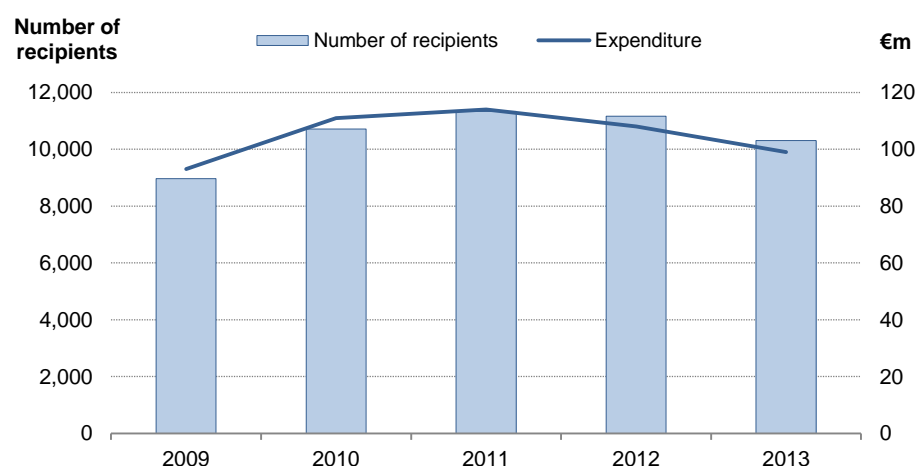
Scheme Objectives

- 12.8** The primary aim of the Farm Assist scheme is to provide income support to low-income farmers. Claimants are not required to be available for work to qualify for payments.
- 12.9** The Department has indicated that the scheme is oriented towards helping those engaged in farming to remain so engaged during periods when profits are low and helping to maintain the viability of rural communities. The provision of consistent income support and beneficial treatment of capital in the Farm Assist means test aims to help farmers to invest in their farms even though profits may vary from year to year. Beneficial means test treatment is also given to payments under schemes such as the Rural Environment Protection Scheme, to encourage recipients to engage with those schemes.
- 12.10** The Farm Assist scheme is one of a number of measures aimed at delivering farmer income support and ensuring the viability of rural communities. Other measures come within the remit of the Department of Agriculture, Food and the Marine, and the Department of the Environment, Community and Local Government.
- 12.11** The Department is represented on the interdepartmental group set up to examine and implement the recommendations of the report of the Commission for the Economic Development of Rural Areas.¹

Claimant Profile

- 12.12** The number of recipients of Farm Assist increased from around 9,000 in 2009 to a peak of 11,300 in 2011. Numbers have since fallen to 10,300 in 2013 (see Figure 12.1). Budget changes introduced in 2012 and 2013 increased the means assessable and abolished the income disregards for children from the means calculation. This is likely to have contributed to the decreased numbers of recipients.

Figure 12.1 Farm Assist expenditure and recipients, 2009 – 2013

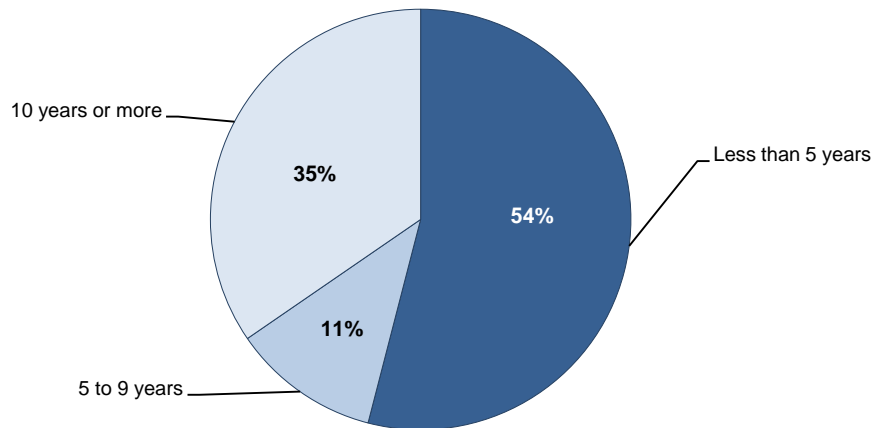


Source: Department of Social Protection Annual Statistical Report 2013

¹ CEDRA, Energising Ireland's Rural Economy, April 2014.

- 12.13** While the number of recipients has decreased by about 9% since the peak in 2011, there is significantly more movement each year in terms of the number of claimants joining and leaving the scheme. Just over 20% of claimants receiving payments at the end of 2013 had joined or rejoined the scheme during the previous 12 months.
- 12.14** The average weekly payment was €181.12 in 2013 (€188.23 in 2012). At the end of 2013, just over 1,000 claimants were receiving full payment without a reduction arising from their assessed means. In 2013, additional payments were made to recipients in respect of some 4,600 adult dependants and just over 8,700 child dependants. Overall, therefore, the scheme supported over 23,000 persons in 2013.
- 12.15** Just over half of claimants at June 2014 had been in payment for less than five years. Over one third had been in payment for ten years or more (see Figure 12.2).

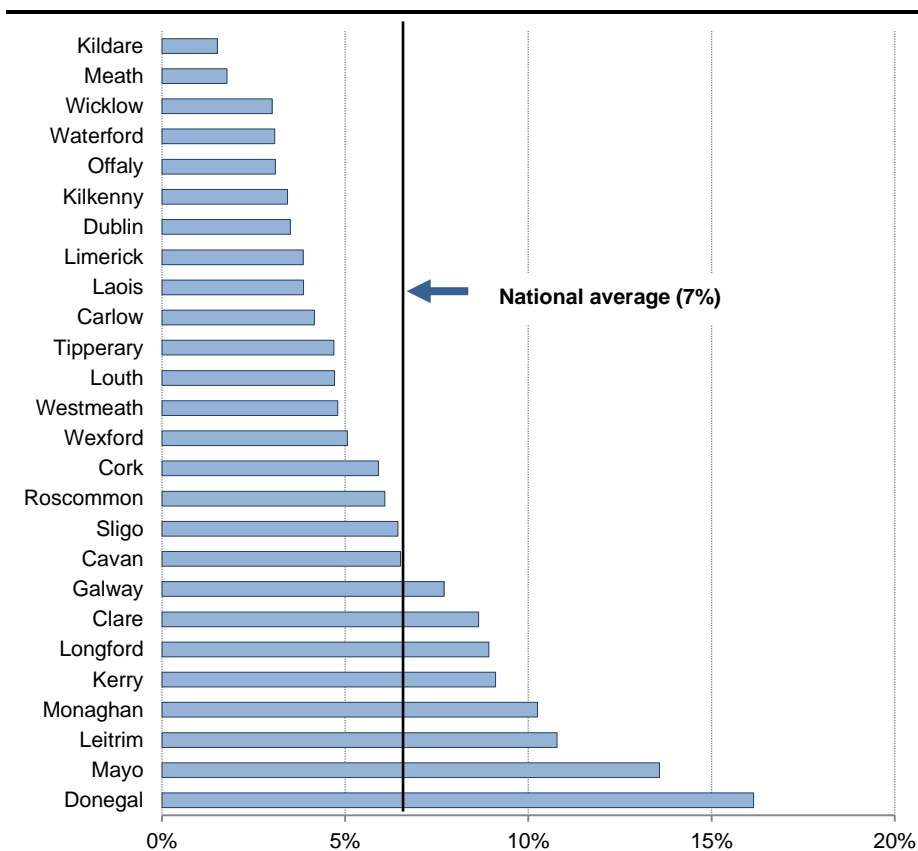
Figure 12.2 Duration of Farm Assist claims as at June 2014



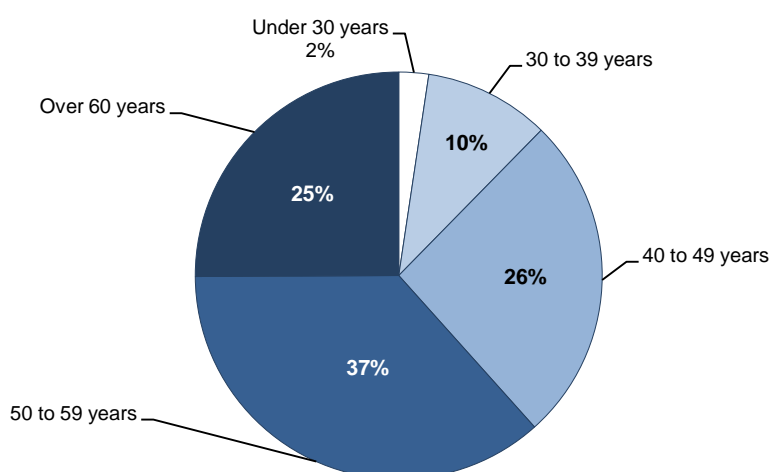
Source: Department of Social Protection

- 12.16** There are some 140,000 farms in the State.¹ Farm Assist is paid in respect of about 7% of all farms. The number of recipients in 2013 as a percentage of the number of farms in each county is shown in Figure 12.3. The percentage exceeds the national average in eight counties.
- 12.17** Four counties (Donegal, Galway, Mayo and Cork) have the highest number of recipients and account for almost 50% of all recipients in 2013.
- 12.18** The majority (62%) of recipients of Farm Assist are between the ages of 50 and 66 years (see Figure 12.4). A quarter of recipients were over the age of 60 in 2013.

¹ Census of Agriculture 2010, Central Statistics Office.

Figure 12.3 Percentage of farms per county in receipt of Farm Assist in 2013

Source: Department of Social Protection Annual Statistical Report 2013 and Census of Agriculture 2010

Figure 12.4 Farm Assist recipients 2013, by age

Source: Department of Social Protection Annual Statistical Report 2013

Take-on Controls and Supporting Documentation

- 12.19** When applying for Farm Assist, a claimant must complete, sign and date an application form. This is date stamped upon receipt to indicate the start date of the claim. The form should be accompanied by necessary supporting documentation including proof of identification, proof of address and evidence of means. Applications are then referred to a social welfare inspector for investigation, including a review of the claimant's total means. Upon receipt of the report of that investigation, a deciding officer determines whether the claim should be awarded or refused.
- 12.20** Twenty-five files were reviewed in each location visited and the take-on controls were examined. 57 of the 125 claims reviewed (46%) were in payment for five years or more, with 18 of those claiming Farm Assist for 14 years or more. The findings are summarised in Figure 12.5.

Application Forms

- 12.21** In each office, there were cases where Farm Assist application forms were not on file and overall this issue was identified in 22 of the sample cases. Of these, 14 were cases which had been in payment for more than five years. Responses from management in some local offices indicated that claims may commence initially as Jobseeker's Allowance and an application form for that allowance is completed. Upon review, the claim may become a Farm Assist claim. Local management in each area have indicated that the cases identified are being addressed and the necessary forms are being obtained. Staff have now been instructed that a Farm Assist form must be completed in all cases before the claim is processed and approved for payment.

Figure 12.5 Results of review of take-on controls for a sample of cases

Issue	Number of cases where issue identified ^a					Total
	Baltinglass	Letterkenny	Ballina	Mullingar	Waterford	
Application form not on file	6	1	6	4	5	22
Application form incomplete	2	–	–	2	–	4
Form not date stamped ^b	20	–	2	22	2	46
No photographic identification on file	4	11	3	–	14	32
No proof of address on file	3	2	4	–	2	11

Source: Examination of sample of cases by Office of the Comptroller and Auditor General.

Notes: a More than one issue was identified in some cases.

b Date of receipt of application is relevant for identification of commencement of claim.

- 12.22** Application forms were not date stamped in 80% of cases examined in Baltinglass and 88% of cases in Mullingar, with the majority of these being cases in payment for less than five years. In both locations, there were also instances where application forms on file were incomplete. Local management in both offices have indicated that staff have been advised of the need to date stamp all applications, and to ensure all forms are complete.

Evidence of Identity and Address

- 12.23** The cases reviewed in Mullingar had photographic evidence and proof of address in all cases. In the remaining four locations, a substantial number of cases were missing some of these documents. There was more evidence of the application of this control in cases which have been in payment for less than five years, but this issue was still identified in more than one quarter of those cases. Local management in Letterkenny and Waterford pointed out that all cases are investigated by a social welfare inspector who must indicate in their reports that they are satisfied with the applicant's identity and residency.

Evidence of Means

- 12.24** The report of the social welfare inspector's examination of each case which is completed following a visit to the claimant includes the results of the examination of the claimant's means. The report sets out the particulars of all income as well as savings and property. These details are used as the basis for the means assessment completed by a deciding officer in the local office. Evidence of means such as copies of farm accounts and bank statements are not always retained on file. In all cases examined, a social welfare inspector's means report was on file.

Reviews

- 12.25** Annual declaration forms are issued to all Farm Assist claimants requiring them to declare that they have an ongoing entitlement to payment and to indicate any changes in means or family circumstances. Claimants are not required to provide documentation to support their declaration. Upon receipt of the declaration and if no change is declared, the claimant is certified for payment for another year. Where a change has been declared, a review is undertaken.
- 12.26** A completed declaration should be maintained on each claimant's file. The audit examined the sample cases in each location to establish whether a declaration was on file for 2013. The results are summarised in Figure 12.6.

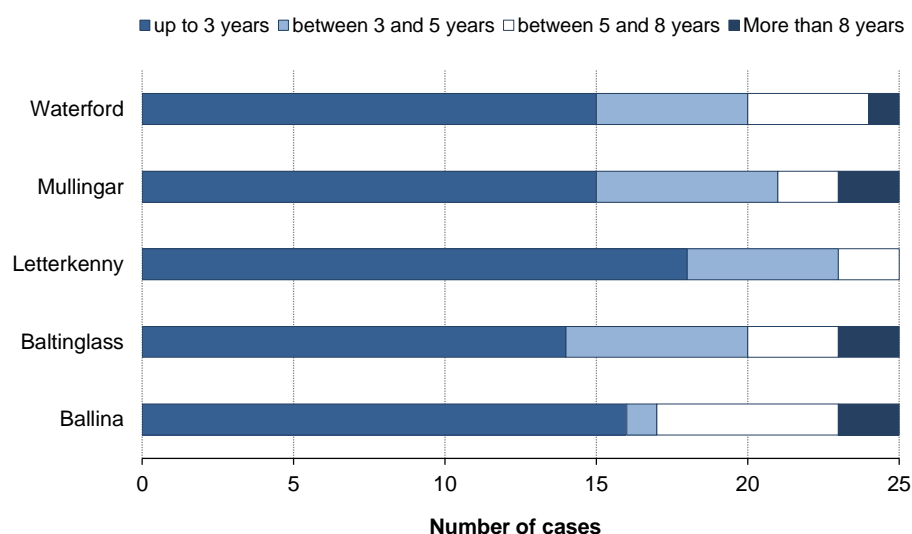
Figure 12.6 Results of review of compliance with annual declarations for 2013

	Baltinglass	Letterkenny	Ballina	Mullingar	Waterford	Total
Declaration on file	14	24	10	24	24	96
Declaration not on file	6	–	15	–	–	21
Claim not in payment for a year	5	–	–	1	1	7
File with inspector	–	1	–	–	–	1
Total	25	25	25	25	25	125

Source: Examination of sample of cases by Office of the Comptroller and Auditor General.

- 12.27** Three of the five locations were fully compliant with the annual declaration requirements. For 15 of the cases reviewed in Ballina, there was no declaration on file. Local management have since indicated that in nine of these cases, the declaration was located after the audit and is now on file. Local management in Ballina stated that, in future, all annual declarations will be kept on file. In six of the 25 cases in Baltinglass, there was no declaration on file.
- 12.28** In one case examined in Ballina, it was noted that the claimant had declared two children but continued to be paid only for one child. Local management have since reviewed the case and have indicated that payment to the claimant will be increased.
- 12.29** If the claimant does not provide information on the annual declaration that suggests a review is warranted, the claim remains in payment without review for another year. A prescribed periodic review of means is not set out in the Department's guidelines. Therefore, a claimant can remain in payment for many years without a detailed review of means and circumstances.
- 12.30** In one case examined in Ballina, a claimant was awarded Farm Assist in December 2003. The recipient's means were not reviewed again until February 2013 when information was provided to the Department by the Revenue Commissioners. That review identified means in excess of entitlement for the previous six years. Payment was stopped and an overpayment of €56,000 was assessed. The full amount of the overpayment was repaid by the claimant in a single payment.
- 12.31** In 2013, 377 overpayments were raised on the Farm Assist scheme with a total value of €2.9 million, giving an average overpayment of €7,575.¹ The five largest overpayments assessed in the year account for 20% of the total overpayments raised.
- 12.32** The examination of the 125 cases identified when the last full review had been carried out in each case. The results are set out in Figure 12.7.

Figure 12.7 Time since last full review for sample of cases



Source: Examination of sample of cases by Office of the Comptroller and Auditor General.

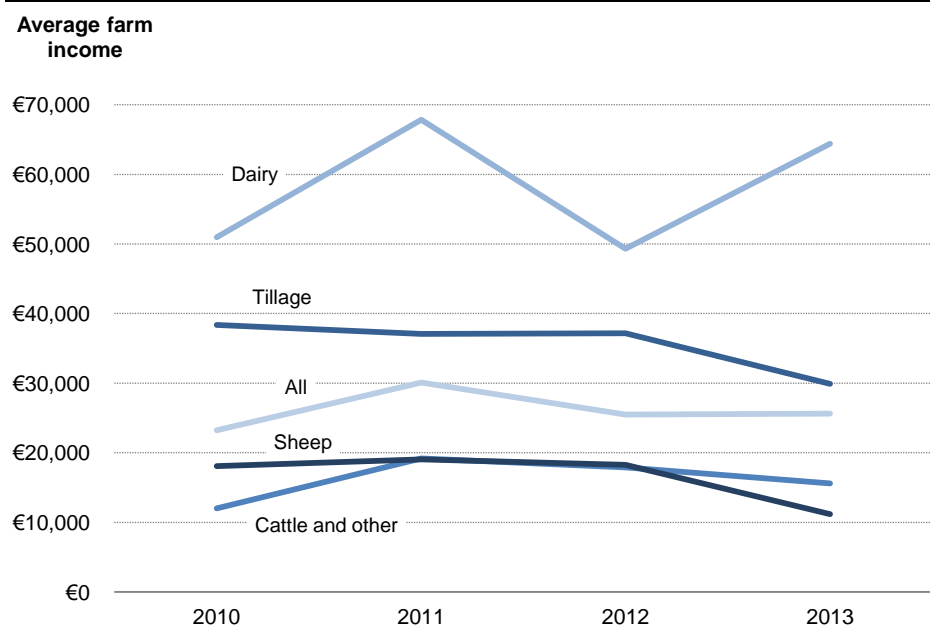
¹ These overpayments related to 363 scheme claimants.

- 12.33** Over a third of cases examined have not had a review, other than the annual declaration, for over three years. Seven cases (6%) have been in payment more than eight years without a full review being carried out. Local management in each area indicated that the cases identified during the audit that have not been reviewed for a number of years are being examined and will be referred for review where appropriate.
- 12.34** In relation to the sample of cases examined, information on the files indicated that in some cases a full review should be considered. For example
- in one case, the claimant had disclosed shareholdings on application but no value was attributed to that shareholding in the means assessment. The same case subsequently indicated a decrease in the number of livestock which may have given rise to income from sales but a means review was not carried out. Local management indicated that the file would be sent to an inspector for urgent review
 - in another case, the recipient had income from the farm and from a shop. Means of €3,000 were assessed based on accounts for 2010 and 2011. However, drawings of €49,000 disclosed in the accounts do not appear to have been taken into account in the means assessment.

Changes in Levels of Farm Income

- 12.35** Changes in average farm income levels between 2010 and 2013, for different farm types, are set out in Figure 12.8. Overall, average farm incomes have increased by 10% since 2010. However, the volatility in farm income levels can be seen in the variation from year to year and between different farm types.
- 12.36** In 2011, the Waterford office requested recipients to provide details of the type of farming engaged in. This information was intended to be used to enhance the review process and assist in profiling cases. However, no review or other follow up action was taken in light of the information obtained. Details of the type of farming activity were not collected in the other offices visited.

