



Comptroller and Auditor General
Annual Report

**Accounts of the Public Services
2008**

Presented to Dáil Éireann pursuant to Section 3(11) of the
Comptroller and Auditor General (Amendment), Act 1993

September 2009

The report was prepared on the basis of information, documentation and explanations obtained from Government Departments and Offices referred to in the Report.

Drafts of relevant segments of the Report were sent to the Departments and Offices concerned and their comments requested. Where appropriate these comments were incorporated into the final version of the Report.

Tá leagan Gaeilge den tuarascáil seo ar fáil freisin A9/1210.

Report of the Comptroller and Auditor General on the Accounts of the Public Services – 2008

I am required under Article 33 of the Constitution to report to Dáil Éireann at stated periods as determined by law.

Under Section 3 of the Comptroller and Auditor General (Amendment) Act, 1993, I am required to report to Dáil Éireann on my audit of the Appropriation Accounts of Departments and Offices and the accounts of the receipt of revenue of the State not later than 30 September in the year following the year to which the accounts relate.

I hereby present my Report for 2008 in accordance with Section 3 of the aforementioned Act.

A handwritten signature in black ink, appearing to read 'John Buckley', with a stylized flourish at the end.

John Buckley
Comptroller and Auditor General

10 September 2009

Table of Contents

Financial Outturn	3
Vote Management	7
National Debt	11
Financial Commitments under Public Private Partnerships	21
Public Service Pensions	35
European Union – Financial Transactions 2008	41
Banking Stabilisation Measures	47
Public Procurement	61
Termination of Major ICT Projects	71
Revenue Collection	81
Revenue Checks and Investigations	95
Random Audit Programme – Revenue	105
Risk Evaluation, Analysis and Profiling in Revenue	115
Valuation Output and Performance	123
Garda Civilianisation	131
Procurement in the Irish Prison Service	143
The Criminal Courts of Justice Building	165
Digital Mapping in the Property Registration Authority	183
Investment in Carbon Credits	195
Central Government Funding of Local Authorities	207
Primary School Planning	215
Official Development Assistance	227
Metropolitan Area Networks	235
Organisational Performance in the Department of Agriculture, Fisheries and Food	243
Farm Improvement Scheme	255
Farm Waste Management Scheme Liabilities	263

West-Link Buy-Out	271
Mission to Chad.....	277
Expenditure on Social Welfare	287
Welfare Payments in Excess of Entitlement	295
Review of Welfare Overpayment Cases	303
Recording and Recovery of Welfare Overpayments.....	309
Review of Jobseeker Payments.....	317
Transfer of Welfare Functions	325
The Money Advice and Budgeting Service	333
National Treatment Purchase Fund	347
Management of Private Patient Income	363
Performance Measurement and Improvement in the HSE	377
Implementation of the Medical Consultants' Contract.....	401
The Dublin Ambulance Service	411
NTMA Functions and Performance.....	423
National Pensions Reserve Fund.....	427
Appendices.....	433

Chapter 1 Central Government

Financial Outturn

Financial Outturn

1.1 Total central government income in 2008 was €42.54 billion. The bulk of this was tax revenue of €40.78 billion. Expenditure of central government in 2008 was €55.25 billion, resulting in a net Exchequer deficit of €12.71 billion in 2008.

1.2 The overall outturn on receipts and expenditure on core central government activities is set out in Figure 1.

Figure 1 Exchequer Receipts and Expenditure, 2007 and 2008

	2007		2008	
	€bn	€bn	€bn	€bn
Receipts				
Tax Receipts		47.25		40.78
Other Receipts				
Non-Tax Revenue	0.64		0.85	
Loan Repayments	0.75		0.75	
Other Receipts	0.20	1.59	0.16	1.76
Total Exchequer Receipts		48.84		42.54
Expenditure				
Net Voted Expenditure		44.61		49.31
Other Expenditure				
Service of National Debt	1.68		1.61	
National Pensions Reserve Fund Contribution	1.62		1.69	
Payments to the EU	1.57		1.59	
Loans Issued	0.74		0.74	
Other Payments	0.24	5.85	0.31	5.94
Total Exchequer Expenditure		50.46		55.25
Surplus/(Deficit) of Receipts over Expenditure		(1.62)		(12.71)

Source: Exchequer Account 2007, 2008

1.3 The movements in the Exchequer balances associated with the central government financial outturn are set out in Figure 2.

