

4 Re-allocation of voted funding

- 4.1** The Oireachtas allocates funding in the annual Appropriation Act by specifying the general nature of the services to be funded under each vote, in what is referred to as the 'ambit' of the vote (set out in the schedule to the Act). The Act does not give legal effect to the various programmes and subheads set out in the second part of each vote estimate, on the basis that to do so would almost certainly result in considerable overestimation and disrupt the smooth working of the financial system. For practical reasons, the Minister for Public Expenditure and Reform has discretion to vary the allocations between subheads within an individual vote.
- 4.2** The Department of Public Expenditure and Reform has set out extensive guidance on the principles and procedures for managing and accounting for voted expenditure in a publication called *Public Financial Procedures*. This states that the use of any savings or underspending emerging on one subhead to increase expenditure on another subhead
- “... should not be taken as a matter of course. The Exchequer has first claim on any savings on a vote and in the normal case Departments are expected to surrender such savings rather than retain them for allocation to other items of expenditure, except where prior approval of the Department [of Public Expenditure and Reform] has been obtained”.*
- 4.3** There are two formal mechanisms in place to allow for voted funding to be re-allocated between subheads (and programmes) during the fiscal year. These are the passing of a (technical) supplementary estimate by Dáil Éireann; and specific approval by the Department of Public Expenditure and Reform for the transfer, under a process called 'virement' (see Figure 4.1).

Figure 4.1 Mechanisms for re-allocation of vote funding

Dáil Éireann

Application can be made to Dáil Éireann for a 'technical' supplementary estimate, which re-allocates funding without necessarily increasing the overall funding provided for the vote.

Department of Public Expenditure and Reform

Application can be made to the Department of Public Expenditure and Reform for permission to re-allocate the funding between subheads, referred to as 'virement'. The Department may decide to refuse such virement for a number of reasons, including if the additional expenditure would be large in relation to the original provision in the subhead. In the event of such a refusal, a supplementary estimate would require to be taken.

- 4.4 The Department's guidelines about how virement works are clear.

“The prior approval of the Department [of Public Expenditure and Reform] should always be obtained when virement is proposed. If there is doubt as to the actual amount involved, the proper procedure is for the Department concerned to apply to the Department [of Public Expenditure and Reform] for provisional sanction when it becomes clear there will be an excess on a subhead which can be met from savings on another subhead. The definitive sanction should be sought when the appropriation accounts have been prepared and the actual amounts involved are known.”

- 4.5 As vote holders operate mainly on a cash basis, they should normally be able to identify savings emerging on a subhead — and thus available to meet excess spending on another subhead — before year end. However, *Public Financial Procedures* anticipates that the final amounts required may not be known at that stage, and so provide for provisional sanction to be sought before the year end.
- 4.6 The *Public Financial Procedures* acknowledges that the exercise of discretion by the Department of Public Expenditure and Reform in sanctioning virement may be inquired into by the Committee of Public Accounts, which may decide to report to Dáil Éireann any particular cases where it considers the approval of the Dáil for the re-allocation of funding should have been sought.

Purpose of this report

- 4.7 In the course of audit of the appropriation accounts for 2021, a number of cases were identified where there was substantial re-allocation of voted funding from one or more programme subheads to other subheads, but where the procedures prescribed in *Public Financial Procedures* did not appear to have been complied with. The circumstances of a number of these cases are outlined below, to illustrate the concerns that arise.

Vote 9 Office of the Revenue Commissioners

- 4.8 The estimate for Vote 9 Office of the Revenue Commissioners provided for spending of up to €501 million in 2021. This included approved appropriations-in-aid totalling €59 million.¹ In August 2021, the Department of Public Expenditure and Reform wrote to Revenue in relation to delegated sanction for 2021 current expenditure. The letter states that *‘savings arising from any subhead on your Office’s Vote should be surrendered to the Exchequer in the first instance. Requests for virement will only be considered in exceptional circumstances and does not apply between pay and non-pay subheads’*.

¹ Certain receipts arising in the normal course of a department's or office's ordinary business may be retained to meet expenditure under the vote, instead of being paid directly into the Exchequer. These receipts are known as 'appropriations-in-aid'.

- 4.9** Excess expenditure was incurred on a number of Vote 9 subheads, without recourse to a supplementary estimate, on the basis that savings totalling €13.7 million were available to meet the excesses, as follows.