Figure 12.8 Average farm income by farm type, 2010 – 2013



Source: National Farm Surveys, Teagasc, 2012 and 2013

Conclusions and Recommendations

- 12.37** Farm Assist is a relatively new scheme introduced in 1999. Its objectives are to provide support to low income farmers to enable them to continue farming, and to help maintain the viability of rural communities. In the five years to 2013, expenditure on the scheme has totalled €525 million. In 2013, it helped over 10,000 farmers, which accounts for approximately 7% of the farms in the State, at a cost of €99 million. The counties with the highest level of Farm Assist recipients are located in the border, west and south west regions.
- 12.38** Based on audit work conducted in a number of local offices administering Farm Assist, there is scope for improvement in terms of ensuring basic documentation such as completed application forms and evidence of identity and residency are on file.
- 12.39** The audit work indicates that the strategy for review of cases in payment could also be improved. While an annual declaration is required from all claimants, no evidence to support the declaration is required. The audit found that payment can continue for many years without an in-depth review to identify possible changes in means or circumstances. Such changes are more likely in a scheme such as Farm Assist where a high proportion of recipients have been on the scheme for many years. Statistical information on changes in farm incomes is not used to profile cases for possible review.

Recommendation 12.1

The Department should review the operation of key controls and ensure all staff administering Farm Assist are aware of the importance of ensuring controls are complied with in all cases.

Accounting Officer's response

Agreed. Updated instructions will be issued to all staff regarding the key controls that must apply.

Recommendation 12.2

The Department should assess the review approach for Farm Assist cases. It should consider introducing a process outside the annual declaration, which focuses on cases deemed more likely to have a change in circumstances. Information on changes in farm incomes should be used to assist in identifying cases for review.

Accounting Officer's response

Agreed. The Department will examine its control and review policy in relation to the operation of the Farm Assist scheme. This examination will be conducted over the coming months with a view to having it completed by the end of the first quarter of 2015. Notwithstanding the outcome, the Department will aim to review Farm Assist cases at least every three years, subject to the necessary investigative resources being available. Issues in relation to the type of review to be carried out in each case will also be explored. The Farm Assist scheme will also form part of the Department's fraud and error survey schedule for 2015.

Recommendation 12.3

The Department should consider seeking supporting documentation for the annual declaration such as bank statements and farm accounts.

Accounting Officer's response

Agreed. The Department will examine the operation of the annual declaration process and the type of additional information that could usefully supplement the declarations so as to deliver better ongoing management and control of the scheme. This will form part of the examination of the Farm Assist control and review policy.

Recommendation 12.4

The Department should evaluate the extent to which the Farm Assist scheme is achieving its objectives in terms of assisting claimants to continue farming, and in helping maintain the viability of rural communities.

Accounting Officer's response

Not agreed. The Department is not in a position to undertake such a review as it raises issues that are wider than its remit and have policy implications for the Department of Agriculture, Food and the Marine and the Department of the Environment, Community and Local Government. Any review of Farm Assist must be considered in this policy context. The role of Farm Assist may be referenced in the context of the inter-departmental group established to implement the recommendations of the report of the Commission for the Economic Development of Rural Areas.

13 Irish Blood Transfusion Service Pension Funding

- 13.1** The Irish Blood Transfusion Service¹ (IBTS) was established in 1965. It operates under the aegis of the Department of Health. Its functions include
- administering a blood transfusion service including the processing or supply of blood derivatives or other blood products, and blood group and other tests in relation to specimens of blood received by IBTS
 - making available blood and blood products
 - making available equipment or re-agents suitable for use in relation to the service.
- 13.2** IBTS's functions were expanded on a number of occasions to include
- reporting on and assessing reports on unexpected or undesirable effects of transfusion of blood or blood components made available by IBTS
 - making available clotting factor concentrates which do not contain blood or blood products, and other biological medicinal agents used for the treatment of coagulation disorders and certain other congenital or acquired disorders
 - the administration of an eye banking service.
- 13.3** It is also tasked with organising, providing and assisting research and the training and teaching of persons in matters relating to blood transfusion and the preparation of blood products.
- 13.4** Following the enactment of the Clotting Factor Concentrates and Other Biological Products Act 2012, responsibility for the procurement and making available of blood products for the treatment of haemophilia transferred from the IBTS to St James's Hospital Board with effect from 30 April 2012.²

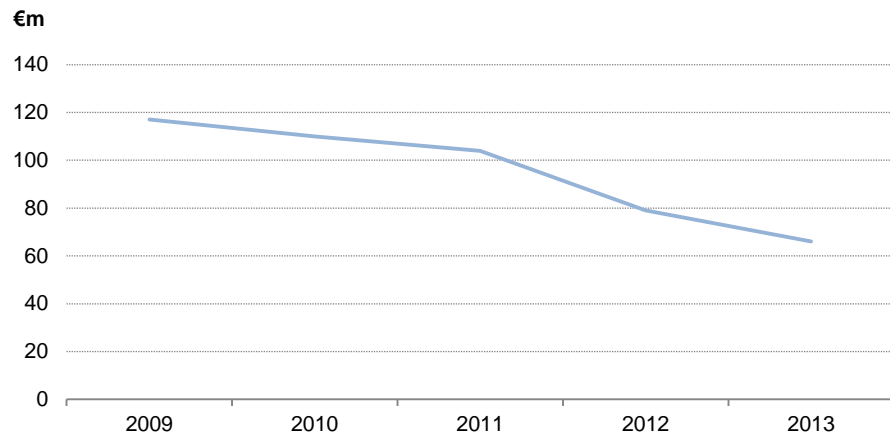
Financial Performance since 2009

- 13.5** The IBTS has a statutory right to charge for the services it provides. The charge out rates for services provided are decided by the Minister for Health. All of the IBTS's recurring income is derived from charges in respect of the supply and testing of blood and blood products. It does not receive State funding by way of an annual grant and/or appropriation, but State funding can be provided for major capital expenditure.

- 13.6** Figure 13.1 presents the movement in the IBTS's income since 2009, when it earned income of around €118 million. By 2013, its income had fallen to around €66 million, reflecting the transfer of responsibilities to St James's, changes in demand for certain products and price reductions.

¹ Formerly known as the Blood Transfusion Service Board.

² The Act provided that St James's Hospital would procure and make available clotting factor concentrates and other biological medicinal products, including recombinant protein preparations for the purpose of treating coagulation disorders and other congenital or acquired disorders that are characterised by diminished levels of, or dysfunctional forms of plasma protein.

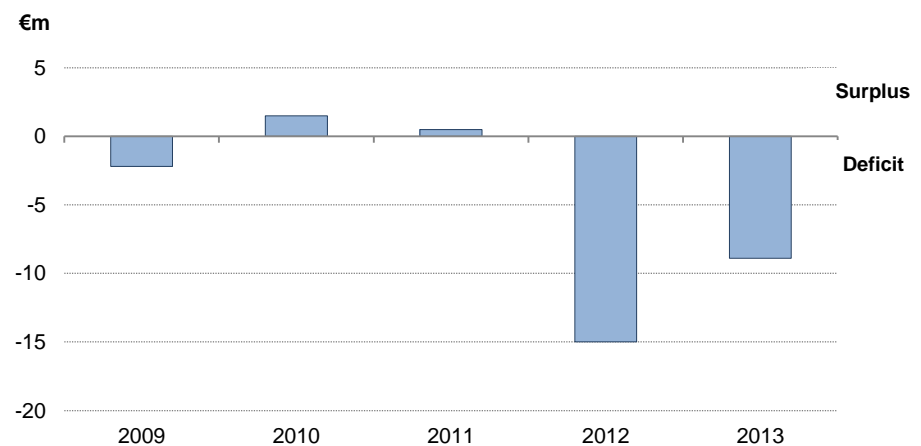
Figure 13.1 IBTS income, 2009 – 2013

Source: IBTS annual financial statements

13.7 Up to 2011, IBTS charges for clotting factor concentrates included the direct costs incurred in procuring these products and a mark up to reflect the administration costs incurred by IBTS in delivering the service. In 2011, the mark up received by the IBTS as part of its charging mechanism in relation to clotting factor concentrates was replaced by once-off grants from the Health Service Executive (HSE). The HSE paid grants of €3 million and €1.5 million to IBTS in 2011 and 2012, respectively. No further grants were provided thereafter, reflecting the transfer of responsibilities to St James's Hospital.

13.8 IBTS's cumulative reserves for the period 2009 to 2013 are set out in Figure 13.2. The reserves are affected by

- IBTS's operating surplus or deficit
- the effect of actuarial changes on IBTS's pension liability.

Figure 13.2 IBTS accumulated surplus/deficit, 2009 – 2013

Source: IBTS annual financial statements

Pension Related Deduction

- 13.9** The Financial Emergency Measures in the Public Interest Act 2009 (FEMPI Act) provided for a pension related deduction at specified rates from the remuneration of public servants with effect from 1 March 2009.
- 13.10** The FEMPI Act provided that the deduction was to be made by certain public sector employers and the amounts deducted are to be paid into, or disposed of for the benefit of the Exchequer in accordance with the directions of the Minister for Public Expenditure and Reform. In practice, each public sector employer is required either to remit the amounts deducted from employee salaries to its parent Department, or to retain the deductions and accept a corresponding deduction in the amount of its grant.
- 13.11** The net voted expenditure estimates for the Department of Health (the Department) for 2009 – 2013 included appropriations-in-aid of the vote in the form of remittance of the pension related deductions from a number of State bodies under its aegis, including the IBTS.
- 13.12** The IBTS commenced the deduction from staff remuneration with effect from 1 March 2009 in accordance with the legislation.¹ The Department requested that amounts deducted be remitted to it in accordance with the provisions of the legislation. Notwithstanding the Department's instruction, no amounts have yet been paid over to the Department.
- 13.13** Unlike other Health bodies that receive the majority of their funding in the form of a grant from either the Department of Health or the HSE, the IBTS is funded mainly from the sales of blood products. The Department therefore does not have the option to collect the pension related deduction by way of a reduction in the annual grant allocation.
- 13.14** Figure 13.3 summarises the amounts deducted by IBTS in each of the years from 2009 to 2013. The IBTS balance sheet shows a pension related deduction creditor of €8.7 million at end 2013.

Figure 13.3 Pension related deductions held by IBTS, 2009 – 2013

	Deducted in the year €000	Cumulative €000
2009	1,680	1,680
2010	1,850	3,530
2011	1,740	5,270
2012	1,759	7,029
2013	1,672	8,701

Source: IBTS annual financial statements

- 13.15** Negotiations have been ongoing between the Department and the IBTS since 2009 through meetings and exchange of letters. The IBTS contends that it wants to comply with the legislative requirements but that it also has obligations to honour contractual arrangements with staff to fund the provision of superannuation benefits to staff on retirement.
- 13.16** The Department has insisted that the accumulated pension related deduction amount should be paid over to the Exchequer in accordance with the FEMPI legislation.

¹ The Department initially informed IBTS that the FEMPI Act did not apply to its staff but subsequently reversed this instruction. Deductions commenced in April 2009, backdated to 1 March 2009.

Pension Scheme and Related Deficit

13.17 The IBTS operates a funded, defined-benefit pension scheme for its employees, which is contributory. The assets of the scheme are held separately from the IBTS in a trust which is administered by employer and employee trustees, under the terms of the pension trust deed.

13.18 The pension related charges in the IBTS's financial statements and the deficit at each year end since 2009 are shown in Figure 13.4.

Figure 13.4 IBTS pension charges, assets and liabilities, 2009 – 2013

Pension charges

	Amount charged to I&E	Actuarial (gain) or loss	Total
	€000	€000	€000
2009	4,471	(577)	3,894
2010	4,714	523	5,237
2011	4,743	12,217	16,960
2012	5,820	12,504	18,324
2013	6,746	(8,245)	(1,499)

Pension assets and liabilities

	Fair value of plan assets	Present value of accrued liabilities	Pension fund deficit
	€000	€000	€000
2009	58,379	(84,842)	(26,463)
2010	72,571	(96,494)	(23,923)
2011	74,212	(109,944)	(35,732)
2012	85,699	(134,394)	(48,695)
2013	96,137	(138,290)	(42,153)

Source: IBTS annual financial statements

13.19 The benefits under the pension scheme are funded by contributions from the IBTS (employer) and the members of the scheme (employees). Under the trust deed and rules of the pension scheme

- employee contributions are set at rates between 5% and 6.5% of salary depending on the employee's category of membership
- the level of employer contributions is determined following an actuarial valuation carried out by an independent actuary to the scheme every three years in accordance with the Pensions Act.

13.20 In common with many other funded, defined-benefit schemes, the IBTS scheme is a 'balance of cost' scheme, meaning that while the contribution rate for employees is fixed, the contribution from IBTS goes up or down as required to ensure that the funding is on target to meet the liabilities when due.

- 13.21** In January 2009, an actuarial review of the pension scheme as at 1 May 2008 identified the need to increase contributions in order to deal with the pension deficit that existed at that time and the cost of future service. At that time, the IBTS was contributing 14% of pensionable salary to the pension scheme. The actuary recommended an additional contribution of 5.5% of salary costs from IBTS in order to reduce the deficit in the Fund.
- 13.22** In 2009, the IBTS was in negotiations with employees under the auspices of the Labour Relations Commission seeking an increase in contributions from the employees to fund the deficit. However, the prospect of agreement was impacted by the introduction of pension related deductions under the FEMPI Act in 2009.
- 13.23** In 2009, the IBTS intended to make an additional payment of €1.5 million to meet the increased contributions for 2009. However, in 2010 the Department of Health outlined its concerns in relation to the payment of monies by the IBTS into its pension fund from the accumulated operating surplus generated by it without reference to the Department. The Department requested that no decisions regarding the use of surplus funds or the payment of monies to the existing pension fund be taken until the matters had been discussed further at official level.
- 13.24** In April 2011, the Board of IBTS sanctioned the payment of €4.5 million by IBTS to cover the accrued funding shortfall for the years 2009 – 2011. The additional contribution represented 5.5% of pensionable salary costs
- 13.25** Further additional contributions amounting to approximately €4.8 million were paid by the IBTS into the pension scheme between 2012 and April 2014. The additional contribution represented 5.8% of pensionable salary costs.¹
- 13.26** In 2011, the Department of Public Expenditure and Reform undertook to provide funding of €1 (to be funded from pension related deduction receipts and/or an IBTS surplus) for every €1 provided by scheme members/trustees in order to assist in resolving the IBTS pension scheme solvency issues. That Department stated that the employee contribution could be made as follows
- an increase in the employee contribution
 - a reduction in benefits payable, including adoption of an 'integrated benefits' model
 - a combination of the above.
- 13.27** The IBTS was requested to submit a detailed proposal aimed at ensuring that the scheme remained solvent and viable in the long term. It was envisaged that this would involve a review and/or a renegotiation of the terms of the scheme by the trustees.

¹ The additional contribution increased to 5.8% of salary costs as a result of an actuarial valuation as at 1 May 2011.

Conclusion

- 13.28** Based on the application of the FEMPI Act, the Department is obliged to seek remittance of the total amount deducted by the IBTS in relation to pension related deductions. On that basis, the €8.7 million balance at 31 December 2013 is payable to the Department.
- 13.29** A number of matters are in dispute between the Department and the IBTS. As a result, appropriations-in-aid receipts budgeted in the Department's accounts in relation to pension related deductions from the IBTS each year are not being received. In addition, the IBTS financial statements record a creditor in relation to pension related deductions which is increasing each year because the amounts deducted from staff salaries have not been paid over to the Department.
- 13.30** Disagreement between the Department and the IBTS in relation to pension related deductions has been ongoing since the deductions commenced in 2009. The resolution of the issue will involve the IBTS, the Department and the Department of Public Expenditure and Reform. It is not evident that the processes employed by the agencies concerned will result in a resolution of the issues in dispute in the short term.

14 Procurement by the Health Service Executive

- 14.1** In 2013, the Health Service Executive (HSE) incurred total expenditure of just under €14 billion. About €1.6 billion (11%) of this expenditure relates to procurement of goods and services in the HSE directly.¹ Goods and services are procured for a large number of geographically dispersed units including hospitals, local health offices and nursing homes.
- 14.2** In November 2010, the HSE revised its procurement model. The revised model was aimed at reforming the processes used to procure goods and services in order to achieve cost savings. In 2013, the HSE set a target to achieve savings of €43 million as a result of enhanced procurement procedures.
- 14.3** A HSE Procurement Directorate also became operational in 2010. While the Directorate operates in a centralised manner, procurement staff are geographically spread across a large number of locations. The HSE recognises that, for certain activities, local presence is required to meet customer requirements. However, it also recognises that some procurement is driven locally by historical factors and patterns and that the dispersed nature of the procurement team mitigates the ability to effectively manage and control the service delivered.
- 14.4** The Procurement Directorate, which now forms part of the HSE's Health Business Services (HBS) Division, has 572 whole-time equivalent (WTE) staff and an administrative budget of €31 million. The Directorate has three units
- a portfolio and category management unit that has responsibility for sourcing goods, centralising tendering and developing contracts (69 WTEs)
 - a logistics and inventory management unit which organises the receipt and delivery of goods ordered (495 WTEs)
 - a business management unit that supports the portfolio and category management unit in developing strategy and reporting to management (8 WTEs).
- 14.5** The HSE estimates that, during 2013, its centralised procurement division awarded a total of 206 contracts with an approximate value of €509 million.
- 14.6** A previous report (published in 2011) looked at the operation of the revised procurement procedures in its initial stage.² Evidence from the audit work underpinning that report suggested that
- there was scope to use national frameworks more and to ensure that purchasers use existing frameworks
 - contracting needed to be improved, with procurement based on currently valid contracts, as opposed to roll-over or extended purchasing from expired contracts.

¹ Excludes drugs paid for under the Primary Care Reimbursement Service.

² Report on the Accounts of the Public Services 2010, Chapter 42 Procurement in the Health Service Executive.

14.7 This chapter reports the results of a review of

- the extent of compliance in 2013 with procurement rules based on an examination of samples of purchases at three hospitals and three local health offices
- conformance with the requirements of Circular 40/2002¹
- whether there had been an increase in the use of framework agreements
- the extent to which targeted savings due to more effective procurement have been delivered.

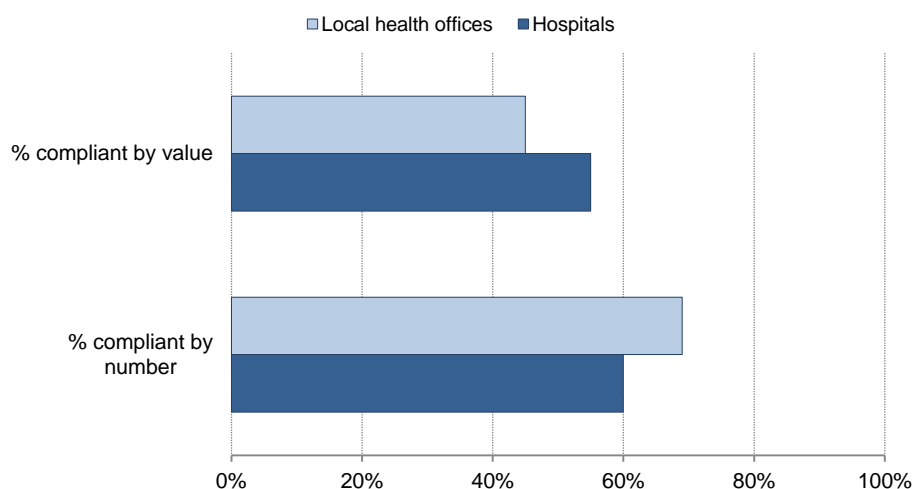
Compliance with Procurement Rules

14.8 The procurement of goods and services by the HSE is governed by national and EU procurement rules and laws and HSE procurement policy. The key required procurement procedures depend on the level of expenditure expected. The key requirements are²

- a minimum of three quotations is required where expenditure is over €5,000 but less than €25,000
- the contract must be advertised on the e-tenders website where expenditure is between €25,000 and €200,000 for supplies and services, and between €25,000 and €5 million for works contracts
- where expected expenditure is above the thresholds for advertisement on e-tenders, EU procurement directives apply, including advertising in the Official Journal of the EU.

14.9 Compliance with procurement rules was examined as part of the audit of the 2013 financial statements of the HSE. A sample of 100 payments to suppliers was examined in six locations – three hospitals and three local health offices. The total value of the 100 purchases examined was €2.21 million. The results are set out in Figure 14.1.

Figure 14.1 Percentage of sample procurements which complied with procurement rules, 2013



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

¹ Department of Public Expenditure and Reform Circular 40/2002 Public Procurement Guidelines – revision of existing procedures for approval of certain contracts in the central government sector.

² HSE National Financial Regulations, NFR-01, Version 4, 2013.