Figure 2 Movements in Exchequer Balances, 2007 and 2008

	2007		2008	
	€bn	€bn	€bn	€bn
Exchequer Balance at 1 January				
Central Bank Exchequer Account	3.59		4.00	
Commercial Deposits	—	3.59	0.49	4.49
Movement in Year				
Net Exchequer Borrowing/(Repayments) in Year	2.52		30.28	
Surplus/(Deficit) of Receipts over Expenditure	(1.62)	0.90	(12.71)	17.57
Exchequer Balance at 31 December				
Central Bank Exchequer Account	4.00		21.27	
Commercial Deposits	0.49	4.49	0.79	22.06

Source: Finance Accounts 2007, 2008

Major Exchequer Liabilities and Assets

1.4 The Chapters that follow deal with some key long-term liabilities of the State at 31 December 2008.

- Chapter 3 indicates that the net national debt at redeemable par values stood at €50.4 billion at that date
- Chapter 4 discloses that the outstanding commitments at end 2008 prices under public private partnerships were of the order of €4.27 billion
- A further €108 billion had accrued in respect of public service pensions. This is dealt with in Chapter 5.

1.5 The value of the National Pensions Reserve Fund at 31 December 2008 measured at market prices was €16.1 billion. Chapter 42 deals with that fund.

1.6 The Finance Accounts which are separately audited disclose the detailed cashflows, assets and liabilities of central government.

Chapter 2 Central Government

Vote Management

Vote Management

2.1 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 an annual Appropriation Act.

2.2 The expenditure is provided for under a series of ‘votes’. By law, an appropriation account must be produced for each vote. The appropriation account must provide details of the outturn for the year compared against the amount provided by Dáil Éireann.

2.3 Appendix A – Figure 150 displays the amount provided (or appropriated) by Dáil Éireann under each vote for 2008. The total amount appropriated in respect of 2008 services¹ was €54.6 billion. This comprised

- supply grants totalling €0.05 billion
- appropriations-in-aid which are receipts that may be retained and used to meet the expenses of the relevant vote totalling €4.47 billion
- a total of €126 million in capital funding provided but not spent in 2007 that was carried over, with the agreement of the Minister for Finance, for expenditure on capital services in 2008.

2.4 The amount spent by departments and offices in 2008 was €53.8 billion. After realised appropriations in aid of €4.5 billion are taken into account the net expenditure was €49.3 billion.

2.5 The net surplus for the year across all votes was €879 million. Of this sum, the Minister for Finance agreed to allow departments and offices to carry over €50 million to 2009 to fund capital expenditure. The balance — €829 million — was liable for surrender to the Exchequer. The sums liable for surrender or carried over to 2009 for each vote are shown in Appendix A – Figure 151.

Conclusions

All Departments and offices managed within their statutory allocations. Consequently, no excess vote occurred in 2008 with surpluses being recorded by all votes based on their gross expenditure and also on their net expenditure after taking account of appropriations in aid.

Surrender of Balances – 2007

2.6 Under vote accounting arrangements any surplus of funds appropriated has to be surrendered to the Exchequer. In practice, this is done in the subsequent year.

Conclusions — 2007 Surrenders

The balances due to be surrendered out of votes for public services for the year ended 31 December 2007 amounted to €494 million. I hereby certify that these balances have been duly surrendered.

¹ The appropriations were effected in Appropriation Act 2008.

Stock and Store Accounts

2.7 Under section 3 of the Comptroller and Auditor General (Amendment) Act 1993, I am required to examine the stock and store accounts of departments and offices. This examination is conducted as part of the audit of the Appropriation Accounts.

Conclusions – Stock and Store Accounts

The stock and store accounts of departments and offices have been examined with generally satisfactory results.