Source of savings	Applied to cover excess spending
Subhead A1 Salaries wages and allowances €9.1 million	<ul style="list-style-type: none"> ▪ €6.4 million excess on subhead A3 — Training and development and other day-to-day expenses ▪ €2.2 million excess on subhead A5 — Office equipment and external IT services ▪ €0.5 million excess on subhead A4 — Postal and telecommunications services.
Non-pay subheads — various €4.6 million	<ul style="list-style-type: none"> ▪ €3.7 million excess on subhead A5 — Office equipment and external IT services ▪ €0.5 million excess on subhead A10 — Compensation and losses ▪ €0.3 million excess on subhead A8 — Motor vehicles and equipment maintenance ▪ €0.08 million excess on subhead A7 — Consultancy services and value for money and policy reviews.

- 4.10** Revenue did not apply to the Department of Public Expenditure and Reform for provisional sanction for the re-allocation until 8 February 2022. After receiving provisional sanction on 14 February, Revenue applied for definitive virement sanction on 23 March. The Department of Public Expenditure and Reform provided sanction on an exceptional basis on 24 March. The appropriation account for Vote 9 was signed by the Accounting Officer on 31 March 2022.
- 4.11** During the audit of the appropriation account, it was found that the analysis supporting the virement application was incomplete. Expenditure of €2.1 million under subhead A.5 Office equipment and external IT services was found to have been incorrectly classified. When the misclassification was corrected, additional savings had to be identified from outside the subhead.
- 4.12** As a result, the Office of the Revenue Commissioners had to apply to the Department of Public Expenditure and Reform for sanction to re-allocate an additional €2.1 million from the pay subhead. The Department of Public Expenditure and Reform granted an amended sanction on 6 September 2022, for a total of €15.8 million. This comprised €11.2 million from the pay subhead and €4.6 million from non-pay subheads. The sanction letter emphasised that the re-allocation of funds from pay to non-pay was being allowed on an exceptional basis.

Vote 33 Tourism, Culture, Arts, Gaeltacht, Sport and Media

- 4.13** The estimate for Vote 33 Tourism, Culture, Arts, Gaeltacht, Sport and Media provided (in subhead E.6) a 2021 allocation for a contribution to the Broadcasting Fund of €16.9 million. The outturn in the 2021 appropriation account was €23.6 million.
- 4.14** In order to make the additional contribution to the Broadcasting Fund, the Department for Tourism, Culture, Arts, Gaeltacht, Sport and Media sought sanction for virement of €8.1 million, on the basis it was required “to meet emerging pressures under this subhead in relation to the Sound and Vision fund”. The savings identified were from the following subheads
- €5.5 million from B.5 Concert Hall and the Crawford Gallery
 - €1.7 million from B.8 Culture Ireland
 - €0.9 million from B.15 Decade of Centenaries.
- 4.15** In the accounts of the Broadcasting Fund, the €8 million additional transfer has not been recognised as 2021 income, and has been treated instead as deferred income. The funding was unspent at the end of 2021.
- 4.16** A supplementary estimate for Vote 33 was approved by Dáil Éireann on 8 December 2021. This provided an additional €35 million in funding for the sports programme. None of the other programmes in the Vote were adjusted in the supplementary estimate.
- 4.17** The Department of Public Expenditure and Reform issued provisional sanction on 16 December 2021 for the transfer of savings. Final sanction was given for this transfer on 13 May 2022, after the appropriation accounts had been signed.
- 4.18** In this case, the virement of savings was sanctioned as required. However, *Public Financial Procedures* points out that
- Doubt will occasionally arise as to whether an item of expenditure should be covered by virement or by a supplementary estimate. The Department [of Public Expenditure and Reform] may decide to refuse virement if, in its view, the additional expenditure would [inter alia] ... be large in relation to the original provision in the subhead.*
- 4.19** The amount of the virement was equivalent to 48% of the value of the original estimate for subhead E.6 and was approved by the Department within days of a supplementary estimate being approved by Dáil Éireann for that particular Vote.