- 14.10** Overall, of the 100 purchases examined, 36 (i.e. 36%) were found not to have been subject to appropriate procurement processes. The value of the related payments was €1.03 million, representing 47% of the value of items purchased.
- 14.11** Where procurement procedures had not been complied with, it was found that most of the arrangements had been in place for a considerable length of time, with one procurement relationship dating back to 1991. While some may have been initiated following a procurement process, the subsequent contracts had long since expired and the arrangements continued to be rolled over year after year.

Reporting of Non-Competitive Procurement

- 14.12** Circular 40/2002 stipulates that each department must complete an annual report, signed by the Accounting Officer, in respect of all contracts above €25,000 (exclusive of VAT) that had been awarded without a competitive process. The report must be sent to the Department of Public Expenditure and Reform and to the Comptroller and Auditor General by 31 March of the year following that being reported on.
- 14.13** The Department of Public Expenditure and Reform extended the scope of circular 40/2002 to the HSE in 2009. The date of submission of the annual reports together with details of amounts disclosed between 2009 and 2013 is set out in Figure 14.2.

Figure 14.2 Non-competitive procurement reported by the HSE

Reporting year	Date submitted	Number of contracts reported	Value of procurements €m
2009	May 2010	22	4.1
2010	April 2011	50	4.0
2011	July 2012	62	7.9
2012	July 2013	32	3.3
2013	July 2014	116	17.8

Source: Health Service Executive

- 14.14** The HSE does not have an automated system to maintain a register of all contracts awarded without a competitive process. Rather, it relies on individual areas to identify and report such non-compliance. The HSE acknowledges that it has been unable to submit the circular 40/2002 annual report by the required date, and that as a result of the manual self assessment process, it cannot confirm that the reports submitted include all instances of non-competitive procurement that were appropriate for declaration.
- 14.15** Of the 36 instances of non-competitive procurement identified on audit, 31 should have been included in the HSE's 2013 circular 40/2002 report. However, a review of the return submitted indicates that only three of the 31 procurements were included in the report. In the locations reviewed, there was underreporting, by value, of 83%.
- 14.16** The HSE requires that managers attest to compliance with procurement procedures. As part of its control assurance process, each manager in the HSE is required to sign a periodic control assurance statement to attest (among other things) compliance with procurement procedures.

- 14.17** The HSE has stated that, in relation to 2013, 92% of managers completed a controls assurance statement. The HSE was not in a position to quantify the percentage of managers that had reported that there was compliance (or non-compliance) with procurement procedures in their area of responsibility.
- 14.18** In light of the audit finding of 47% (by value) non-compliance with procurement procedures in the locations visited, the HSE's control assurance statement process does not appear to be highlighting the underlying level of non-compliant procurement occurring in the HSE.
- 14.19** The HSE noted that the controls assurance process is improving but is still not totally effective. The HSE's formal review of the system of internal control in 2013 made a number of recommendations for improvement to the control framework including the controls assurance process and the implementation of these recommendations will be monitored by the Audit Committee. In addition, the HSE noted that it plans to embed the management of identified control weaknesses – such as non-compliance with procurement – into monthly performance management processes.

Procurement Frameworks

- 14.20** Under EU procurement rules, framework agreements can be put in place as a means of facilitating cost effective procurement. In a framework agreement, the pricing structure is agreed but the volume to be purchased and the timing of purchase are not. Within the public sector, there are two types of framework arrangements
- prices are determined by a 'mini-competition' between approved suppliers included in a framework panel as requirements arise, or
 - the price and terms are set out in the framework agreement for the duration of the period of the arrangement.
- 14.21** The use of framework agreements is expected to deliver significant savings. The costs associated with procurement, both for purchasers and potential suppliers, should decrease as a result of a reduction in the administrative burden of frequent and repeated tendering. In addition, reductions in price can be achieved through bulk buying, moving away from local/regional pricing to national pricing, and increased competition.
- 14.22** In practice, framework agreements can only be effective if such agreements are developed in areas where significant expenditure is being incurred, economies can be gained, and individuals involved in procurement make use of framework agreements to the maximum extent possible. The scope to achieve savings may be reduced to the extent that there is currently non-compliance with procurement procedures.

Procurement Frameworks in Place

- 14.23** At July 2014, the HSE had 83 framework agreements in place, which is an increase of 31 compared to July 2011. The framework agreements in place with the HSE fell into the categories set out in Figure 14.3.

Figure 14.3 Frameworks by purchase category

	July 2011	July 2014
Pharmaceutical and medical	4	18
Professional services and office supplies	14	29
Hotel type services	9	16
Equipment, laboratories and diagnostics	25	20
Total	52	83

Source: Health Service Executive

- 14.24** The HSE is increasingly using framework agreements to procure goods and services. It uses mini-competitions to award contracts as requirements arise. The HSE estimated that, between May 2008 and July 2011 (a 39-month period), a total of 97 mini-competitions had taken place to the value of €217 million. This had increased to 92 mini-competitions in 2013 alone with a combined contract value of €306 million.
- 14.25** All areas within the HSE, including acute hospitals and local health offices, are required to use the framework agreements in place.
- 14.26** The extent to which goods and services were procured through the use of framework agreements was examined on audit. In the hospitals and local health offices visited, frameworks agreements had been used in only six of the 100 cases examined. There was an apparent general lack of awareness of the existence of framework agreements.
- 14.27** Voluntary hospitals which are funded by way of a grant from the HSE (and not included in the €1.6 billion procurement expenditure directly incurred by the HSE) also incur significant expenditure on goods and services.
- 14.28** While the voluntary hospitals are encouraged to make use of HSE framework agreements, they are not obliged to. It is envisaged that this will change in the future as discussions continue between the HSE and the voluntary sector to develop a sector-wide health procurement approach.
- 14.29** The HSE noted that all HSE national framework agreements make provision for all funded agencies. Voluntary hospitals have used HSE negotiated contracts and frameworks, as well as similar arrangements developed by the Health Procurement Hospital Group – this is a collaborative approach developed by a number of the voluntary hospitals.

- 14.30** The HSE uses the e-tenders website to publish the results of its tendering processes and framework agreements. In addition, it uses e-mails and letters to senior managers to communicate details in relation to framework agreements and a schedule of contract and framework agreements is available on the HSE procurement website. However, the HSE acknowledges that communication on tendering and on the detail of framework agreements to local procurement staff needs to be improved. The HSE
- has agreed a new protocol regarding the provision of contract information and the uploading of this information on the various HSE financial systems
 - is progressing the development of a new IT system (a 'price and sourcing' system) which will allow access for both statutory and voluntary agencies to contract information.

Savings

- 14.31** The HSE has set targets to achieve savings through more competitive procurement. It measures performance in achieving those savings on an annual basis. Figure 14.4 sets out target and estimated actual savings between 2010 and 2013.

Figure 14.4 Targeted vs actual procurement savings by HSE, 2010 – 2013

Year	Targeted savings	Actual savings	Variance
	€m	€m	€m
2010	62	59	(3)
2011	98	74	(24)
2012	50	50	–
2013	43	46	3

Source: HSE service plans, performance reports and annual reports.

- 14.32** The HSE noted that while it sets target savings to be delivered through more effective procurement, the 'actual' savings figures are measured on the basis of price reductions achieved based on normal usage levels. Such savings may not always result in reductions in expenditure levels by the HSE because price reductions may be offset by increases in the volume purchased e.g. as a result of demographic pressures which increase demand for services.
- 14.33** In addition, the HSE noted that reported savings compare the price in the revised contracts concluded with the 'old prices' in the previous contracts. It does not take account of general price changes that may have occurred in the market since the last contract was concluded. As a result, it may understate the level of savings being achieved.
- 14.34** The HSE also noted that its ability to deliver further savings through more effective procurement is limited in circumstances where it has concluded contractual commitments which run for a number of years. This limits the potential for cash-releasing/budget reduction savings in the short term.

Views of the Accounting Officer

- 14.35** The HSE noted that the centralised Procurement Directorate has facilitated opportunities to maximise efficiencies and drive added value. The Directorate engages annually with budget holders to develop procurement plans. This process will continue with an increased focus on the value to be obtained from compliance with procurement rules. The HSE noted that it is restricted somewhat by the level of resources available in the procurement function to support the demand for services. However, it seeks to use the available resources in a way that optimises the opportunity to deliver savings.
- 14.36** The HSE is aware that until such time as a single national financial and procurement system is in place, it will have to engage in manual processes to comply with the reporting requirements of circular 40/2002. These manual processes will not of their nature provide the same degree of assurance as a single national solution.
- 14.37** The HSE also stated that consistent or deliberate non-compliance with the requirement for staff to make a self assessed declaration for the purpose of completing the 40/2002 report will be dealt with under the HSE's disciplinary procedures.
- 14.38** It noted that a key element of the current reform of public procurement is based on the concept of 'one voice for procurement' which applies across all Government departments and agencies. The health portfolio will retain its own procurement function which will apply to the entire health system, both statutory and voluntary. The HSE is currently working to establish 'one voice' for health procurement. In future all health related expenditure incurred by voluntary and statutory service providers will be procured under a single approach. The HSE will strive to maximise the use of centrally developed contracts and frameworks for the whole health system.
- 14.39** Procurement of non-health categories such as facilities management, professional services, etc. will be procured through the Office of Government Procurement.

Conclusions and Recommendations

- 14.40** The use of competitive procurement processes can potentially deliver significant savings to the HSE. It is continuing to develop its procurement function. Nevertheless, a significant level of non-compliance with procurement rules was identified in relation to 2013 expenditure based on an examination of samples of payments at six locations. The HSE's control assurance process apparently does not highlight the level of non-compliant procurement occurring in the HSE.
- 14.41** The HSE has not been in a position to submit a complete, accurate and timely annual report in relation to contracts in excess of €25,000 which have been awarded without a competitive process.

Recommendation 14.1

The HSE should put formal processes in place in the short term to check compliance with procurement rules on an ongoing basis and ensure that non-competitive procurement in respect of contracts in excess of €25,000 is comprehensively disclosed in the annual report the Accounting Officer is required to make under circular 40/2002. Such procedures should include examination of the procurement procedures employed in relation to samples of payments across a number of locations.

Accounting Officer's response

Agreed. The HSE plans to deliver additional training to staff in relation to the requirements to report non-competitive procurement. It plans to integrate accurate reporting on non-competitive procurement with its ongoing performance assurance process which will include quarterly reporting to the assurance group. In addition, it plans to expand the controls assurance process by revising the section on procurement and providing additional guidance to managers on the work they need to do in order to report on compliance with procurement rules. The HSE is also investigating the use of data warehousing which would allow it to collate information on contracts and expenditure and allow it to identify non-competitive procurement centrally rather than relying on individual managers to report such non-compliance.

- 14.42** The number of framework agreements in place has increased from 52 to 83 since July 2011. However, in order to be effective, the agreements in place should be utilised in all appropriate cases. This examination found there was an apparent lack of awareness of the existence of framework agreements in the six locations visited on audit.

Recommendation 14.2

The existence of framework agreements needs to be better communicated to individuals with responsibility for procuring goods and services in order to extend their utilisation.

Accounting Officer's response

Agreed. A number of approaches have been used in the past to communicate the existence of framework agreements and contracts to end users. However, the HSE accepts that an information deficit exists. A number of actions have been taken or are planned to address this deficit. These include agreement of a protocol in December 2013 regarding the uploading of contract information on the various HSE financial systems and the maintenance of a schedule of all contracts and framework agreements on the HSE procurement website since mid 2014. The HSE is also developing a new IT system which will allow access for both statutory and voluntary agencies to contract information. It is expected that the new system will be operational at the beginning of 2015.

Revenue

15 Local Property Tax

- 15.1** The EU/IMF Programme of Financial Support included a commitment to the introduction of a property tax in 2012. The tax was introduced in the form of the household charge, which was an annual charge of €100 payable by owners of relevant residential properties. Local authorities had responsibility for collecting the charge.
- 15.2** The household charge was an interim measure and, following from the report of an interdepartmental group on the design of a local property tax (Design of a local property tax, the 'Thornhill report'), the local property tax (LPT) on residential property was introduced, as a self-assessment tax, on 1 July 2013.^{1, 2} The tax is collected by the Revenue Commissioners (Revenue). The Act also provided for the establishment and maintenance of a register of residential properties.
- 15.3** LPT is payable annually by all liable persons who own or hold a long-term lease of a relevant (i.e. non-exempt) residential property in the State on the liability date for that year.³ For 2013, the liability date was 1 May 2013. A half-year charge applied for 2013, with a full year's charge applying from 2014 on. At 1 July 2013, any outstanding household charge was converted into an LPT charge of €200, and Revenue assumed responsibility for its collection.⁴
- 15.4** Receipts from the property tax are paid directly to the Exchequer. From 2014, the Minister for Finance is required to pay into the Local Government Fund an amount equivalent to the LPT receipts (including any interest) paid into the Central Fund during that year.
- 15.5** By end-June 2014, Revenue had collected a net €628 million of LPT (see Figure 15.1).

Figure 15.1 Local property tax receipts to end-June 2014^{a, b, c}

	Tax liability for 2013	Tax liability for 2014	Total
	€m	€m	€m
Year of collection			
2013	242	76	318
2014	19	291	310
Total collected by end-June 2014	261	367	628

Source: Office of the Revenue Commissioners

Notes: a Receipts are net of repayments.

b The amounts collected include around €25 million in respect of the household charge – €2 million in 2013 and €23 million in 2014.

c Around €34,000 in respect of 2015 had been collected at the end of June 2014.

- 15.6** The introduction of LPT placed a significant resource demand on Revenue. Work undertaken to facilitate the introduction of the tax included the preparation of the legislative framework, the planning, design and implementation of systems and processes in order to develop a property register and the provision of IT systems to facilitate the collection and administration of the tax.

¹ Finance (Local Property Tax) Act 2012.

² A residential property is defined in the Act as any building or structure which is in use as, or is suitable for use as, a dwelling and includes any shed, outhouse, garage or other building or structure and any yard, garden or other land, attached to or usually enjoyed with that building save that so much of any such yard, garden or other land that exceeds one acre shall not be taken into account.

³ Annex A sets out those liable for LPT (liable persons).

⁴ Section 156 of the Finance (Local Property Tax) Act 2012.

- 15.7** This examination of the implementation of the local property tax focused on
- whether Revenue has established a comprehensive property register
 - the adequacy of estimation of property valuations and of the expected tax yield
 - the extent to which taxpayers have been compliant in paying the 2013 tax and
 - steps taken by Revenue to recover outstanding amounts due in respect of the household charge.

Completeness of the Property Register

- 15.8** The tax base for LPT is residential property, with the liability on the owner. Although a number of Government departments and offices held data on residential properties, there was no complete database of all residential properties and their owners available to Revenue. Revenue utilised a number of external sources of data.¹ The most relevant database for this task was the database used by the Local Government Management Agency (LGMA) for the household charge.

- 15.9** The LGMA operated the household charge as a shared service for the local authority sector. It had compiled a database with 1.1 million residential properties which it provided to Revenue. As this database was created specifically for the purpose of the household charge, there were issues in relation to its usefulness in the development of the property register

- the LGMA database included the name of the person who paid the household charge, who could be a different person than the owner of the property. Therefore, some properties on the database were not linked to their owners. This was particularly problematic in the case of non-unique addresses²
- owners of residential property exempt from the household charge were not required to register, with the result that these properties and owners were not on the database.³

1 Sources included the Department of Social Protection, the Private Residential Tenancies Board, certain utility providers and the Local Government Management Agency.

2 An example of non-unique addresses is where a number of houses are located in the same townland. Owners of different properties may have the same name.

3 A limited number of exemptions and waivers were available for the household charge, including owners of residential property entitled to mortgage interest supplement and owners of residential property located in certain prescribed unfinished housing estates.

4 GeoDirectory is a service, jointly established by An Post and Ordnance Survey Ireland, that provides a geocoded points database of all of the buildings in the Republic of Ireland.

5 The property database is held on Revenue's common registration system (CRS) which is a national tax register, holding details of taxable persons and entities.

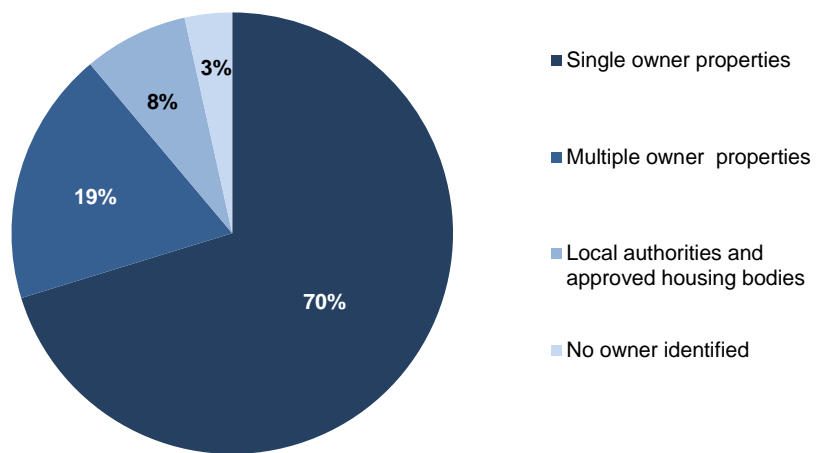
- 15.10** Revenue also obtained a database from GeoDirectory containing addresses of 2.15 million properties of which 1.8 million related to residential properties.⁴ However, the database did not include the names of the owners of the properties.

- 15.11** Revenue also used data from its own internal sources including from its systems for electronic-stamp duty and tax relief at source for mortgage interest relief. Ultimately an initial property register with a total of 1.85 million residential properties was put in place during 2013. Since then, an additional 0.24 million properties have been added to the register and 0.14 million have been deactivated, resulting in a residential property register of 1.95 million properties at the end of June 2014.⁵

- 15.12** In addition to the available data from the public body databases and its own IT systems, Revenue had statistical information from the 2011 census which found there were 1.99 million permanent dwellings or housing units in the State. No detailed information about these properties was available to Revenue due to statutory restrictions on the use of census data. Therefore, Revenue is unable to establish why its database has around 40,000 fewer residential properties than the number indicated by the 2011 census. There are some differences in the definition of a housing unit e.g. a number of flats in a house may each be counted as a housing unit for the purposes of the census but the house may be a single unit for the LPT. There have also been movements in the housing stock which may account for part of the discrepancy.

- 15.13** Unpaid LPT, including interest and penalties, becomes a charge on the residential property, with no time limit on its collection. There is a statutory obligation to complete and return details of any sale or transfer of property including long-term leases, whether at arms length or otherwise, to Revenue by way of a stamp duty return. Therefore, in any cases where Revenue is unable to identify all residential properties at present, the LPT on unidentified properties will be payable as part of LPT clearance procedures associated with conveyancing, when a future sale or transfer of the property takes place.
- 15.14** At end-June 2014, ownership of the registered properties was categorised as indicated in Figure 15.2.

Figure 15.2 Revenue property register at end-June 2014^a



Source: Office of the Revenue Commissioners

Note: a The register recorded 149,300 properties in the ownership of local authorities and approved housing bodies. Revenue stated that the actual figure may be lower than this as refinement of the register is ongoing.

- 15.15** Certain properties are exempt for LPT. In order to claim an exemption, a liable person had to complete a return for 2013 and indicate the exemption category into which the property fell. In 2013, exemption was claimed in returns for around 42,000 properties. A further 10,000 properties were exempted by Revenue from information it held in its records. Annex B provides a listing of the exemption categories and the number in each.
- 15.16** Revenue's property register is updated on a continuous basis as additional information becomes available. At June 2014, there were an estimated 46,400 work items in progress or awaiting attention. The examination analysed records on, and changes made to, the property register.