Exchequer Extra Receipts

2.8 Certain sums not germane to votes are collected by government departments and offices. In 2008, €147.7 million of what are designated as Exchequer Extra Receipts were remitted by departments and offices to the Central Fund. The amounts remitted by Accounting Officers are set out in Appendix A – Figure 152.

Chapter 3 Central Government

National Debt

National Debt

3.1 The National Debt reported in the financial statements of the National Treasury Management Agency (the Agency) is recorded after taking account of liquid assets. Figure 3 sets out the composition of the National Debt in gross and net values over the past three years.

Figure 3 National Debt of Ireland 2006 - 2008

Year	2006	2007	2008
	€m	€m	€m
Gross National Debt	39,505	42,047	72,457
Liquid Assets	(3,588)	(4,487)	(22,059)
Net National Debt	35,917	37,560	50,398

Note: The National Debt is stated at redeemable par values (nominal values).

3.2 The Net National Debt increased by €12.8 billion between 2007 and 2008 of which €12.7 billion was applied towards funding the Exchequer Deficit for the year².

3.3 The net present value³ of the Net National Debt at the end of 2008 was €2.5 billion (€38.6 billion at the end of 2007).

General Government Debt

3.4 In addition to borrowings reported in the financial statements of the Agency further debt liabilities arise on foot of other borrowing activity. The relationship between the Gross National Debt and the General Government Debt⁴ (GGD) is set out in Figure 4.

Figure 4 Gross Government Debt 2006 - 2008

Year	2006	2007	2008
	€m	€m	€m
Gross National Debt	39,505	42,047	72,457
Other Debt Liabilities	4,651	5,519	7,712
General Government Debt	44,156	47,566	80,169

3.5 Other Debt Liabilities comprise a range of borrowings by State Bodies and local government, related assets, as well as financial obligations of the State. They are summarised in Figure 5 for the past three years.

² The remaining €0.1 billion mainly relates to the effects of issuing bonds at a discount to the nominal value and foreign exchange rate movements.

³ Net present value of the debt reflects total of all future cash flows (both interest and principal) discounted using the appropriate market rates at the end of the year. It will differ from the nominal amount to the extent that the contracted coupon rate differs from the market rate at the valuation date.

⁴ The General Government Debt is the standardised measure of indebtedness of EU governments taking account of all liabilities included in the National Debt, without any offsetting of liquid assets, together with the liabilities of non-commercial State agencies and local authorities. In addition, it includes the build-up of accrued interest on certain government borrowings, in particular on the Government Savings Schemes.

Figure 5 Other Debt Liabilities^a 2006 - 2008

Year End	2006	2007	2008
	€m	€m	€m
Non-commercial State Bodies (including Housing Finance Agency)	3,461	4,703	5,897
Intra Government Balances and Deposits	(2,761)	(2,840)	(3,116)
Post Office Bank Fund Deposits (excluding government bonds)	1,478	1,205	1,618
Local Government Debt (excluding debt due to central government)	807	947	924
Coinage	588	653	697
Accrued Interest on Savings Schemes	1,033	780	653
Westlink Buy-out ^b	—	—	546
Accrued Interest on Debt	—	24	489
Miscellaneous	45	47	4
Total	4,651	5,519	7,712

Notes:

a The Other Debt Liabilities are derived mainly from the preliminary return to the EU made in March 2009 under the single currency rules.

b See Chapter 27 Westlink Buy-out.

3.6 As a percentage of GDP⁵ the General Government Debt (GGD) was 44% at the end of 2008 (25% at the end of 2007). The accumulation of liquid resources equivalent to 12% of GDP at 31 December 2008 accounted for a large element of the debt increase.

3.7 It is expected that the GGD/GDP ratio⁶ will increase to 77% by 2013 as a result of significant further borrowing by the Exchequer. This estimate is calculated before taking account of debt issued in connection with measures to address the quality of loan assets held by financial institutions.

Borrowings by the Agency

3.8 An extra €30.4 billion was borrowed by the Agency in 2008. €22 billion of total borrowings was placed on deposit, mainly with the Central Bank, resulting in an increase in liquid assets held at the year end of €17.6 billion. The main features of the debt raised in 2008 are set out in Figure 6.