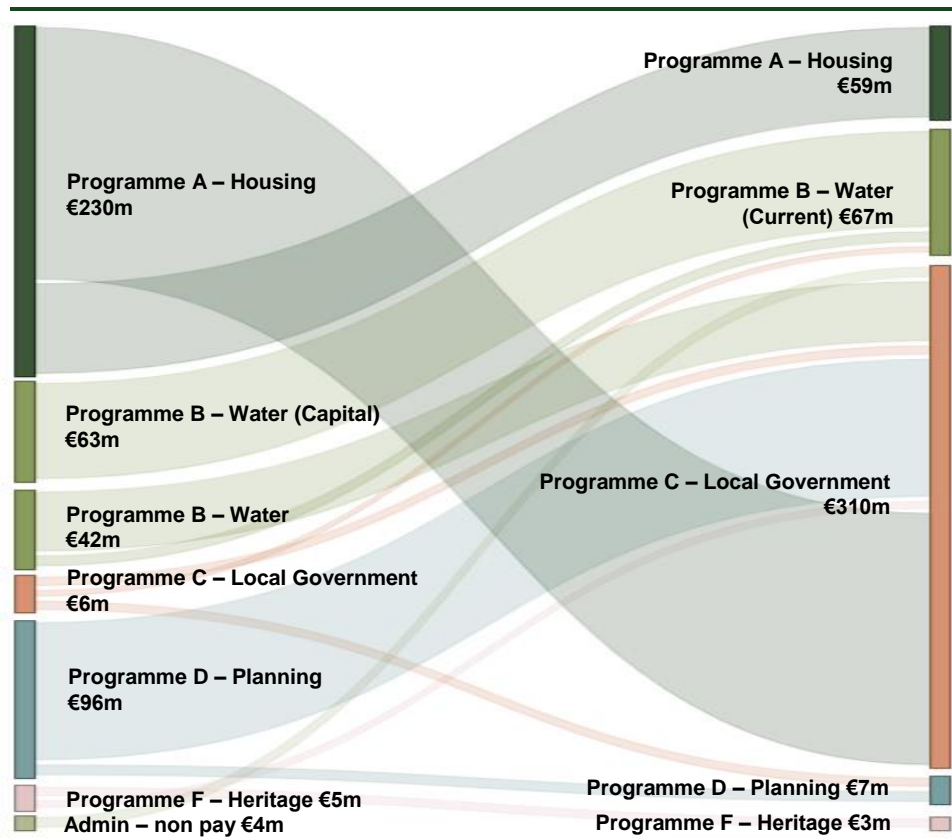
Vote 34 Housing, Local Government and Heritage

- 4.20** The Department of Public Expenditure and Reform has confirmed that it has agreed informally with the Department of Housing, Local Government and Heritage that the latter was not required to seek prior provisional sanction for virement of amounts up to €3 million from an individual subhead. There is no cumulative limit in place. The Department of Housing is required to compile a record of the funding transfers proposed under this arrangement, and to submit this record to the Department of Public Expenditure and Reform before the relevant year end. The reason advanced for the granting of this derogation from the arrangements set out in the *Public Financial Procedures* was “... to ease the administration burden on both Departments”.

4.21 The revised 2021 estimate for Vote 34 Housing, Local Government and Heritage provided funding of €5.1 billion for the specified services.¹ In addition, there was a capital carryover provision from 2020 of €214 million.^{2,3} A supplementary estimate approved by Dáil Éireann on 8 December 2021 provided an additional €199 million mainly for Covid-19 supports to local authorities. This brought the 2021 gross expenditure provision for the Vote to €5.5 billion — €2.5 billion current and €3 billion capital.

4.22 Separate from the supplementary estimate, funding of €446 million was transferred from vote subheads where savings had emerged to subheads where there was excess spending (see Figure 4.2).

Figure 4.2 Vote 34 Housing, Local Government and Heritage funding transfers 2021



1 This amount did not include the provision for appropriations in aid.

2 The Department also carried over €275.8 million of unspent capital funding from 2021 to 2022.

3 Carry over of unspent capital is provided for in Section 91 of the Finance Act 2004.

Source: Department of Housing, Local Government and Heritage. Analysis by the Office of the Comptroller and Auditor General.

Note: The movement between programmes relates to the transfer of funds across subheads under those programmes.