No Owner Identified

- 15.17** Each residential property on the property register should have a recorded liable owner. At June 2014, 3.5% (68,000) properties on the property register had none recorded. A review of these found that some 4,000 properties recorded as having no owner on the property register in 2014 had a recorded liable owner in 2013. If an owner was correctly recorded in 2013, then that owner, or a new owner if the property was sold, should have been recorded in 2014.
- 15.18** Revenue stated that at the time of the launch of the LPT register in March 2013, there were around 60,000 properties that could not be associated with owners. Initial work was carried out to identify owners for a subset of these cases but the priority for the work was reduced as it proved to be very time-consuming. Revenue also said that
- after the bulk issue of 2013 returns, it became clear that a significant number of tenants had been incorrectly identified as owners of properties. This occurred because tenants may have paid the household charge on behalf of landlords or the tenants were otherwise linked to the properties through Revenue records. It was not possible, in some cases, to identify the landlord at the time the link to the tenant was removed
 - the auto-update now in place between Revenue's e-stamping system and the LPT register became available in October 2013. Property transactions prior to that date had to be manually adjusted and it may be that a small number of cases were not linked to the new owners
 - a review of a number of cases has been carried out by the LPT Branch and it is evident that a small proportion of the properties should be removed from the register as they were duplicate properties.
- 15.19** Separately, the examination compared the identification numbers for the properties showing no owners in 2013 with Revenue's tax collection systems as at the end of 2013. This showed that LPT payments totalling in the region of €470,000 had been received for around 2,700 of these properties during 2013. It appears, therefore, that the names of the owners of those properties had not been entered, or were incorrectly removed at some point. Incorrect records on the register may lead to unnecessary compliance actions being undertaken by Revenue.
- 15.20** Revenue stated that it has now reduced the number of properties that were fully or partially paid but without recorded liable owners in 2013 to 1,660 cases and that these cases will be fully reviewed in due course with a view to resolving any ownership issues arising.

Unfinished Housing Estates

- 15.21** Under the Act, residential properties in certain unfinished housing estates are exempt from LPT. In order to qualify, an estate must be designated by the Minister for the Environment, Community and Local Government. A schedule of the designated estates was provided to the examination team.
- 15.22** Exemptions were claimed for just under 5,000 properties because the properties were on unfinished estates. A review of a random sample of 50 of these exemptions found that 40% of the properties where such exemptions were claimed were not in a designated estate. Revenue stated that its compliance programme has begun to address this risk and in cases where an incorrect claim has been made Revenue will take action to collect the LPT due. Revenue also pointed out that the designation (in regulations) of an unfinished estate changed significantly between the household charge and LPT and that this may have caused understandable confusion among taxpayers.

Properties Deactivated from the Register

- 15.23** Because Revenue's property register is updated on a continuous basis as additional information becomes available, properties are added and deactivated on a daily basis. By June 2014, 137,300 properties had been deactivated from the initial register, for example due to duplication.
- 15.24** A review of the deactivated properties found that payments for 2013 LPT amounting to €378,000 (for 3,300 of the now deactivated properties) had been received.¹ It appears that the properties were deactivated in error. Revenue stated that the most likely reason that collections have occurred against deactivated properties is due to the bulk removal by Revenue of what it thought were duplicate properties or late payments received after deactivation of some properties.
- 15.25** For a random sample of 50 deactivated cases, the files were reviewed to ascertain the reason for the property's deactivation from the register. The review found that
- 10 (20%) had been deactivated in error: three of the properties were exempt, in four cases there was a change of ownership of the property, and in the other three cases the notice for LPT had issued to the tenant rather than the owner of the property
 - of the remaining 80% properties correctly deactivated, 37 were duplicate entries on the register, two were declared uninhabitable, and one property was declared as no longer existing.

¹ This includes €25,000 refunds for 187 properties.

² Market value is the price that would be agreed between a seller and a purchaser conducting a transaction at arm's length. The valuation date is the date by reference to which the chargeable value of a residential property is to be established.

³ For each consecutive 3-year period after 2016, the valuation date is 1 November in the year preceding the first year of the 3-year period— for example, the valuation date for the years 2017 to 2019 is 1 November 2016.

Estimation of Property Valuations

- 15.26** The amount of LPT payable is based on the market value of the residential property at the valuation date.² Residential properties have a range of characteristics which impact on their value e.g. the age of a property, its type and location, local amenities, floor size, number and type of rooms, car parking facilities, gardens and grounds, and condition of the dwelling.
- 15.27** LPT is a self-assessed tax and, therefore, owners of properties are responsible for assessing the current market price of their property as at the valuation date. The Act requires liable persons to assess the value of their property every three years. For the years 2013 to 2016, the valuation date is 1 May 2013.³

Revenue's General Guidance

- 15.28** Owners faced a difficult task in valuing their properties, in particular due to low levels of activity in the market in the years preceding the valuation date. Revenue developed an internet-based guide in order to assist owners in assessing property values.¹ In developing the guide, Revenue used an economic model to assess relationships between property characteristics and property values and assigned a weighting for each characteristic.² In creating and testing the model, Revenue used 34,400 valuations from their e-stamping system and 1,000 valuations carried out for NAMA of properties provided as collateral for loans it acquired. In addition, a professional valuation company was contracted to carry out around 1,300 valuations in locations specified by Revenue.
- 15.29** The valuation guide is available on-line. It sets out average market (as at 1 May 2013) valuation bands of property types in a given locality (electoral district) and offers an indicative valuation band for properties depending on their broad type and age (for example, a semi-detached house built before the year 2000).³
- 15.30** Revenue did not provide suggested values for individual properties. The guidance states that while it was intended to be helpful in the majority of cases, self-assessment requires property owners to honestly assess the market value of their own property. If a property is smaller or larger than the average for the area, is in a significantly poor state of repair, or has exceptional or unique features, the owner is required to factor this into the assessment of the valuation band of the property.

Individual Estimates

- 15.31** During 2013, Revenue issued individualised return forms to property owners, including a Revenue estimate of the valuation band for 1.57 million properties.
- 15.32** In response to a query about the basis for the notified valuation band for each individual property, Revenue stated that
- GeoDirectory provides, for each property contained therein, a record of the property's location, address, use and type. The Revenue estimate at individual property level was calculated by applying the average valuation from Revenue's guidance to each property in GeoDirectory
 - some properties on the Revenue register are not on (or not linked to) GeoDirectory, so location, use and type information was not available. In those cases, the average valuation band (from the Revenue guidance) for the relevant area was applied to generate the estimate.

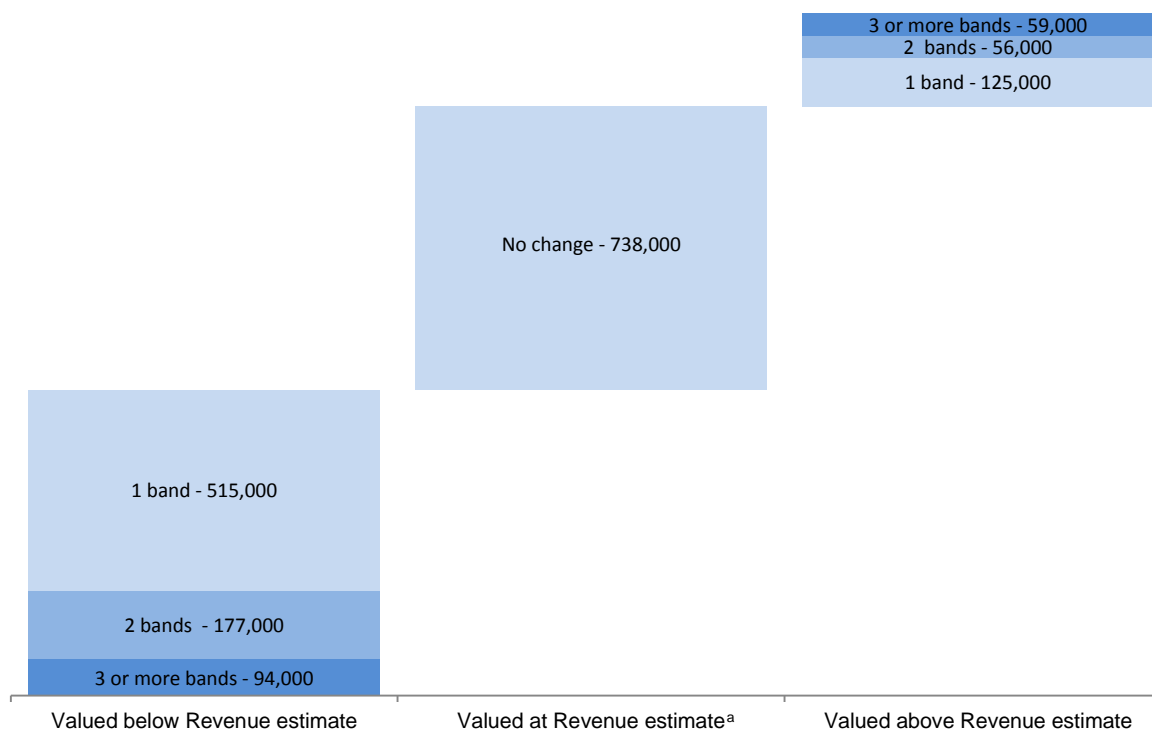
¹ A version was also provided for those without internet access.

² Revenue's residential property valuation model uses characteristics including the age of a property, its type and location, and local amenities.

³ Valuation bands are shown in Annex C.

⁴ Revenue stated that it has received returns for an additional 30,000 properties owned by local authorities but these are not yet recorded.

- 15.33** By end-June 2014, a total of 1.76 million property valuations had been filed and recorded on Revenue's systems, including a significant number of cases where Revenue had not issued an estimated valuation.⁴ When making their returns, 1.03 million properties were valued by their owners at higher or lower valuations than the Revenue estimates – this represented 66% of properties where Revenue estimates were issued. Overall, the declared values were lower than the estimates made by Revenue. Figure 15.3 analyses the filed valuations.

Figure 15.3 Local property tax – declared valuation bands relative to Revenue estimated bands, 2013

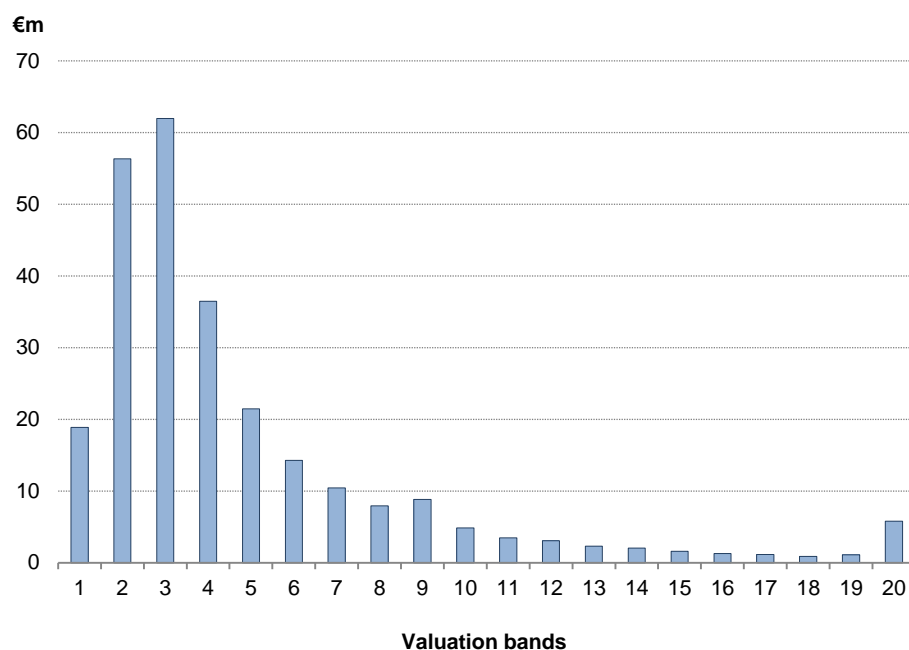
Source: Office of the Revenue Commissioners

Note: a Cases valued at Revenue estimate include declared valuations where no individual Revenue estimate issued.

15.34 Annex C shows the proportion of properties declared in each band. Some features of the valuations submitted compared with the Revenue indicative value were

- just under 24% of properties were declared in the lowest band (€0 to €100,000). Revenue had estimated that 15% of properties would be in this band
- just under 3,600 properties were valued at €1 million or more. This is 21% more than the number of properties in that band for which Revenue issued a notice of estimate.

15.35 Figure 15.4 indicates the declared liability in 2013 for each band.

Figure 15.4 Declared liability for local property tax by valuation band, 2013^a

Source: Office of the Revenue Commissioners

Note: a Based on 1.76 million filed and recorded returns.

15.36 In order to assess the reasonableness of the declared property valuations, Revenue has mapped data from the returns and has identified 75,100 properties for which the owners have returned a value of their property that is lower than the average band returned for neighbouring properties. Revenue stated that it intends to review a proportion of these properties based on risk rating, using mapping technologies, to ascertain if the valuation provided appears reasonable. Where the valuation does not appear to be reasonable, the liable person will be required to provide documentary evidence of the valuation of their property.

Data about Property Characteristics

15.37 In making their returns, property owners were not asked to provide any information on property characteristics e.g. property type (apartment, detached house, terraced house, etc.), floor size, site area, number of rooms, much of which could be provided by owners without a requirement for professional assistance. Accurate information of this kind would potentially significantly improve Revenue's capacity to analyse the declared value of properties and to validate the reasonableness of returns.

15.38 The Accounting Officer stated that the option of asking property owners for information regarding property characteristics including floor size and number of rooms was given serious consideration. However, it was rejected principally because a precise actual market value for each property was not required and because it became clear that a workable model to support both the preparation of the Revenue estimate and compliance interventions could be developed without detailed information such as floor size for every property.

- 15.39** The Accounting Officer pointed out that the focus throughout the design of LPT was to ensure that the process would be as easy as possible for property owners. As with all taxes, Revenue is aware of the administrative burden on taxpayers and aims to collect only the information required. The LPT1 return was short and simple and this encouraged taxpayer engagement. The value band system is adequate to provide for most variations, and imposing a long detailed form on all property owners to improve Revenue's compliance programme when there are other options ran the risk of discouraging compliance. Even with the best data, no model can be expected to accurately predict the values of all properties in Ireland. Given that a valuation model was functioning based on available information, the requirement to seek additional data in returns was reduced because it was not clear what added value would be derived for the risks that may have arisen.
- 15.40** The Accounting Officer stated that property valuation on the scale of an entire State is not an exact science. Neither floor area nor number of rooms is as reliable or as simple as it might appear. They raise very many definitional problems and take no account of habitable area or state of repair. The Thornhill report set out the reasons for not recommending approaches involving floor area and/or the number of bedrooms as the basis of assessment for LPT.

Expected Yield

- 15.41** In order to estimate the expected yield from the property tax, the Department of Finance assumed that around 16% of LPT would be unpaid each year due to properties being exempt or owners deferring payment of the tax. Based on that assumption, the Department estimated that the yield from the tax would be approximately €250 million in 2013 (and €500 million in a full year).¹ In the absence of exemptions or deferrals, the estimated tax due in 2013 would have been just under €300 million.
- 15.42** The Secretary General of the Department of Finance stated that the methodology used by the Department to estimate a tax yield based on property value bands was a blend of three approaches – the first used data in the Thornhill report; the second was based on data from the property price register (published by the Property Services Regulatory Authority); and the third was based on the Economic and Social Research Institute's tax-benefit model, SWITCH. He also pointed out that estimating the likely level of exemptions and deferrals on a new tax where there was neither a register of liable properties nor a register of the owners of those properties would inevitably require certain assumptions.
- 15.43** He pointed out that the Department had used the Thornhill report in arriving at its estimate that around 16% of LPT would be unpaid each year arising from deferrals and exemptions. He noted that the provisions of the LPT legislation in respect of deferrals and exemptions differ in some respects from the recommendations of the Thornhill report and the impact of the actual exemption and deferral provisions could not be accurately determined until the return process had been completed. Regarding exemptions, it may be the case that some property owners have not filed an LPT return to claim an exemption, under the misapprehension that they are automatically entitled to one.
- 15.44** As at June 2014, Revenue had granted LPT exemptions in respect of 52,000 properties – around 2.7% of the total number of properties on the register. Revenue has estimated the related tax foregone at €6 million. Deferral arrangements with taxpayers resulted in deferred collection of an estimated €4 million. The combined value of exemptions and deferrals in respect of 2013 was equivalent to 3.7% of the potential yield.

¹ At a standard rate of 0.18% and 0.25% for the portion of the property valued at over €1 million.

Collection of LPT

- 15.45** A liable person in respect of LPT must file a return and pay the tax due. Owners of properties who are exempt or who are deferring the tax are also required to make a return. The returns for 2013 were due on 7 May 2013 and those for 2014 were due by 7 November 2013.
- 15.46** Revenue systems indicate that at end-June 2014, returns had been received in respect of 1.76 million properties. 149,300 returns were made in connection with properties owned by local authorities or approved housing bodies.¹ When account is taken of properties deemed to be exempt by Revenue and properties for which mandatory deduction at source has been applied, the compliance rate for 2013 (as at June 2014) stood at 93%. The compliance rate may rise as further enforcement actions are put in place.
- 15.47** There is no legislative provision for an exemption due to inability to pay. However, individuals on low incomes may request a full or partial (50%) deferral of the tax.² In addition, personal representatives of a deceased liable person, a person who has entered into an insolvency arrangement or a person experiencing financial hardship can also apply for a deferral of the payment. Annual interest of 4% is charged on deferred payments.
- 15.48** The deferred sum and accrued interest are attached as a charge on a property, and must be paid prior to any sale or transfer of the property. At end-June 2014, there were just over 25,000 properties with full or partial deferral of LPT payments for 2013.

Payment of Local Property Tax

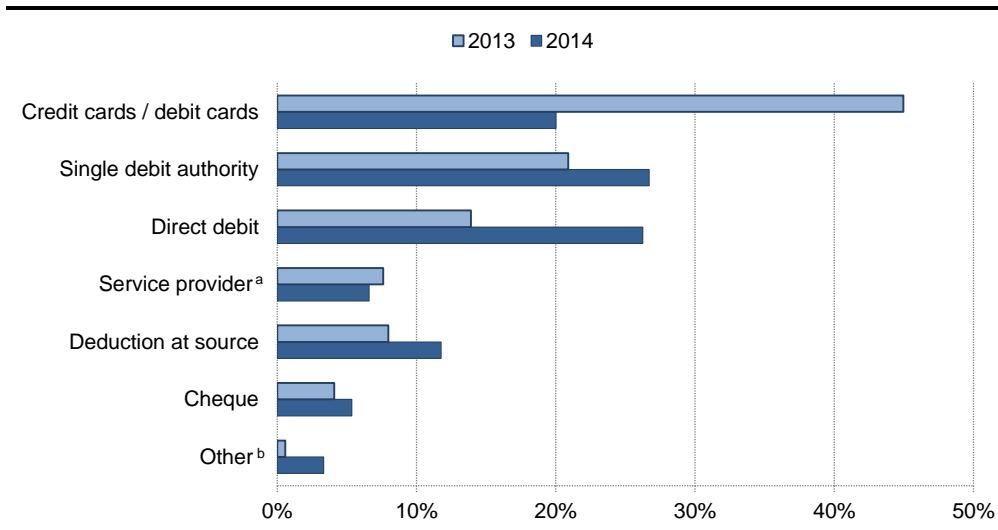
- 15.49** By the end of June 2014, €259 million had been collected in respect of 2013 LPT.³ After exemptions, this represents an estimated payment compliance rate of 97.4% at that date.
- 15.50** Taxpayers may opt to make a single LPT payment or make phased payments. For those who had opted for a phased payment by deduction at source from earnings, pensions or certain State payments or by direct debit in 2013, the arrangement continued for 2014.⁴ Taxpayers who paid their 2013 tax in a lump sum were advised by Revenue to select and commit to a payment option by 7 November 2013, if filing by paper return and 29 November 2013 if filing electronically, in relation to the 2014 LPT. For 2014, the first full year of the tax
- those who opted for phased payments could spread the payment over the full year
 - those who opted for payment in full by single debit authority had the payment deducted from their bank account on 21 March 2014
 - property owners who paid in full by any other method were liable to pay the tax by 1 January 2014.
- 15.51** Figure 15.5 lists the payment options and the percentage of receipts collected for each option for 2013 and 2014, as at June 2014.

¹ 30,000 of these returns had not yet been recorded on Revenue's system.

² The gross income threshold for a deferral is €15,000 for a single person or widower and €25,000 for a couple. The thresholds may be increased by 80% of expected gross mortgage interest payments for a year. The gross income threshold for partial deferral was €25,000 for a single person or widower or €35,000 for a couple and the thresholds may be increased by 80% of expected gross mortgage interest payments for the year.

³ €261 million had been collected in total, of which €2 million was in respect of household charge arrears.

⁴ Unless the taxpayer notified Revenue of an alternative method of payment.

Figure 15.5 Local property tax – payment options and tax receipts, at June 2014

Source: Office of the Revenue Commissioners

Notes: a Service providers are third party entities (An Post, Payzone, Omnivend and PayPoint) that facilitate the payment of LPT under an agreement with Revenue.

b 'Other' includes cash, on-line banking, using Revenue's on-line system and offsets from other taxes.