⁵ The ratio of General Government Debt (GGD) to Gross Domestic Product (GDP) is a standard measure applied for the purposes of the single currency.

⁶ As estimated in the Supplementary Budget for 2009.

Figure 6 Debt Raised in 2008

Type of Borrowing	Borrowing Proceeds	
	€m	
New Bond Issues	10,929	Two major bonds were issued in 2008 <ul style="list-style-type: none"> an eleven year bond was issued with a nominal value of €7 billion at a yield of 4.51% a three year bond was issued with a nominal value of €4 billion at a yield of 4.028%.
Commercial Paper Programme	18,425	Under its Commercial Paper programme the Agency raises short-term funds from the international money markets normally at low interest rates. These borrowings can be in a range of currencies, but all non-euro borrowings are immediately swapped back into euro using foreign exchange contracts.
Government Savings Scheme and Post Office Savings Bank	1,129	Savings Schemes attracted a substantial increase in deposits in 2008. Some €680 million was received during the month of September, before the Government's bank guarantee scheme was announced on 30 September 2008.

3.9 The National Debt is composed of a variety of borrowing elements with differing maturity profiles. Figure 7 sets out the break down of the Debt into its major component types.

Figure 7 Composition of the Gross National Debt (in nominal terms)

At End of	2007 €m	2008 €m	June 2009 €m
Government Bonds – maturity more than one year	30,947	41,863	57,453
Other Medium/Long-Term Debt – maturity more than one year	615	483	670
Short-Term Debt – maturity less than one year	3,286	21,783	27,555
Borrowings from the Minister for Finance ^a	2,258	2,605	2,079
Government Savings Schemes – maturity of up to 5½ years	4,941	5,723	6,531
Gross National Debt	42,047	72,457	94,288

Note:

a The main element of this borrowing relates to the Post Office Savings Bank Fund.

3.10 The composition of the Gross National Debt had changed significantly by the end of 2008 in that short-term debt i.e. debt with a maturity of less than one year made up 30% compared with just 8% at the end of 2007.

3.11 Most of the Medium and Long-Term Debt is borrowed in the form of government bonds which have differing maturities, the longest of which at the end of 2008 was eleven years. Figure 8 compares the maturity profile of government bonds at the end of 2007, 2008 and at the end of June 2009.

Figure 8 Maturity Profile of Government Bonds

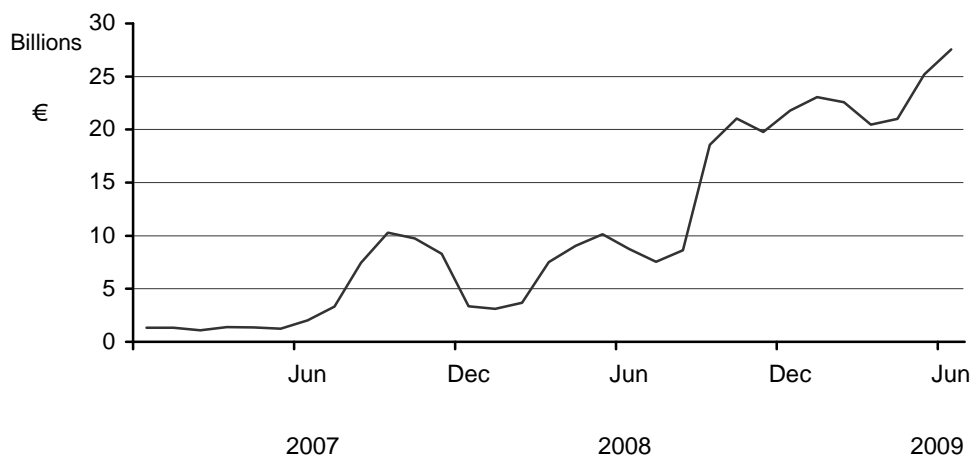
Duration	2007	2008	June 2009
	€m	€m	€m
Under 5 years	5,939	15,931	15,895
5 to 10 years	11,927	11,857	27,574
Over 10 years	13,080	14,075	13,984
Total	30,947	41,863	57,453

3.12 Short-term debt which is debt with a maturity of less than one year, is comprised mainly of borrowings under the Agency's Commercial Paper Programme. Figure 9 compares the maturity profile of short-term debt at various dates.