- 4.23** The amount transferred within Vote 34 under the delegated virement arrangement was around €5.4 million. A schedule setting out details of the sums involved was submitted to the Department of Public Expenditure and Reform before year end 2021, as required.
- 4.24** In various communications and documents issued before the year end, the Department of Public Expenditure and Reform expressed its awareness of proposed transfers of savings. In some cases, specific provisional sanction was given for transfers. In addition, in the memo to Government requesting a supplementary estimate for the Department of Housing, Local Government and Heritage, reference was made to the anticipated use of savings on capital subheads, including housing, to increase funding for the local government programme. This funding was intended, together with the supplementary estimate provision, to meet the costs of Covid-19 financial supports.
- 4.25** When the schedule of amounts being transferred under the delegated virement arrangement was submitted to the Department of Public Expenditure and Reform, it included notification of the proposed virement of €310 million for the local government programme. This amount represents 79%¹ of the estimate provision.² The schedule also referred to a proposed transfer of €4 million from subhead B.4 Rural water programme to subhead B.6 Legacy water services loans. The Department of Public Expenditure and Reform did not issue provisional sanction for these proposed transfers.
- 4.26** A total of €31 million was transferred from subhead A.21 Infrastructure fund (capital) to subhead A.27 Planned maintenance (capital), with specific provisional approval of the Department of Public Expenditure and Reform. In the event, the excess expenditure on subhead A.27 Planned maintenance (capital) amounted to €19 million. The Department of Housing received approval to carry over the remaining €12 million for spending in 2022.
- 4.27** The Department of Housing sought formal sanction for the transfer of €434 million of savings on 23 June 2022 i.e. after the appropriation account for Vote 34 had been signed. The Department of Public Expenditure and Reform issued the formal sanction for the amounts sought on 27 July 2022, but reiterated the following conditions.
- Prior approval of the Department of Public Expenditure and Reform, subject to the administrative arrangements between our two departments, should always be obtained when virement is proposed.
 - The use of savings on one subhead to increase expenditure on another (whether by way of virement or supplementary estimate) should not be assumed as a matter of course.
 - All Department of Public Expenditure and Reform requirements regarding public financial procedures and procurement must be complied with.

1 Correction: There was a typographical error in the original published report. The correct percentage is now shown.

2 The estimate provision figure of €390 million includes the supplementary estimate of €197 million.

Vote 38 Health

- 4.28** The revised estimate for Vote 38 Health provided a budget of €22 billion for the Department of Health in 2021. In addition, €68 million of unspent funding from 2020 was carried over into 2021.¹
- 4.29** Excess expenditure was incurred on a number of the vote subheads, without recourse to a supplementary estimate, on the basis that savings of €593 million arising mainly from subhead J.1 — HSE (including services developments) were available to meet the excesses, as follows:
- €527 million excess on subhead J.2 HSE — Covid-19 actions
 - €55 million excess on subhead K.4 — Payments to the State Claims Agency
 - €8 million excess on subhead L.2 — Primary care reimbursement services — Covid-19 actions
 - €3 million excess on six other subheads.
- 4.30** The Department of Health did not apply for prior (provisional) sanction for the funding re-allocations to cover the excess spending. However, the Department stated that
- It provided regular expenditure updates to the Department of Public Expenditure and Reform showing significant expenditure above the level of funding provided in relation to Covid-19 responses and this was being offset by savings on core expenditure.
 - It discussed the Covid-19 overspends being offset by core underspends at the Health Budget Oversight Group during 2021.
- 4.31** The Department of Health sought Department of Public Expenditure and Reform sanction to transfer the savings on 14 April 2022 after the appropriation account had been signed. The Department of Health stated that it is common practice that sanction is only sought when the appropriation account is prepared and the Department of Public Expenditure and Reform has never raised an issue with seeking sanction in this manner.
- 4.32** The Department of Public Expenditure and Reform conveyed sanction on 23 August 2022 and noted that this sanction was provided on the understanding that
- the transfers were required to meet matured liabilities in 2021, and
 - the Department of Health is satisfied that the proposal will not give rise to a demand for additional funding in future years.

Views of the Department of Public Expenditure and Reform

- 4.33** The Department of Public Expenditure and Reform has an understandable concern to discourage and minimise the number of applications for supplementary estimates, and their quantity where they do arise. Within the overall financial parameters and where possible and appropriate, the Department is willing to consider the virement of sums from subheads to other subheads. The Department considers such cases in the context of the *Public Financial Procedures* and where it is considered proportionate to facilitate a department to deliver its policy objectives and priorities.

¹ Carry over of unspent capital is provided for in Section 91 of the Finance Act 2004.

Conclusions

- 4.34** The provisions in *Public Financial Procedures* in relation to the re-allocation of funding between vote subheads were not followed in a number of cases. Even though the guidelines emphasise that it should not be presumed that re-allocation of funds through virement would be a matter of course, in practice, this is what appears to have happened in some cases. In cases brought to light through audit, retrospective sanction has been sought and granted.
- 4.35** Some of the funding re-allocations through virement referred to above have involved very significant sums, and sums that are large by reference to the sums in the original subhead. The guidelines suggest that in such cases, best practice would require that a supplementary estimate be taken. That would allow the relevant committee of Dáil Éireann to examine the emerging savings and excess expenditures, and to consider any proposed re-allocations.
- 4.36** As a general principle, all arrangements involving the re-allocation of voted funding should be formally agreed and documented. Decisions on specific proposals for the re-allocation of voted funds should also be documented in a timely fashion. The universal availability of electronic communications means that this memorialisation of important decisions is reasonably easily achieved.