Deduction at Source – Employers

15.52 One of the phased payment options provided for in legislation was deduction at source from a person's salary or occupational pension. In circumstances where a liable person opts for this payment method, Revenue issues instructions to the employer or pension provider who are obliged to collect and account for the LPT deduction. If an employer does not carry out this instruction, the employer then becomes liable for the amount due including interest.¹

Payments are made by the employer to Revenue on a monthly basis. However, these payments are not allocated to the individual property until the employer forwards their year-end P35L return, which provides the details of the individual deductions.²

15.53 Revenue systems indicated that 78,000 liable persons (voluntary and mandatory) paid their 2013 LPT by way of deduction from their salary or pension, in respect of 84,000 properties. The total LPT due was €14.2 million. Revenue stated that by July 2014, €13.9 million had been paid by employers (98%) and the balance is being collected by a combination of deduction at source in 2014 or payment by the property owner using an alternative method.

15.54 Revenue stated that a review of the end of year data for 2013 commenced in April 2014 and contact was made with some employers in regard to their failure to act on the instruction to deduct LPT at source. Revenue said that a variety of reasons have emerged to date, including employers overlooking the obligation to follow Revenue's instructions, employees having left and long-term absenteeism. Revenue pointed out that the operation of deduction at source for LPT is new for employers, and it was to be expected that there would be some errors and omissions. By June 2014, 3,546 employers were identified as potentially non-compliant. These have all been contacted and responses are being followed up with employers and employees as appropriate.

¹ Or pension provider.

² Form P35L is the list on which an employer makes an annual return of income tax and PRSI particulars in respect of each employee.

Deduction at Source – Welfare Payments

- 15.55** 14,400 liable persons opted to pay the 2013 tax by way of deduction from payments made to them by the Department of Social Protection (DSP). The number of liable persons opting to pay by deduction through a DSP payment has increased by around 75% for the 2014 tax.
- 15.56** In 4% of cases for the 2013 tax, the request for the deductions could not be processed. Revenue stated that the main reasons for this were that the scheme type nominated by the taxpayer was not eligible for LPT deduction or because the deduction would have resulted in the weekly DSP payment falling below the statutory limit of €186 per week. Revenue makes contact with property owners in such cases for the purpose of making alternative payment arrangements, but does not keep a count of the overall number of such cases.
- 15.57** Revenue stated that to date, it has made approximately 12,000 checks of issues relating to deduction of LPT from welfare payments. These interventions addressed non-payment issues arising from the selection by property owners of schemes ineligible for LPT deduction, provision of invalid personal public service numbers and shortfalls in payment and non-payment arising from the deduction limit.

Deduction at Source – Agriculture

- 15.58** LPT was collected from 1,800 liable persons who had opted to have their 2013 LPT deducted from a Department of Agriculture, Food and the Marine (DAFM) payment. Revenue encountered some difficulties in allocating LPT that had been deducted from DAFM payments to the correct period or properties in circumstances where more than one payment instruction was made in respect of a single property (e.g. payment instructions during 2013 for both 2013 and 2014 LPT) or where a single payment instruction was made for multiple properties. Revenue stated that it is currently working on its systems to allocate monies received to the correct periods and properties.

Compliance Activity in Respect of LPT

- 15.59** In cases where property owners fail to file a return, the estimated LPT notified to the property owner by Revenue becomes due. Collection of unpaid LPT may be pursued through a number of mechanisms including mandatory deduction from a person's employment income, occupational pension or certain State payments. Outstanding liabilities may also be referred to the Sheriff or a solicitor for collection or may be the subject of attachment orders.
- 15.60** Revenue stated that by June 2014
- it had issued over 250,000 compliance letters to property owners who either failed to file a return or to make a payment
 - it had applied mandatory deduction at source to 40,000 properties where the 2013 LPT had not been paid, to 46,000 properties in respect of the 2014 LPT, and to 61,000 properties where the household charge had not been paid.
- 15.61** In addition, Revenue applied surcharges amounting to €2.4 million in respect of 12,253 cases. These surcharges applied to taxpayers who are required to file income or corporation tax returns but had failed to make a return in respect of LPT for residential properties they own. Revenue pointed out that compliance activity in relation to the self-employed includes the refusal of almost 10,000 tax clearance requests to persons who had not paid their LPT liabilities.

- 15.62** Interest and penalties may be applied in cases of late or under payment of LPT. Revenue provided taxpayers with an opportunity to correct their LPT return up to 31 March 2014, without incurring interest or penalties. The property owner had to confirm how any additional tax would be paid, and to then honour the payment arrangement in order to continue to avoid the application of interest and penalties. By the end of June 2014, 3,900 liable persons had corrected their property valuation bands upwards (see Figure 15.6). This included cases where owners corrected their valuation prior to a property disposal.

Figure 15.6 Self-correction of property valuation bands

Number of bands increased	Number of properties	Proportion of properties self-corrected upwards ^a
1	2,270	58.2%
2	831	21.3%
3	413	10.6%
4	199	5.1%
5 or more	187	4.8%
Total	3,900	100.0%

Source: Office of the Revenue Commissioners

Notes: a Revenue did not provide details of those who self-corrected valuations downwards.

Household Charge Arrears

- 15.63** The household charge was introduced as an interim property tax measure. It was charged on owners of residential property on the liability date of 1 January 2012. Payment of the flat-rate tax of €100 per taxable property was due on 31 March 2012, after which it increased to €130. At 1 July 2013, any outstanding household charge was converted into an LPT charge of €200, with Revenue taking on responsibility for its collection.
- 15.64** By June 2014, following a data matching exercise between its property register and the database provided by the LGMA, Revenue had identified around 474,000 properties on the LPT database for which the household charge had not been paid, waived or exempted. If all of these properties were liable for the household charge, a liability of €94.8 million would arise. Revenue pointed out that responses from property owners to household charge compliance letters are expected to identify exemptions, waivers, and cases where the charge has been paid, thereby reducing the liability below €95 million.
- 15.65** Revenue stated that all non-compliance in respect of the household charge is being addressed and that, by the end of June 2014, it had issued 426,000 household charge arrears letters in respect of the 474,000 identified properties. The letters advised property owners to make arrangements to pay the €200 arrears, or to notify Revenue if they had already paid, or are exempt or entitled to a waiver.
- 15.66** At end-June 2014, €25 million in outstanding household charges had been collected. In the region of €17 million of this, in respect of 106,000 properties, was received subsequent to the issuing of compliance letters in April 2014. Some of the payments were part-payment of the outstanding amounts. Revenue stated that it has used the mandatory deduction option to collect arrears in 61,000 cases.

Administration of LPT

- 15.67** During the audit of the Revenue account for 2013, it was found that Revenue was unable to provide a full reconciliation of the 2013 LPT receipts to the underlying taxpayer records. Revenue stated that the main difficulty in allocating some LPT receipts to taxpayer records was a result of multiple-property owners (including local authorities and approved housing bodies) making their LPT return using a listing of the properties, as they could not use the on-line filing system due to the scale of their property portfolios. It has required significant engagement with these taxpayers to reconcile the properties on the schedules to those on the LPT property register. In order to fully address the issue, Revenue stated that an IT development to facilitate an efficient means of reconciling payments against the property portfolio of large scale multi-property owners is being developed and will be in operation by end-2014. Revenue pointed out that this is an internal accounting procedure and does not impinge on Revenue's capacity to ensure that liable persons with large property portfolios are compliant. Revenue also noted that the on-line system has been enhanced to facilitate on-line filing for all Government departments and many of the approved housing bodies from 2015 onwards.
- 15.68** Provision of €25.9 million was made within the 2013 estimate for the Revenue Commissioners for the implementation of LPT in 2013 and a similar provision was made for 2014.
- 15.69** Revenue stated that a number of IT developments were essential to the success of the LPT project including the on-line valuation application, inclusion of household charge processing to collect arrears and the automation of internal work items to assist in dealing with the volume of work. It pointed out that all changes introduced for the programme were subject to the formal IT project approval process – a significant number of proposed changes were not approved during this process.
- 15.70** In response to a query about other Revenue IT projects deferred due to the resources and priority allocated to LPT, Revenue stated that a number of IT projects did not advance as anticipated during 2013. These included projects relating to the diesel rebate scheme, carbon tax, tax clearance and professional services withholding tax.

Conclusions and Recommendations

- 15.71** Revenue has been very effective in compiling the residential property register required to underpin the LPT in a short timeframe. A comprehensive register of residential property and ownership has been created. The property register is in a continuous state of change as additional information becomes available to Revenue.
- 15.72** The examination identified a number of areas that merit consideration by Revenue as it develops its process for ongoing maintenance of the database. We found that for some properties where the register indicated that no owner had been identified, Revenue's tax collection systems showed that, in fact, LPT had already been paid for the property. The examination also found that some changes made to the register appeared to have been made in error.

Recommendation 15.1

In order to ensure that the property register is up-to-date and that information is recorded accurately as ongoing maintenance work is carried out, Revenue should review the level of controls over the inputting and updating of information. One control that should be considered is regular comparisons of the register with Revenue's other systems.

Accounting Officer's response

Part agreed. The focus during the first year of implementation of LPT was to establish a property register and to refine the register on foot of large volumes of information received from property owners. This resulted in the alteration of many property records. Further adjustments to the register were required for the household charge project.

Systems and processes for the ongoing maintenance of the register are continuing to evolve. As Revenue moves to the post-implementation phase and as the LPT systems are fully developed, it will be possible to allocate a resource to review the tranche of properties that have not yet been connected to liable persons. This review will include the examination of any records deactivated in error.

The comparison of the LPT register with Revenue's other tax registers is useful only where taxpayers use their property addresses for correspondence and where that address is up-to-date. Most PAYE taxpayers do not have any reason to correspond with Revenue on a regular basis and on-line filers have little reason to update their correspondence addresses. For these reasons, their records may not be up-to-date in this regard.

- 15.73** In making their returns, property owners were not asked to provide any information about their property's characteristics, which are relevant to property value (e.g. age of property, number of rooms or accommodation type). Many property owners (and occupiers) already provide information of this kind in filling out the census of population form every five years. While individual characteristics do not form the basis for LPT (e.g. LPT is not based on a property's floor area), if Revenue had this information for each property it would assist it in analysing and validating valuations submitted by property owners. In particular, Revenue could identify whether properties have characteristics which are likely to differentiate them from others in the area.

Recommendation 15.2

Property owners are required to estimate the value of their properties every three years for LPT purposes. Revenue should consider requiring information on basic characteristics of properties to be included in these returns.

Accounting Officer's response

Not agreed. Collection of data about individual properties was given serious consideration by Revenue at the LPT design stage and was decided against for a variety of reasons.

In addition, post-returns, Revenue has developed a process to assess and review valuation compliance and it is not clear that having this additional information on properties would offer significant assistance to the process.

Revenue is considering on an on-going basis options to improve the valuation model by capturing or collecting additional information from different sources that would place less burden on property owners. One option might be to seek information from Sustainable Energy Authority of Ireland (SEAI), which receives detailed property characteristics information through the Building Energy Rating (BER) certification process.

- 15.74** Revenue issued individual estimates of valuation to identified property owners in respect of 1.57 million properties, but the onus was on property owners themselves to assess the property value. Where estimated valuations were issued, two of every three properties were revalued by their owners. Overall, the declared values were lower than the estimates made by Revenue. Revenue faces a challenge in assessing whether the relative declared values in a location are reasonable.

Recommendation 15.3

In order to address the risk that property owners in a location may generally return values that are lower than the market value of their properties, Revenue should consider how it can use up-to-date technologies, including mapping tools, to compare valuations with actual sales prices of properties and other macro-economic data available to it. Revenue should also consider carrying out in-depth, on-site reviews, on a sample basis, of properties in designated areas, in order to validate the valuations submitted by property owners.

Accounting Officer's response

Agreed. Given the uncertainty in the property market on 1 May 2013, it is probable that site reviews are more likely to be relevant for one-off properties.

Revenue will be using a range of tools and data sources to assist with its evaluation for valuation compliance. This will include

- macro-economic assessment of valuations returned against third party sources of information to validate overall levels of valuations returned
- engagement with experts in this area (such as the Valuation Office) to ensure knowledge of any best practice in the field
- use of geographic information/systems driven analysis of returned valuations based on data that are geo-coded at the level of individual properties and grouped by locality (neighbourhood, small area, local authority, etc.)
- comparing returns for a property against those of its nearest neighbours and the average for the location of the property using a reporting tool developed by Revenue's Information Communications Technology and Logistics Division, in consultation with its Economic Research Branch that readily identifies properties where the return valuation differs from the neighbourhood average (this tool can be refined to identify only those furthest from the average).

- 15.75** The Department of Finance's estimated yield of €250 million for 2013 was, of necessity, based around assumptions. The estimate was arrived at after assuming that around 16% of LPT would be unpaid each year due to exemptions and deferrals. However, the value of the tax foregone from properties that are exempt and the amount of deferrals claimed (combined just under 4%) are significantly lower than assumed. In the event, the yield for 2013, (€259 million), is almost 4% higher than the Department's estimate.

- 15.76** By the end of June 2014, the payment compliance rate for 2013 was very high, at 97%. Compliance steps taken by Revenue in regard to the 2013 tax include the application of mandatory deduction at source for 40,000 properties and the issuing of compliance letters to those who either failed to make a payment or file a return.

- 15.77** Revenue is actively pursuing outstanding amounts due in respect of the household charge. At end-June 2014, €25 million of these arrears had been collected, €17 million of which was received after household charge arrears letters were issued in April 2014.
- 15.78** The examination found that, from a sample of 50 exemptions claimed due to houses being on a designated unfinished housing estate, 40% were not supported by the available evidence.

Recommendation 15.4

Revenue should examine the validity of exemptions claimed under the unfinished housing estates category. Revenue should also consider what additional review of other exemptions claimed should be carried out.

Accounting Officer's response

Agreed. Revenue has already engaged in the process of compliance checks on exemption claims and will continue to do so across the various exemptions on a risk basis as is appropriate for a self-assessed tax. The onus is on the property owner to declare their liability to, or exemption from, LPT. The LPT Act provides for the application of penalties for false declarations. A dedicated exemption/deferral team has been established in Revenue's LPT Branch for the purpose of assessing and reviewing claims for exemption. To date, a total of 22,700 reviews of claims for exemption have been completed. It is estimated that approximately 14% of reviews relate to the unfinished housing estate category.

Work is on-going on the review of exemptions and the household charge project has brought additional scrutiny to the unfinished housing estates category. It is also clear that property owners can be confused with regard to this exemption where neighbouring properties are exempt, and some were exempt for household charge but are not exempt for LPT. As a result, contact has been made with a number of local authorities to confirm and clarify the full extent of unfinished housing estates within their catchment areas. The exemption team is currently focusing attention on a small number of large estates where the delineation between exempt and non-exempt properties is unclear.

Annex A Persons Liable for Local Property Tax

The following persons are liable for LPT in accordance with the Act

- owners of Irish residential property, regardless of whether they live in Ireland or not,
- local authorities or social housing organisations that own and provide social housing,
- holders of a life-interest in a residential property,
- persons with a long-term right of residence (for life or for 20 years or more) that entitles them to exclude any other person from the property,
- lessees who hold long-term leases of residential property for 20 years or more,
- landlords where the property is rented under a short-term lease (for less than 20 years),
- personal representatives for a deceased owner (e.g. executor/administrator of an estate),
- trustees, where a property is held in a trust and
- where none of the other categories of liable person applies, the person who occupies the property on a rent-free basis and without challenge to that occupation.

Annex B LPT Exemptions (2013)

Category of exemption	Number of properties^a
	‘000
Properties constructed and owned by a builder / developer that remain unsold	13.3
Residential properties owned by a charity or public body	7.3
Properties in specified unfinished housing estates	4.9
Properties previously occupied as sole or main residence, vacated for 12 months or more due to long-term mental or physical infirmity	4.8
Properties purchased between 01/01/2013 and 31/12/2013	2.9
New and previously unused properties purchased from builder / developer between 01/01/2013 and 31/10/2016	2.6
Properties fully subject to commercial rates	2.0
Residential properties purchased, built or adapted to make it suitable for occupation by a permanently and totally incapacitated individual	1.7
Residential properties certified as having significant pyrite damage	1.2
Registered nursing homes	0.7
Mobile homes, vehicles or vessels	0.4
Properties used by charitable bodies in connection with recreational activities	0.2
Diplomatic properties ^b	0.0
Exempt by Revenue ^c	10.0
Total	52.0

Source: Office of the Revenue Commissioners

- Notes:
- a Revenue stated that it is reviewing the exemption categories assigned to properties on its systems and that until this exercise is complete the numbers in each category will not be finalised.
 - b Exemptions were claimed for less than 50 diplomatic properties.
 - c Revenue has not yet analysed these exemptions by category.

Annex C Distribution of properties by valuation band^a

	LPT Valuation Band	Properties
	€	%
1	0 – 100,000	23.8%
2	100,001 – 150,000	28.8%
3	150,001 – 200,000	22.7%
4	200,001 – 250,000	10.3%
5	250,001 – 300,000	5.0%
6	300,001 – 350,000	2.8%
7	350,001 – 400,000	1.8%
8	400,001 – 450,000	1.2%
9	450,001 – 500,000	1.2%
10	500,001 – 550,000	0.6%
11	550,001 – 600,000	0.4%
12	600,001 – 650,000	0.3%
13	650,001 – 700,000	0.2%
14	700,001 – 750,000	0.2%
15	750,001 – 800,000	0.1%
16	800,001 – 850,000	0.1%
17	850,001 – 900,000	0.1%
18	900,001 – 950,000	0.1%
19	950,001 – 1,000,000	0.1%
20	Value greater than €1m	0.2%
	Total	100.00%

Source Office of the Revenue Commissioners

Note: a Based on 1.76 million properties.

16 Taxation of Rental Income

- 16.1** For tax purposes, rental income is the net income of property owners arising from the occupation or use of the property by others.¹ Sources from which rental income may be derived include
- the letting or rental of residential, commercial or agricultural property (in Ireland or elsewhere)
 - easements²
 - the granting of sporting rights and permits and
 - insurance payments received to compensate for non-payment of rent.
- 16.2** Income earned by individuals from the letting of domestic and foreign residential or commercial property is taxable under self-assessment income tax, while rental income earned by companies is assessable for corporation tax.
- 16.3** The focus of this report is on rental income earned by individuals. It provides an overview of the taxation of rental income accruing to individuals and, in particular, reviews
- the effectiveness of systems in place for identifying rental property owners and managing taxpayer compliance
 - progress by Revenue in implementing the recommendations of a 2006 report regarding data sharing and record matching with third party sources of information³
 - compliance work undertaken by Revenue in relation to rental activity in the shadow economy.

Declared Rental Income

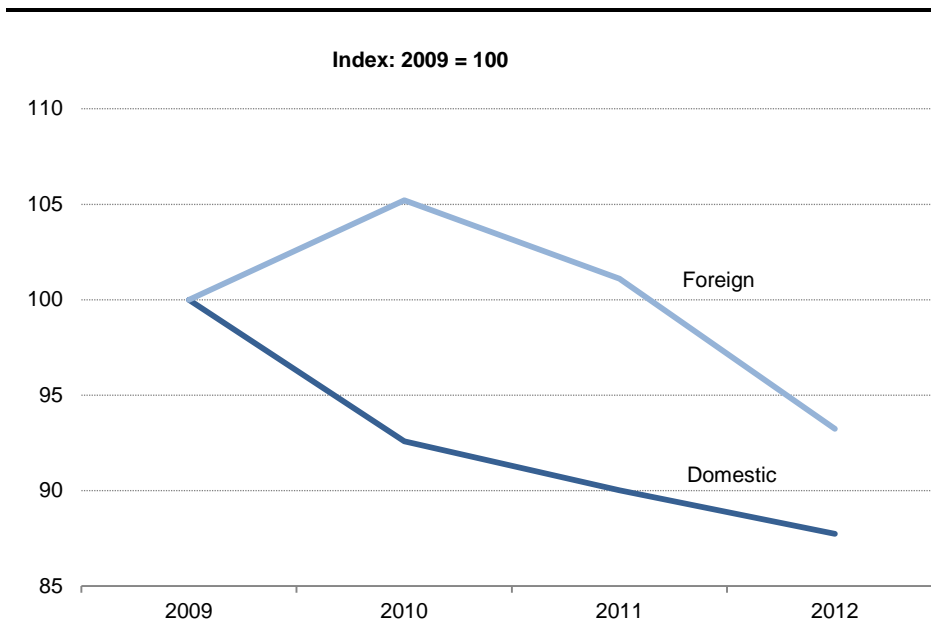
- 16.4** Individual taxpayers declared gross rental income of €4.4 billion to Revenue in respect of the 2012 tax year⁴ of which
- €4.0 billion related to rents from property in Ireland (domestic rents), and
 - €0.4 billion related to rents from property elsewhere (foreign rents).
- 16.5** The amount of gross domestic rental income declared by taxpayers fell by 12% between 2009 (€4.6 billion) and 2012 (€4.0 billion). Declared gross rental income from foreign properties decreased by 7% during the same period (see Figure 16.1).

1 Net rental income is gross rental income net of allowable expenses.

2 An easement is a right of use of the property of others.

3 Section 3.10, Report of the Comptroller and Auditor General 2006.

4 The latest year for which data is available is 2012. Returns for 2013 are due at the end of October 2014.

Figure 16.1 Index of declared rental income, 2009 – 2012

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

- 16.6** Owners of rental properties are entitled to claim deductions and reliefs from gross rents for various expenses relating to their rental property.

Deductible Expenses

- 16.7** Revenue applies three main rules when assessing a person's right to claim expenses in order to reduce a rental income tax liability. The rules are that
- the expenses have been incurred by the landlord
 - the expenses are not of a capital nature
 - expenditure must generally be incurred during the period in which the landlord is entitled to receive rental income.
- 16.8** Some examples of expenses that may be claimed are repairs, insurance, advertising or property maintenance costs, accountancy fees in relation to the preparation of a rental account and management fees.
- 16.9** A deduction is also available for mortgage interest on loans used to purchase, improve or repair a rented residential property. The entitlement to a deduction for mortgage interest is conditional on compliance with the registration requirements of the Residential Tenancies Act 2004.

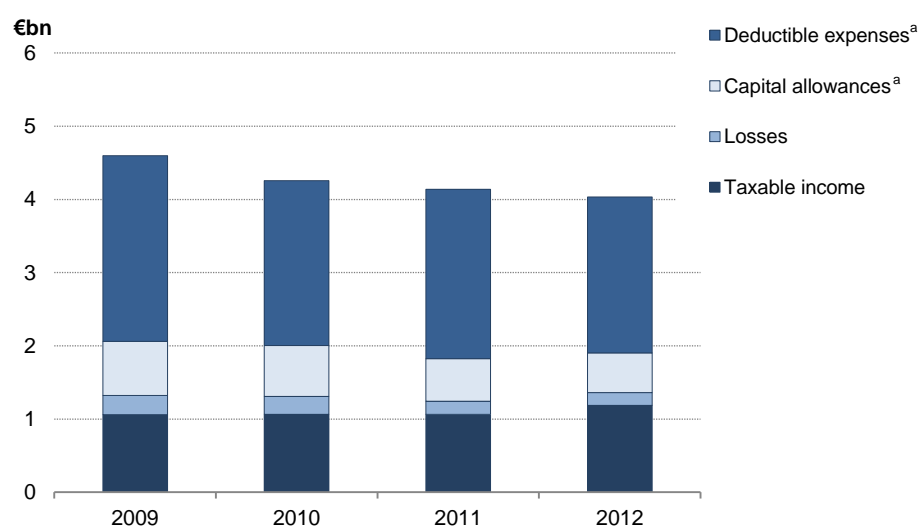
Capital Allowances and Losses

- 16.10** Wear and tear allowances are available to landlords in respect of capital expenditure incurred by a landlord to furnish a rental property. The rate of the wear and tear allowance is 12.5% a year for eight years.
- 16.11** In circumstances where the taxpayer has incurred a loss following deduction of expenses and capital allowances from gross rental income, the unused capital allowances and other losses may be carried forward to offset against tax on rental income in future years.¹

Taxable Rental Income

- 16.12** Over the period 2009 to 2012, the effect of deductions for losses, expenses and capital allowances has been to reduce taxable rental income to between 23% (2009) and 29% (2012) of gross domestic rental income (see Figure 16.2).

Figure 16.2 Taxable domestic rental income, 2009 – 2012



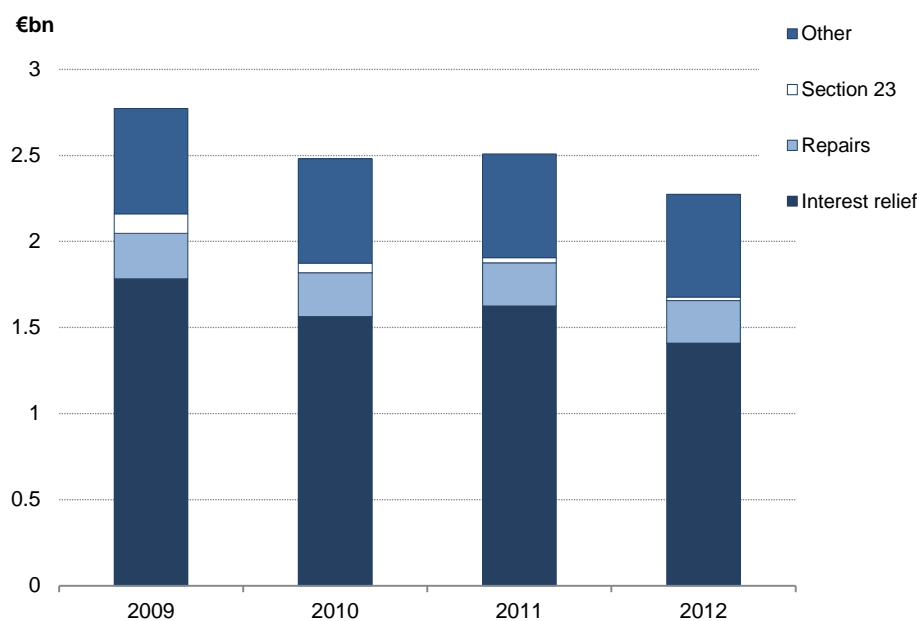
Source: Office of the Revenue Commissioners

Note: a Figures shown relate to deductible expenses and capital allowances used each year.

- 16.13** Notwithstanding the 12% (€564 million) decline in domestic gross rental income, the amount of rental income chargeable to tax increased by 12% from €1.06 billion to €1.19 billion between 2009 and 2012. This was attributable to a number of factors – deductible expenses fell by 16% (€411 million) while capital allowances and losses used against rental income declined by 26% (€194 million) and 33% (€87 million) respectively.
- 16.14** The biggest change in deductible expenses was in allowable interest which fell by 21% from almost €1.8 billion to just over €1.4 billion while section 23 type relief fell by 81% to €21 million.² Figure 16.3 shows the changes in deductible expenses claimed each year.

¹ Revenue Commissioners, IT 70, *A Guide to Rental Income*.

² Section 23 relief is a tax relief that applies to rented residential property in tax incentive areas.

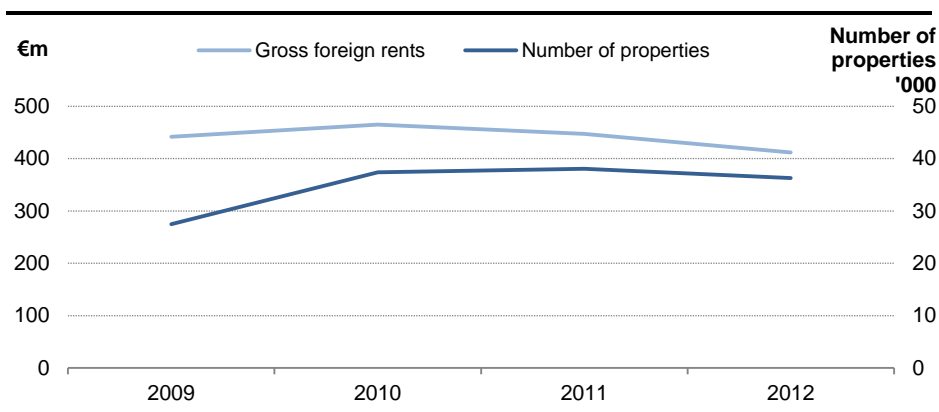
Figure 16.3 Deductible expenses claimed 2009 – 2012

Source: Office of the Revenue Commissioners

- 16.15** Significant unused capital allowances and losses were carried forward at the end of 2012
- unused capital allowances amounted to €1.96 billion – this represents almost four times the amount of capital allowances used in 2012
 - unused losses amounted to €1.89 billion, over ten times the amount of losses that were used in 2012.
- 16.16** Interest on loans to purchase, improve or repair a rental property is deductible for rental income tax purposes, subject to certain conditions, for example compliance with registration requirements of the Private Residential Tenancy Board (PRTB) for all tenancies that existed in the premises in the period for which the interest allowance is being claimed. In April 2009, as a result of a budget decision, a 75% restriction was placed on the allowable rental income deduction in respect of interest. The introduction of this restriction, combined with falling interest rates, resulted in the amount of allowable interest falling from €3 billion in 2008 to €1.8 billion in 2009, and then to €1.4 billion in 2012.

Foreign Rental Income

- 16.17** The number of foreign rental properties declared to Revenue increased by 32% between 2009 and 2012, while the amount of gross rental income declared in respect of foreign properties fell by 7% to just over €0.4 billion during the same period (see Figure 16.4).

Figure 16.4 Foreign rental income and number of foreign properties, 2009 – 2012

Source: Office of the Revenue Commissioners

16.18 Revenue stated that it is not possible to determine all the reasons for the sharp increase in the number of foreign rental properties reported to Revenue between 2009 and 2010, but considers that it is most probably due to a combination of increased purchase of foreign properties in prior years, an increase in letting of properties which were previously family holiday homes, and a degree of response to greater awareness of exchange of information between tax authorities and Revenue's compliance activities in relation to offshore assets.

16.19 In response to a query as to why gross rental income did not increase commensurate with the rise in the number of foreign rental properties declared, Revenue stated that the two most likely reasons are that yields from rental properties dropped due to the overall economic situation and that some of the newer buy-to-let property purchases are in less attractive markets, with lower average rents.

Taxation of Foreign Rental Income

16.20 Rental income earned by an Irish resident from a property situated outside the State is taxable in the State notwithstanding that such rental income may also be taxed in the country in which the property is situated. However, in circumstances where the individual is not Irish domiciled, tax is only due on the amount of foreign net rental income remitted to the State.

16.21 Double taxation agreements ensure that a taxpayer does not pay income tax twice on the same income. Credit is given by Revenue for any tax paid overseas in respect of foreign rental income that is also taxed in the State. These credits have been around €20 million annually since 2010 (see Figure 16.5).

Figure 16.5 Credits claimed under double taxation agreements, 2010 – 2012

Tax year	Credits claimed € million
2010	21
2011	20
2012	18

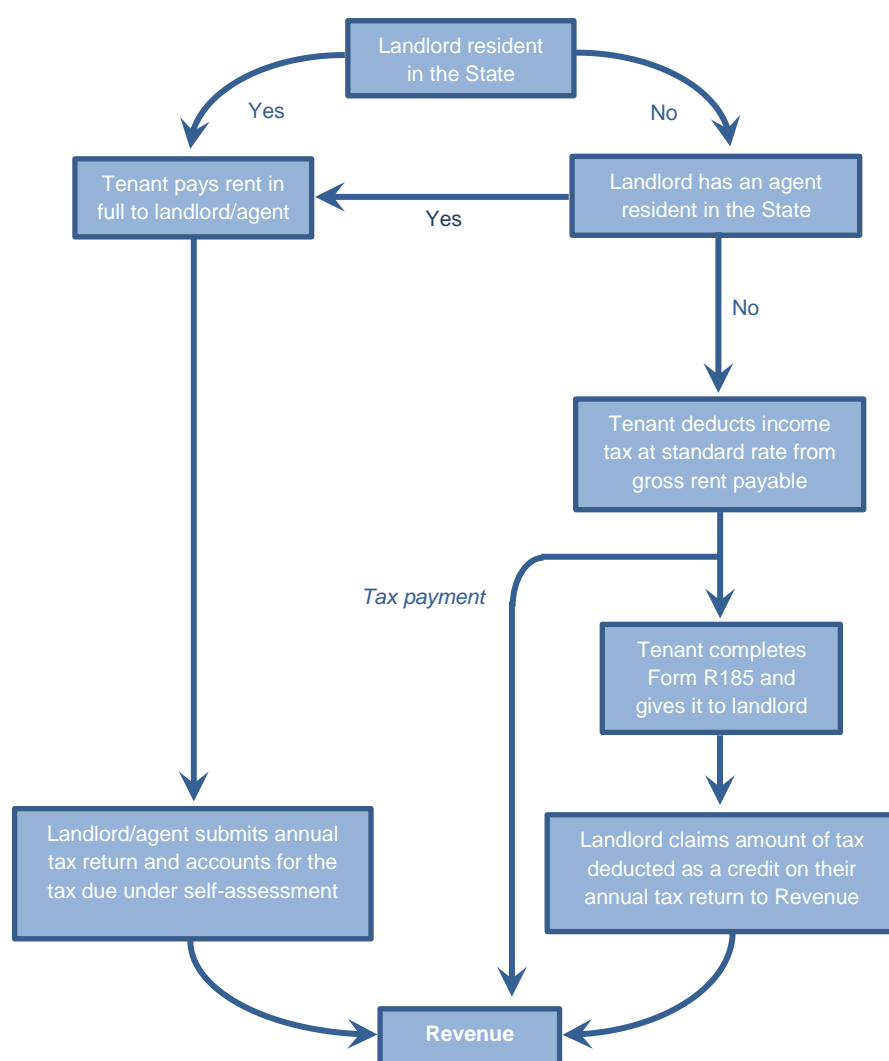
Source: Office of the Revenue Commissioners

- 16.22** Other countries are not obliged to notify Revenue in respect of property purchased by Irish residents. Non-compliant foreign property owners are most commonly identified during the course of a general tax audit.

Returns to Revenue by Agents and Tenants

- 16.23** Landlords who derive income from a property situated in the State are obliged to submit an annual income tax return to Revenue, regardless of their residency status. Filing options differ depending on where a landlord lives (or is resident for tax purposes). Figure 16.6 sets out rental income filing options for resident and non-resident landlords.

Figure 16.6 Filing options for landlords



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

Letting Agents

- 16.24** A letting agent is a person or company, who on a professional basis arranges the letting out of property on behalf of a landlord. Letting agents and managers of property are required to submit a return, detailing the address of the rented premises, the name, address and personal public service (PPS) number of the property owner and the gross annual rent for the property.
- 16.25** The agent's return must be completed whether the agent receives rent on behalf of a landlord or if rent is paid directly to the landlord by a tenant. There is no systematic matching of the returns with Revenue's taxpayer records as the information contained on them is not captured electronically. The returns are manual and information is retained at district level. Revenue stated that checks are carried out at district level to ensure that the landlord disclosed on a letting agent's return is declaring the relevant rental income.
- 16.26** Revenue stated that it is unable to provide details of the number and value of returns filed by letting agents because the information is not captured electronically.

Non-Resident Landlords

- 16.27** Rental income from an Irish property is subject to income tax in Ireland, regardless of where a liable person resides. If a tenant makes a rental payment directly to a landlord who resides outside of Ireland, or makes a payment electronically to a non-resident landlord's bank account (either in Ireland or abroad), the tenant is obliged to deduct 20% income tax from the gross rent payable and to pay this amount to Revenue. Failure to deduct income tax may result in a tenant being liable for any tax that should have been deducted.
- 16.28** A tenant is also obliged to complete a form (R185) at the time of making payment of rent which indicates the amount of tax deducted from payment to a non-resident landlord. This form should be sent/given to the landlord, who can claim a credit from Revenue for the amount of tax paid.
- 16.29** The number of non-resident landlords from whom tax is withheld is low, but has increased in recent years. Landlords submitting R185 returns increased by 127% between 2009 (225) and 2012 (510). In 2012, landlords claimed just under €1 million in credits in respect of tax withheld from rent payments by tenants, an increase of 83% when compared with 2009 (see Figure 16.7).
- 16.30** In response to an audit query, Revenue attributed the low number of cases to many tenants of non-resident landlords not being aware that their landlord is non-resident, or not being aware of the obligation to deduct tax at source on the payment of rent to such landlords.

Figure 16.7 Credits claimed by non-resident landlords in respect of tax withheld by tenants, 2009 – 2012

Tax year	Credits claimed
	€000
2009	502
2010	538
2011	717
2012	919

Source: Office of the Revenue Commissioners

Collection Agent

- 16.31** There is no obligation for a tenant to deduct tax from rental payments if a non-resident landlord has appointed an agent who lives in Ireland. The tenant pays the gross rent to the collection agent, who is required to account for the tax due to Revenue.¹
- 16.32** The rent collection agent on behalf of a non-resident landlord is set up under a new PPS number on the Revenue system. While the assessment for income tax is in the name of the Irish collection agent, the tax charged is the amount attributable to the non-resident landlord as if assessed in his or her own right.
- 16.33** Revenue stated that, for the 2012 year of assessment, collection agents filed returns on behalf of just over 2,400 non-resident landlords. The total net rent, before capital allowances, amounted to just over €22 million.

Use of Third Party Information

- 16.34** A previous report highlighted concerns in relation to matching records supplied by other departments and agencies. The report found that
- only 40% of rent supplement records for 2006 were successfully matched to the Revenue records of declared rental income
 - data in respect of 2006 rental accommodation payments was incomplete and in a format which did not allow any matching to taxpayers' records in Revenue's systems.
- 16.35** On foot of that report, the Committee of Public Accounts (PAC) examined the matter and in 2008, it reported a necessity for greater communication between State agencies, in order to ensure greater compliance by rental property owners.² Following on from this, Revenue sought, and subsequently received, approval from the Minister for Finance for access to the Private Residential Tenancy Board's list of registered tenancies.

¹ A collection agent is an Irish resident person or company, for example, a family member or professional letting agent, appointed by a non-resident landlord to collect rent on his or her behalf. Collection agents are obliged to file a return on behalf of a non-resident landlord to Revenue annually.

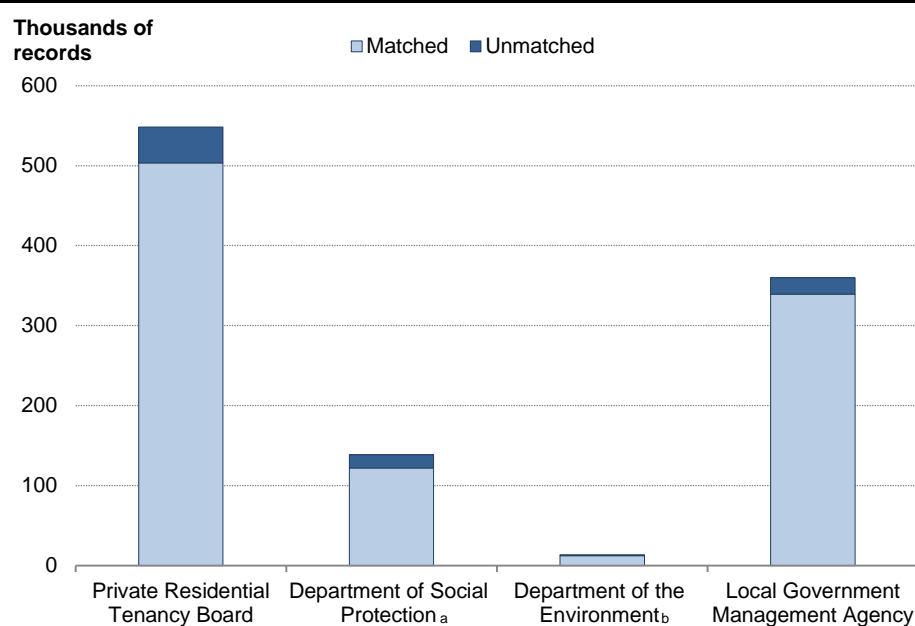
² Committee of Public Accounts, *Taxation of Rental Income Receipts*, Second Interim Report, September 2008.

16.36 For the purposes of identifying landlords who may not be declaring all rental income, Revenue uses information from four principal sources.

- Private Residential Tenancy Board (PRTB) – the PRTB operates a national tenancy registration system. Landlords are required to register details of all their tenancies within one month of their commencement with the PRTB.
- Department of Social Protection – details in respect of rent supplement payments.
- Department of the Environment, Community and Local Government – details of payments under the rental accommodation scheme (RAS).
- Local Government Management Agency for information about the non-principal private residence charge. (2013 was the final year for which this charge applied.)

16.37 The examination found that data matching had improved significantly between 2006 and 2012. In 2012, between 88% and 94% of records received from the four principal sources of third party information were matched to Revenue records (see Figure 16.8).

Figure 16.8 Third party sources of matched information, 2012



Source: Office of the Revenue Commissioners

Notes: a In 2012, the value of unmatched rent supplement records amounted to €48.5 million.

b In 2012, the value of unmatched (1,401 of 13,582) rental accommodation scheme payments amounted to €10 million.

16.38 Revenue matches data provided with existing Revenue taxpayer information, based on unique fields, for example a tax reference or PPS number. Revenue does not have a formal system in place for dealing with unmatched records. However, Revenue pointed out that significant efforts are made to deal with unmatched records. These include

- Unmatched data from the bulk matching process are loaded onto Revenue's Integrated Business Intelligence (IBI) platform and are available to be manually searched on a name and address basis by Revenue compliance officers who have access to this system. Revenue stated that all Revenue officers are regularly reminded of the procedures in place to link unmatched data to the appropriate Revenue record when the appropriate connections have been established. This process applies to rent supplement payments and the rental accommodation scheme.
- Revenue also has a programme of work in place to manually match unmatched rent supplement payments and rental accommodation scheme payments.

16.39 Revenue stated that failure to match some data from third parties to its taxpayer records does not necessarily mean that the case is non-compliant. There may be issues with reference numbers provided. Revenue also pointed out that the implementation of postcodes will be of considerable assistance in developing automated data matching.

Targeted Audits

16.40 Revenue focuses on specific sectors of the economy as part of a targeted approach to identifying and pursuing non-compliant taxpayers.

16.41 The shadow economy (also known as the hidden economy) encompasses businesses and individuals that seek to avoid compliance with legal obligations relating to matters such as taxes and duties.¹ It comprises sectors of the economy most likely to deal in cash, including the property rental sector. Shadow economy activity is often carried out by individuals already in the tax system and often involves under declaration or non declaration of income to Revenue.

16.42 In 2012 and 2013, Revenue targeted shadow economy activities across a number of sectors for investigation. The 'rental sector' generated an overall tax yield amounting to €52 million (20% of total yield) over the two years. The cases which generated this yield include all targeted audits where the taxpayer's primary trade is in the property rental sector, whether the case was selected as part of the targeted shadow economy project or otherwise.

16.43 Cases selected for review by Revenue include both known and potential rental income cases (for example where rental income is not declared, but third party data or local intelligence indicates a potential source of rental income). Cases are selected at a district level by an audit case selection officer based on an analysis of information available from REAP and locally gathered intelligence.² Details for 2012 and 2013 targeted audits are set out in Figure 16.9.

¹ Revenue Commissioners Annual Report 2013.

² REAP is a computerised risk profiling system in use since 2008. It rates taxpayers, relative to one another, using Revenue's other systems as well as information from third parties such as the Health Service Executive, the Department of the Environment, Community and Local Government and the Taxi Regulator.

Figure 16.9 Rental income sector yielding and non-yielding audits, 2012 and 2013

	2012		2013	
	Number	%	Number	%
Yielding audits^a	523	71	455	72
Non-yielding audits	209	29	174	28
Total	732	100	629	100
Amount yielded				
– total	€27.1 million		€25.1 million	
– per yield case	€52,000		€55,000	

Source: Office of the Revenue Commissioners

Note: a A 'yielding audit' is one where undeclared (or under declared) income is detected.

2012 Audit Results

- 16.44** In the 2012 programme, Revenue officials conducted 732 targeted audits on individual landlords and companies in the rental income sector across six regions. The number of cases audited ranged from nine in the Large Cases Division to 186 in the East/South East region. Targeted audits in the range 160 to 170 were conducted across the other three geographical regions.
- 16.45** There was significant variation in yield across geographical regions and divisions, ranging from €0.6 million from Large Cases Division to €7.6 million in the Border Midlands West region. Details are set out in Figure 16.10.

Figure 16.10 Rental income sector, 2012 audits

	Number of audits	Yield € million
Special Units		
Large Cases Division	9	0.6
Investigations and Prosecutions Division	39	4.0
Regions		
East South East	186	5.3
Dublin	167	6.0
Border Midlands West	168	7.6
South West	163	3.6
Total	732	27.1

Source: Office of the Revenue Commissioners

- 16.46** The proportion of yielding cases in the targeted cases was over twice that of cases selected in Revenue's random audit programme (where around one-third of cases yield additional tax).

- 16.47** In response to a query, Revenue stated that all of the audit yield in the cases examined does not arise from rental income. On Revenue's registration system, a case is assigned only one sector or industry code (referred to as a NACE code). This reflects the primary income source applicable to the trade or profession, even where the taxpayer engages in multiple trades or activities.¹ In general, issues are identified during the course of an audit that can give rise to a liability under a number of sources of income.
- 16.48** In selecting cases focused on the shadow economy rental sector, statistics are extracted under the codes for renting and operating of own or leased real estate and the management of real estate on a fee or contract basis.
- 16.49** Revenue stated the targeted audit results reflect cases where the NACE code suggests the primary activity of the case relates to rental income but that some of the audit yields include significant amounts associated with other activities. On the other hand, audits classified under other NACE codes may include yield which arises from the rental sector.
- 16.50** The examination reviewed 17 files that were classified as rental income sector audits in 2012 and found that only around 30% of the audit yield arose from property rental activities.

Conclusions and Recommendations

- 16.51** While declared gross domestic rental income declined by just over 12% between 2009 and 2012, taxable rental income increased by around 12% to almost €1.2 billion. Restriction of reliefs has contributed to an increase in the proportion of gross domestic rental income chargeable to tax from 23% in 2009 to just over 29% in 2012.
- 16.52** Almost €4 billion in unused capital allowances and unused losses was carried forward by taxpayers at the end of 2012, which remain to be offset against future property rental income. Even though some of the taxpayers may no longer be in the property rental business, the tax yield in the property rental sector may not rise in line with recent increases in property rentals until the accumulated amounts carried forward are used.
- 16.53** There has been a significant improvement in the extent to which Revenue matches information relevant to residential rental income from third party sources to its taxpayer records when compared with a previous examination in 2006. In line with a recommendation from the Committee of Public Accounts, the number of sources used by Revenue has increased, as has the rate of matched records.
- 16.54** Revenue uses this third party information as part of its risk assessment process. The outcome of its targeted audits of rental income in 2012 and 2013 suggest that these audits were well targeted, with over 70% resulting in additional yield. Not all of the cases audited were selected due to concerns about rental income – they are classified on this basis because the primary income source recorded for the taxpayer is property rental activities – and all of the yield does not arise from these activities. The audit found that, for a small sample of 'rental sector' audit cases, the proportion of the additional tax yielded from the audits correctly attributable to property rental activities was around 30%.

¹ The statistical classification of economic activities in the European Community, commonly referred to as NACE, is a standard European industry classification system.

Recommendation 16.1

In order to enable it to identify the source of tax yield from audits, Revenue should consider requiring officers to record the yield under a number of broad headings (e.g. retail, professional services, rental income) and collate this data. This could assist Revenue in using the outcome of audits, including random audits, to inform its targeted interventions.

Accounting Officer's response

Agreed. Planning for the development of a new Revenue Case Management (RCM) system is too far advanced for the recommendation to be considered for the live release but Revenue will consider the recommendation in due course for possible inclusion in later phases of RCM. However, factors that need to be taken into account in considering the recommendation include

- the clarity and reliability of the existing approach which is based on the universal NACE code system
- the cost of implementing the necessary system changes versus the value added
- the very wide variety of reasons for audit yield (the broad headings suggested would not appear to be granular enough to produce the desired results)
- the additional overhead for caseworkers in providing the necessary level of detail required to contribute in a meaningful way to improved case targeting.

- 16.55** Returns from letting agents are submitted manually to Revenue, and not recorded centrally. Therefore they cannot be used as an input to Revenue's risk profiling of taxpayers.

Recommendation 16.2

In order to enable it to match records from letting agents with its taxpayer records efficiently, Revenue should consider providing a facility for the electronic filing of returns from letting agents by way of the Revenue On-Line System (ROS).

Accounting Officer's response

Agreed. Revenue will consider providing the facility for the electronic filing of returns from letting agents via ROS. This particular return, Form 8-3, is one of a number of third party returns that are required to be filed annually. It seems practical, when considering the ROS filing approach, that Revenue consider a generic ROS filing option for all mandatory third-party returns. This will have resource implications both for ROS and for the systems where the data on these returns will be stored. The timeframe in which such a development can be delivered will be determined following a scoping exercise which will be carried out as soon as resources permit.

As always when considering a new development, Revenue will also examine whether the business process can be streamlined.

Other Matters

17 Accounts of the National Treasury Management Agency

- 17.1** Section 12 of the National Treasury Management Agency Act 1990 (the Act) requires the National Treasury Management Agency (the NTMA) to keep accounts of all moneys it receives or expends in the form approved by the Minister for Finance, 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.
- 17.2** 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 NTMA each year. This is the report for 2013 under that section of the Act.

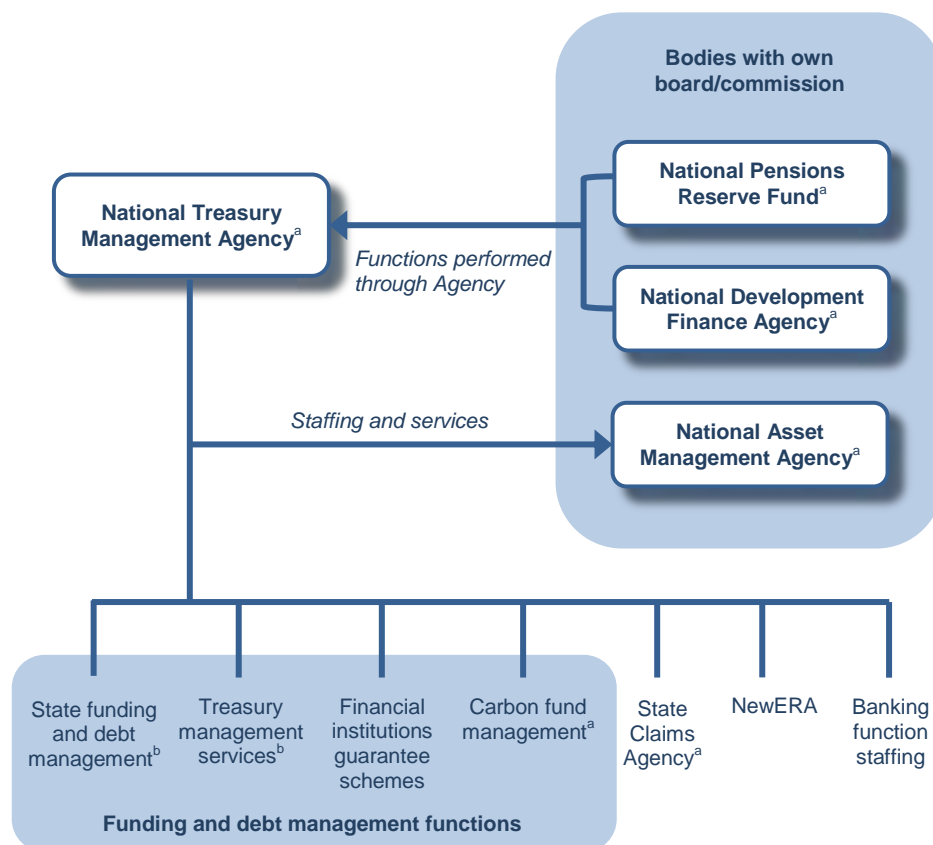
Accounts of the NTMA 2013

- 17.3** The accounts of the NTMA for 2013 have been audited. My reports on the audits were issued in June 2014. Copies of the accounts, together with my reports on the audits, were presented by the Minister to the Houses of the Oireachtas on 28 July 2014.
- 17.4** I am satisfied that the accounts properly present the transactions of the NTMA for 2013 and its balances at year-end.
- 17.5** The accounts audited under Section 12 of the Act (as amended) are as follows
- National Debt of Ireland
 - National Treasury Management Agency administration account
 - Post Office Savings Bank Fund financial statements
 - State Claims Agency financial statements
 - Small Savings Reserve Fund account.
- 17.6** In accordance with Section 12 of the Act (as amended), the accounts of the NTMA are required to note a record of expenses incurred by it in relation to the
- National Pensions Reserve Fund
 - National Development Finance Agency
 - National Asset Management Agency.

Functions, Roles and Staffing of the NTMA

- 17.7 The NTMA is a complex organisation with multiple functions and roles that now extend beyond its original function of managing Ireland's national debt. A summary of the NTMA's main functions and roles is outlined in Figure 17.1.

Figure 17.1 Main functions and roles of the National Treasury Management Agency



Source: National Treasury Management Agency

Notes: a Separate financial statements are prepared for each of these bodies/functions.

b In the case of State funding and debt management and treasury management services, separate financial statements are prepared for the Dormant Accounts Fund, the Small Savings Reserve Fund, the Post Office Savings Bank Fund, the Capital Services Redemption Account and the National Debt.

Funding, Debt and Treasury Management

- 17.8 The NTMA borrows on behalf of the Exchequer and manages Ireland's national debt. At the end of 2013, this amounted to €173.9 billion (2012: €137.6 billion) after taking account of cash and other financial assets.
- 17.9 Details of the structure of the national debt are included in chapter 2 which deals with trends in Government debt.

17.10 The NTMA performs a number of other debt management and treasury functions, including

- treasury operations for the National Asset Management Agency (NAMA), the National Pensions Reserve Fund (NPRF) and the Irish Bank Resolution Corporation Limited (in special liquidation) (IBRC)
- providing a central treasury service for State bodies and local authorities
- managing the assets of the Dormant Accounts Fund and the Post Office Savings Bank Fund
- overseeing the Small Savings Reserve Fund and the Capital Services Redemption Account.¹

Financial Institutions Guarantee Schemes

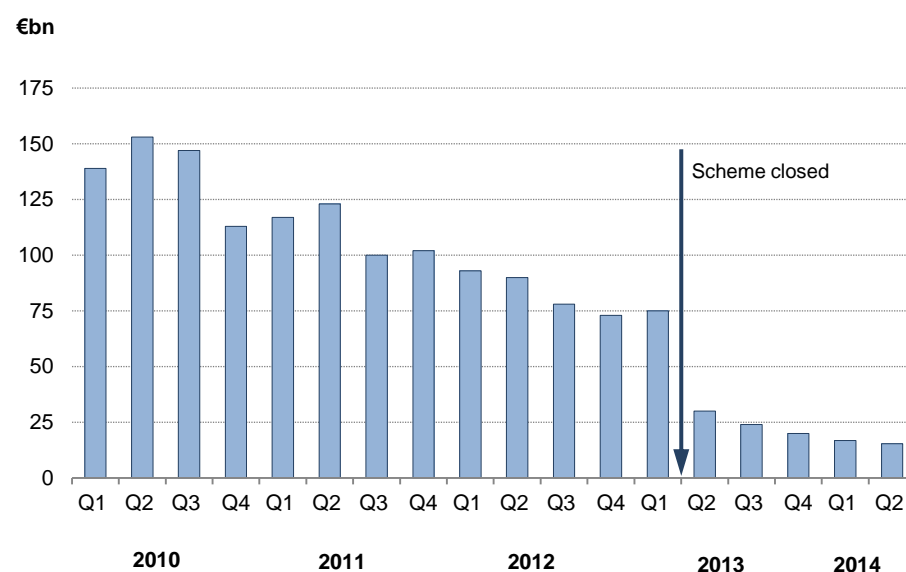
17.11 Under the Credit Institutions (Eligible Liabilities Guarantee) Scheme 2009 certain eligible liabilities, including deposits and debt securities of up to five years maturity in participating institutions are guaranteed by the Minister. The NTMA was appointed as scheme operator by the Minister for Finance.² In addition, the Minister delegated the following functions to the NTMA in 2013³

- verification of claims for payment in respect of a deed of guarantee made on 29 November 2010 in relation to certain derivative contracts entered into by IBRC
- payment of amounts due under the deed of guarantee.

17.12 A fee is payable by each participating institution with guaranteed liabilities. The Accounting Officer of the Department of Finance is accountable for the fees received.

17.13 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 (see Figure 17.2).

Figure 17.2 Covered liabilities under the Eligible Liabilities Guarantee Scheme, 2010 – 2014



¹ The report on the audit of the Capital Services Redemption Account, audited under section 22 of the Finance Act 1950, issued on 28 June 2014.

² Statutory Instrument No. 490 of 2009.

³ Statutory Instrument No. 85 of 2013.

- 17.14** A number of claims under the scheme were made following the liquidation of IBRC in February 2013. Total claim payments at 31 December 2013 were €998 million (€934 million for bonds and €64 million for deposits). Payments for the first six months of 2014 in respect of IBRC deposits amounted to €61 million.¹
- 17.15** At 31 December 2013, derivative-related payments totalling €37.5 million had also been made by the NTMA as a result of the liquidation of IBRC. All liabilities under the IBRC deed of guarantee have now been settled.

Carbon Fund Management

- 17.16** The NTMA administers the purchase of carbon credits required to meet Ireland's climate change obligations through the Carbon Fund, which was established by the Carbon Fund Act 2007. However, the purchase of carbon credits has been suspended since February 2009. At the end of 2013, the Carbon Fund held assets with an acquisition value of €99 million (2012: €99 million).
- 17.17** 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 Act (as amended). The financial statements of the Carbon Fund are audited under the Carbon Fund Act 2007.²

State Claims Agency

- 17.18** The NTMA manages personal injury, property damage and clinical negligence compensation claims on behalf of certain State authorities. When performing those functions, the NTMA is known as the State Claims Agency (SCA). The cost of settling the claims that were outstanding at 31 December 2013 has been estimated by the NTMA at €1.2 billion (2012: €1.1 billion).
- 17.19** Awards and associated claim costs of the SCA in 2013 amounted to just under €140 million (2012: €100 million). These costs are recoupable from the relevant State authorities availing of SCA services. In addition, the NTMA incurred €11.5 million in administrative costs in the performance of its SCA functions. These administrative costs are included in the administration expenses of the NTMA and are charged on the Central Fund.

NewERA

- 17.20** The New Economy and Recovery Authority (NewERA) was initially set up within the NTMA on a non-statutory basis following a Government announcement in September 2011.
- 17.21** Expenditure incurred by the NTMA in 2013 in relation to NewERA functions was mainly in relation to the provision and/or procurement of ³

¹ While the NTMA processed the payments, they are reflected in the Finance Accounts.

² The report on the audit of the Carbon Fund was issued on 27 June 2014.

³ The costs of NewERA functions are not separately disclosed in the NTMA's administration account.

- financial and commercial advice to Government in relation to the proposed disposal of State assets, including the sale by Ervia (formerly Bord Gáis Éireann) of its Bord Gáis Energy business
- corporate finance and governance advice in relation to the governance and financial and commercial aspects of certain State bodies/assets
- advice in relation to activities to facilitate investment in economic infrastructure.

17.22 The National Treasury Management Agency (Amendment) Act 2014¹ will establish the NewERA functions on a statutory basis. These functions will include provision of financial and commercial advisory services to a relevant Minister of Government in respect of a designated body under his/her remit or in relation to any other State body or assets held.² The relevant Ministers will retain their current responsibilities and shareholdings in such bodies. The financial and commercial advisory services will (inter alia) cover the following matters

- exercise of rights attaching to shares held by a relevant Minister in a designated body
- corporate governance
- financial and commercial operation
- protecting, enhancing or realising value of any interest held
- corporate strategy and capital and investment plans
- acquisitions, disposals, reorganisations and restructurings
- appointment and remuneration of the chairperson, members, directors or chief executive.

17.23 NewERA may also, in consultation with Ministers of the Government, develop proposals for investment in specified key economic infrastructure sectors in order to support economic activity and employment.

Banking System Functions Staffing

17.24 In March 2010, the Minister delegated certain banking system functions to the NTMA.³ The delegation related, in particular, to management of the State's interest in the credit institutions covered by the banking guarantees and the negotiation of capital support to those institutions. The delegation was revoked in August 2011⁴ and the NTMA's Banking Unit has since then been seconded to the Department of Finance.

17.25 At the direction of the Minister, costs of the Banking Unit, comprising staff costs and certain consultancy costs, continue to be met by the NTMA. The level of costs incurred is not disclosed separately in the NTMA's administration account or in the allied services note of Vote 7 for the Office of the Minister for Finance.

National Pensions Reserve Fund

17.26 The NTMA is Manager of the National Pensions Reserve Fund (NPRF). The legislative remit for the NPRF allows the Minister for Finance to direct the NPRF Commission to make certain investments and certain payments to the Exchequer.⁵ The NPRF held net assets of €19.9 billion at the end of 2013. The net assets comprised €6.8 billion in the discretionary portfolio and €13.1 billion in the directed investments portfolio.⁶

17.27 The NTMA incurred costs of €3.9 million in its role of Manager of the Fund. This is disclosed in the NTMA's administration account but is not recouped by the NTMA.

17.28 The National Treasury Management Agency (Amendment) Act 2014 provides for the establishment of the Ireland Strategic Investment Fund (ISIF) which will absorb the assets of the NPRF. The funds in the NPRF discretionary portfolio will be made available for investment on a commercial basis in a manner designed to support economic activity and employment in the State.

1 Enacted in July 2014. The Act will come into operation by Ministerial Order of the Minister for Finance.

2 Currently, the designated bodies are the Electricity Supply Board, Eirvia, Bord na Móna plc, Coillte Teoranta, EirGrid plc, Irish Water and any subsidiaries or any company in which such a designated body has an interest.

3 Statutory Instrument No. 115 of 2010.

4 Statutory Instrument No. 395 of 2011.

5 National Pension Reserve Fund Act 2000.

6 The report on the audit of the NPRF issued on 28 June 2014.

National Development Finance Agency

- 17.29** The National Development Finance Agency (NDFA) is the statutory financial advisor to State authorities in respect of all public investment projects with a capital value over €20 million. It also has responsibility for the procurement and delivery of public private partnership projects in sectors other than transport and the local authorities and the direct procurement of certain education projects.
- 17.30** The NDFA performs its functions through the NTMA. Fees and expenses incurred by the NDFA in the performance of its financing and advisory functions amounted to €5.7 million in 2013. These expenses are recoupable from the relevant State authorities availing of NDFA services. A further €7.1 million was incurred by the NTMA in the performance of its other NDFA functions. This is disclosed in the NTMA's administration account but is not recouped by the Agency.¹

National Asset Management Agency

- 17.31** The NTMA assigned staff and provided services to the National Asset Management Agency (NAMA) during 2013 for which a cost of €40.8 million (2012: €36.9 million) was incurred and recharged to NAMA.²
- €33.6 million (2012: €30.2 million) was incurred in respect of staff costs. This comprised €31.1 million for staff directly employed by the NTMA and assigned to NAMA (331 at 31 December 2013), and €2.5 million in respect of the apportioned cost of NTMA employees operating shared services including IT, human resources and finance.
 - €7.2 million in respect of other costs incurred by the NTMA, including rent, office services and consultancy costs.³

¹ The report on the audit of the NDFA issued on 27 June 2014.

² The total administrative costs of NAMA were €124 million in 2013 (€119 million in 2012).

³ See NAMA financial statements 2013. The report on the audit of NAMA issued on 9 May 2014.

NTMA Staff Distribution

- 17.32** Staff numbers in the NTMA continue to rise as a result of the NTMA's additional responsibilities. At end 2013, staff numbers totalled 657 (2012: 500). The assignment of staff to the various functions of the NTMA at end-2012 and 2013 is set out in Figure 17.3.

Figure 17.3 NTMA staffing distribution at end-December 2012 and 2013

	2012	2013
Programme areas		
Funding and debt management	14	15
State Claims Agency	69	77
NewERA	12	13
Banking Unit ^a	12	14
National Pensions Reserve Fund	13	15
National Development Finance Agency	44	52
National Asset Management Agency	224	331
Support services		
Finance, Technology and Risk	74	98
HR and Corporate Services	8	10
Legal, Control and Compliance	16	18
Other	14	14
Total	500	657

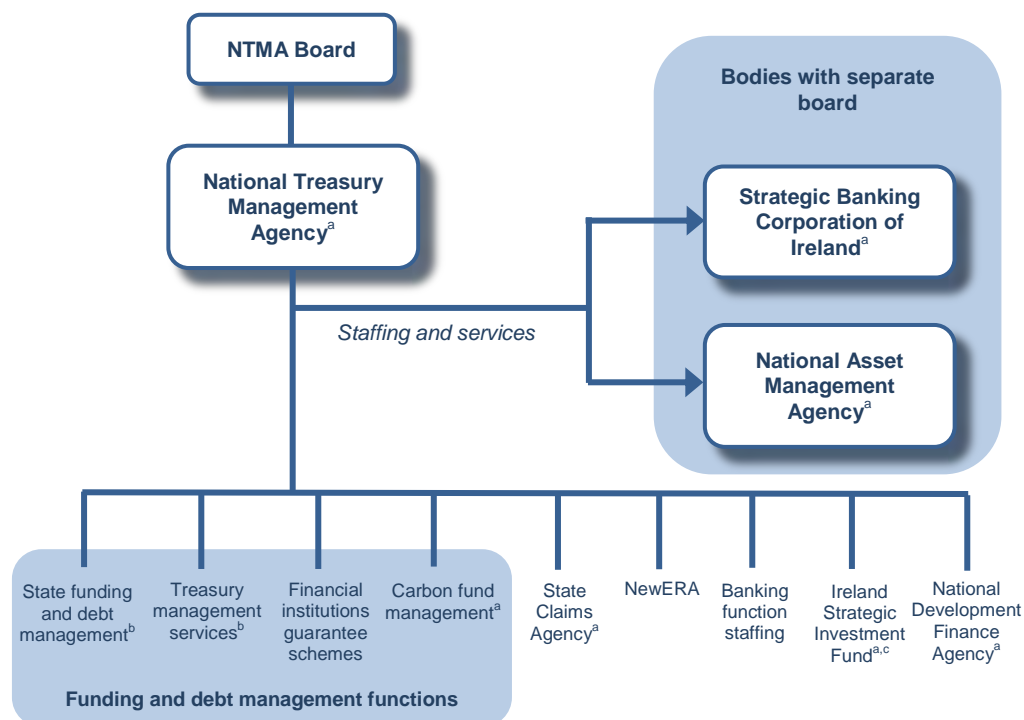
Source: National Treasury Management Agency

Note: a On secondment to the Department of Finance.

Structure of the NTMA

- 17.33** The Chief Executive of the NTMA reports directly to the Minister. The NTMA currently operates without a board but has an Advisory Committee to assist and advise on matters the NTMA refers to the Committee.
- 17.34** As outlined earlier, the National Treasury Management Agency (Amendment) Act 2014 provides for restructuring of the NTMA's functions. It also proposes a revised corporate governance structure for the NTMA and establishment of a new overarching Board. In addition to its existing functions, the NTMA will be directly responsible for ISIF and NewERA, and the functions of the NDFA. This will involve the dissolution of the NPRF Commission and the NDFA Board. The reorganisation of the services will require restructuring of the financial statements and accounts.
- 17.35** The Strategic Banking Corporation of Ireland Act 2014 provides for the formation of the Strategic Banking Corporation of Ireland which will make credit available within the State.¹ The NTMA will assign staff and provide certain services to the Strategic Banking Corporation of Ireland. However, the corporation is a separate legal entity to the NTMA.
- 17.36** The revised functions and roles of the NTMA, following these amendments, are outlined in Figure 17.4.

¹ Enacted and commenced in July 2014.

Figure 17.4 Revised functions and roles of the National Treasury Management Agency

Source: National Treasury Management Agency

- Notes:
- a Separate financial statements will be prepared for each of these bodies/functions.
 - b In the case of State funding and debt management and treasury management services, separate financial statements will continue to be prepared for the Dormant Accounts Fund, the Small Savings Reserve Fund, the Post Office Savings Bank Fund, the Capital Services Redemption Account and the National Debt.
 - c Formerly National Pensions Reserve Fund. Financial statements for the NPRF will continue to be prepared until all assets are transferred to the Ireland Strategic Investment Fund.

Conclusion

- 17.37** The NTMA has evolved into a complex organisation with consequent complex financial reporting, and the development of variation in the level of disclosure about the costs of the different services and functions within the NTMA's remit. In some cases, the full costs of individual services and functional areas are disclosed in the financial statements. In other cases, full costs are not disclosed. This is not consistent with the movement that is occurring more generally towards programme-based accounting for public services.
- 17.38** The 2014 Act will result in a substantial reorganisation and re-orientation of functions, with significant implications for the scope and format of the financial statements. This presents an opportunity for the NTMA to eliminate anomalies and to streamline its financial reporting.

Recommendation 17.1

In the context of the reformatting of the NTMA's financial statements, a consistent approach should be taken to disclosure of the overall costs associated with each of the key services and functions the NTMA undertakes.

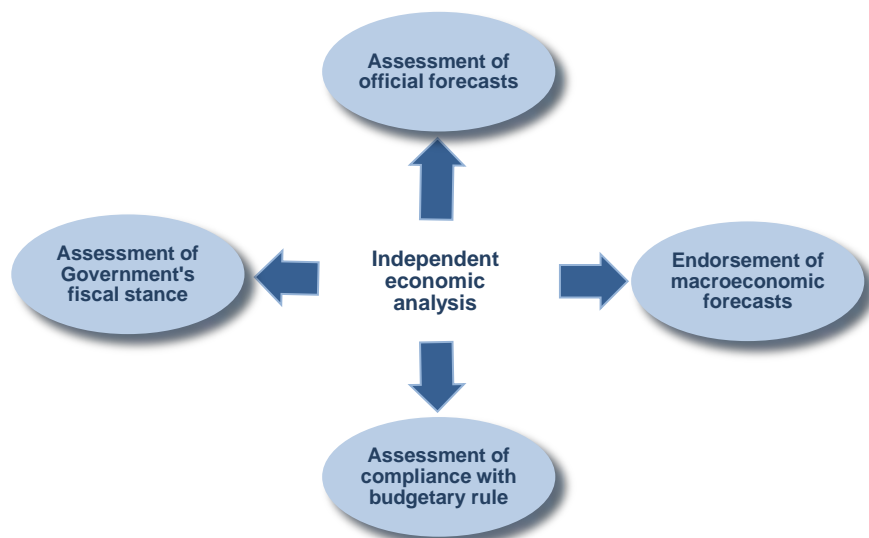
Chief Executive's response

The NTMA discloses administrative costs in accordance with its statutory obligations. These require separate disclosure where the NTMA is acting as agent of a separate corporate entity. The NTMA (Amendment) Act 2014 will change the basis of this agency relationship and bring these functions directly under the management of the NTMA and its new overarching Board. In this context, I will bring the recommendation to the attention of the incoming Board.

18 Irish Fiscal Advisory Council

- 18.1** The Irish Fiscal Advisory Council was set up on an interim basis in July 2011. In January 2012, the interim Council published a paper that it had commissioned from an independent consultant, providing guidance on the design of fiscal rules for Ireland.¹ In the same month, it published a report which commented on Department of Finance proposals for the design of fiscal rules and the establishment of a permanent independent fiscal advisory council.² That report was prepared in the context of ongoing debate around the provisions of the Fiscal Responsibility Bill.³
- 18.2** The Fiscal Council was formally established as an independent statutory body under the Fiscal Responsibility Act 2012 (the Act) with effect from 31 December 2012. The overall purpose of the Fiscal Council is to provide independent assessments of the Government's budgetary plans and projections and to inform public discussion of economic and fiscal matters.
- 18.3** The functions of the Fiscal Council are summarised in Figure 18.1. It is charged with
- assessing the official forecasts produced by the Department of Finance (the Department) in spring and autumn each year⁴
 - assessing whether the fiscal stance of the Government is conducive to prudent economic and budgetary management with reference to the EU Stability and Growth Pact⁵
 - monitoring and assessing whether the general government budgetary position is either in balance or in surplus, or is moving at a satisfactory pace towards that condition (the 'budgetary rule' as set out in the Act), and assessing whether any non-compliance is as a result of exceptional circumstances
 - endorsing, as it considers appropriate, the macroeconomic forecasts prepared by the Department, on which the budget and stability programme update are based.

Figure 18.1 Functions of the Irish Fiscal Advisory Council



¹ *Fiscal Rules for Ireland*, Robert Hagemann, 2012.

² *Strengthening Ireland's Fiscal Institutions*, 2012.

³ In addition, the interim Council produced three fiscal assessment reports over the period to end-December 2012.

⁴ 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.

⁵ The Stability and Growth Pact is a rule based framework for the coordination of national fiscal policies in the European Union.

Staffing

- 18.4** The Fiscal Council consists of five members, including the Chair. Appointments are made by the Minister for Finance with the term of office generally being four years.¹ Council members may not serve for more than two consecutive terms. The Council was supported by three full-time staff during its interim phase. There are currently five staff, comprising the head of the secretariat, three economists and an administrator.

Funding

- 18.5** Prior to its establishment on a statutory footing, funding for the Council was by way of a grant from the Department. The Council's administrative and banking services were provided by the Economic and Social Research Institute (ESRI) and its income and expenditure were set out in annual reports of the ESRI.
- 18.6** The Act prescribes that the Fiscal Council is to be funded from the Central Fund, subject to an annual ceiling of €800,000 (inflation-indexed).
- 18.7** Expenditure of the Council totalled about €481,000 in 2013, almost half of which was accounted for by the salary costs of staff seconded from other organisations. The largest element of the Council's non-pay administration expenditure was a payment of about €104,000 to the ESRI in respect of accommodation costs and support services. Fees and expenses paid to Council members during 2013 totalled just over €68,000.²

Accounts of the Fiscal Council

- 18.8** The Chair of the Council is the officer accountable for the preparation and presentation of the financial statements for audit. Sections 10 (1) to 10 (3) of the schedule to the Act require the Fiscal Council to keep accounts of receipts and expenditure in the form approved by the Minister for Finance, and to submit them for audit by the Comptroller and Auditor General. Following completion of the audit, the Fiscal Council must give a copy of the accounts to the Minister, who in turn must lay the accounts before the Houses of the Oireachtas.
- 18.9** Separately, section 10 (4) of the schedule to the Act requires the Comptroller and Auditor General to report to Dáil Éireann with respect to the correctness of the sums brought to account by the Fiscal Council each year. This is the report for 2013 under that section.
- 18.10** The accounts of the Fiscal Council for 2013 have been audited. My report on the audit was issued on 29 July 2014. The accounts have been presented to the Minister who laid copies of them before both Houses of the Oireachtas on 11 August 2014.
- 18.11** I am satisfied that the accounts properly present the transactions of the Fiscal Council for 2013 and its balances at year end.

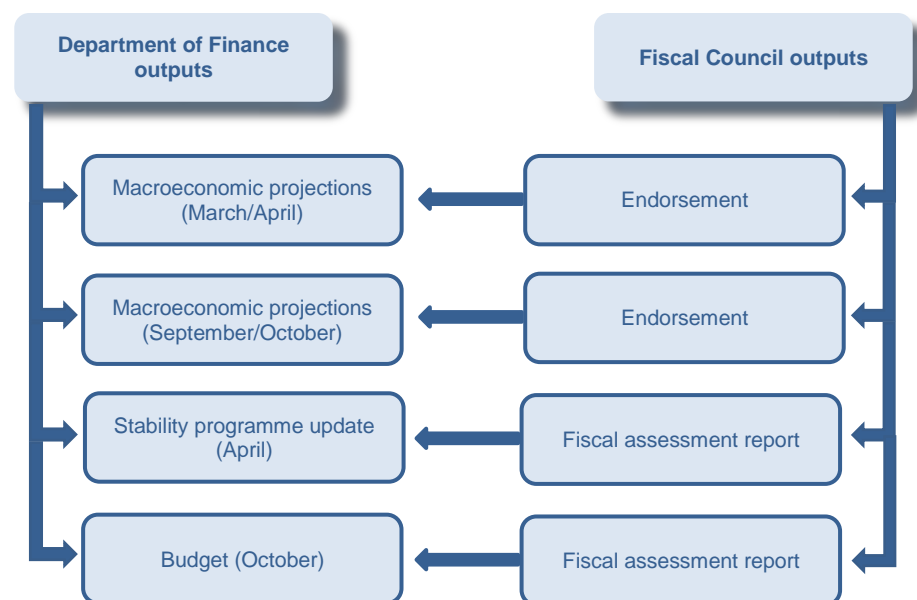
¹ The terms of office for the initial Council members vary between two and four years to ensure that future appointments are staggered.

² This figure includes Employers' PRSI of €3,860.

Activity of the Council

- 18.12** Figure 18.2 shows the typical annual outputs of the Council, which are produced in response to Department of Finance outputs.

Figure 18.2 Irish Fiscal Advisory Council outputs



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

- 18.13** The Council can also produce stand-alone reports on themes related to its mandate.

Endorsements

- 18.14** Under the Act as originally passed, the Fiscal Council carried out assessments of the Department's macroeconomic forecasts but there was no obligation on the Department to take the Council's assessments of those forecasts into account.
- 18.15** The endorsement function was added to the Fiscal Council's mandate by way of an amendment to the Act in July 2013. This reflected an agreement at European level that stability programme updates and budgets should be based on macroeconomic forecasts produced or endorsed by an independent body.¹
- 18.16** The aim of the endorsement process is to ensure that forecasts are unbiased and as accurate as possible. The Fiscal Council has developed its own forecasting methods and analytical capacity in order to provide a benchmark set of projections against which to judge the Department's forecasts.
- 18.17** A memorandum of understanding has been agreed between the Council and the Department in respect of the endorsement function.² The agreement includes details on the coverage of the macroeconomic forecasts endorsed, the information requirements and the approach to be followed.

¹ Regulation (EU) No 473/2013 of the European Parliament and of the Council, of 21 May 2013.

² The memorandum of understanding is available to download at www.fiscalcouncil.ie and www.finance.gov.ie

- 18.18** Each endorsement is issued by way of a formal letter to the Secretary General of the Department, no later than five working days prior to publication of the related stability programme update or budget. In the event that the Council concludes that it is not in a position to endorse the macroeconomic forecasts, it is required to provide a letter setting out the reasons for non-endorsement no later than five working days prior to issue of the stability programme update or of the budget.
- 18.19** The first endorsement exercise carried out by the Fiscal Council, following the extension of its mandate, related to the macroeconomic forecasts underlying Budget 2014. The letter of endorsement was issued by the Chair of the Council to the Secretary General of the Department on 4 October 2013.
- 18.20** In April each year, EU member states are required to submit stability programme updates to the European Commission, including an update on the economic and fiscal outlook covering the short and medium term. On 7 April 2014, the Fiscal Council endorsed the macroeconomic forecasts for the years 2014 to 2018 underlying Ireland's stability programme update.

Fiscal Assessment Reports

- 18.21** The Council produces fiscal assessment reports in respect of the Department's macroeconomic and budgetary forecasts underlying the stability programme update (in April) and the budget (in October). The Act requires that fiscal assessment reports prepared by the Council are copied to the Minister for Finance and subsequently published within ten days.
- 18.22** Six assessment reports have been produced and published on the Council's website up to June 2014. All of the assessment reports have found the Government's macroeconomic forecasts and budgetary projections to be broadly appropriate and its fiscal stance to be conducive to prudent economic and budgetary management. The reports do not refer to any instances of non-compliance with the budgetary rule.
- 18.23** The most recent fiscal assessment report was published by the Council in June 2014 (see Figure 18.3).

Figure 18.3 Fiscal assessment report, June 2014 – key findings

- Significant progress has been achieved in resolving Ireland’s fiscal crisis, though challenges remain.
- The planned €2 billion adjustment for Budget 2015 should be implemented.
- While the Council assesses the Government’s fiscal stance to be prudent and compliant with the fiscal rules, the commitment to target a balanced budget in structural terms by 2018 has costs.
- Ireland’s fiscal framework has been strengthened and the Government has made a strong commitment to respect this new framework.
- Medium-term fiscal adjustment plans imply a sustained fall in non-interest government spending (i.e. excluding national debt interest payments) as a share of GDP.
- The prolonged tight spending plans will be difficult to achieve given demand pressures and rigidities in certain areas of expenditure.
- The Fiscal Council has endorsed the macroeconomic forecasts underlying the stability programme update for 2014.
- Budget projections are assessed to be appropriate.

Other Publications

- 18.24** In September 2013, the Council published a working paper that presented an overview of the Government’s financial position and considered the evolution of the State’s financial assets and liabilities since the start of the financial crisis in 2008.¹

¹ *The Government’s Balance Sheet after the Crisis: A Comprehensive Perspective*, Sebastian Barnes and Diarmaid Smyth, 2013.