Figure 9 Maturity Profile of Short-Term Debt

Duration	2007	2008	June 2009
	€m	€m	€m
Less than one month	2,376	3,880	6,833
One to three months	711	5,518	11,673
Three to six months	198	5,803	6,963
Over six months	1	6,582	2,086
Total	3,286	21,783	27,555

3.13 Short-term borrowings have increased in the past two years as outlined in Figure 10. The Agency launched a new Treasury Bill programme in March 2009 consisting of short-term borrowings.

Figure 10 Level of Short-Term Borrowings in the period 2007 to June 2009

Audit Concern

The Agency undertook €22 billion in borrowings, mainly in the form of short-term debt, in excess of that immediately required to meet the budget deficit for 2008. I sought the Accounting Officer's explanation for the build up in borrowings and the steps taken by the Agency to manage any additional exposures and risks arising.

Views of the Accounting Officer

3.14 The Accounting Officer stated that the 2008 Budget forecast an Exchequer Borrowing Requirement (EBR) of just under €5 billion. As the year progressed the Agency forecasts indicated that this target would be overshoot and, in the event, the outturn was almost €13 billion. In addition, the capital markets, which had already been volatile since August 2007, worsened considerably from September 2008 following the collapse of Lehman Brothers. The Agency notified the Department in July 2008 that the target cash balance of €5 billion set out in the Ministerial Guideline was not consistent with the emerging Exchequer deficit. The Department formally altered the guideline in December 2008 *'in light of the prevailing circumstances in the financial markets...exceptionally, that no formal limit on total cash balances shall apply at end-2008'*.

3.15 In order to manage the emerging liquidity risks the Agency used short-term debt markets to build-up a cash 'war chest' in the Exchequer. This protected the Exchequer in a number of ways

- Despite the rapid deterioration in the public finances, the Exchequer had cash available at all times to meet its obligations. The cash balances also gave an indication to the markets that Ireland was in a position to meet unforeseen liabilities relating to the banking crisis and contingent liabilities taken on under the bank guarantee scheme.
- The 2009 EBR was forecast at just over €20 billion. In addition, a €5 billion bond was due for redemption. The build-up of cash balances had assisted in the timing of borrowings in 2009, ensuring that the Agency could raise funds as opportunities arise without having to enter the market at particularly turbulent times.

3.16 The Accounting Officer stated that the EBR of €12.7 billion was funded mainly by €1 billion in medium-term and long-term bonds and receipts of €1.2 billion in the Government Savings Schemes. Short-term paper was used almost exclusively to build up the cash balance in order to manage liquidity risks and to provide flexibility with regard to the timing of long-term issues. He stated that the impact on borrowing costs of building up the cash balances was not significant as the increased loan interest was largely offset by deposit interest receivable. The Agency estimated that the additional net interest cost when measured on an accruals basis amounted to €21.8 million.

3.17 The Accounting Officer also stated that the increase in short-term borrowings was undertaken to reduce and manage risks in the following areas

- Liquidity risk, particularly funding and replacement risks
- Concentration risk with regard to investors, and
- Fiscal risk, which is the risk of committing the Exchequer to elevated interest rates for the longer term.

3.18 The Agency had introduced a number of new procedures to report and manage liquidity risk which include additional liquidity profiling and reporting procedures. A Treasury Bill programme was launched in March 2009 in response to strong investor demand and with the aim

of diversifying the sources of short-term borrowing and access new investors in the commercial paper market with the aim of reducing concentration risk. An additional short-term borrowing programme had also been introduced, viz. a US Commercial Paper Programme which was launched in July 2009.

Debt Service Costs

3.19 The debt service cost disclosed in the Agency's accounts for 2008 amounts to €2.1 billion (2007: €2.1 billion) when measured on a cash basis. However, this includes a transfer of €488m (2007: €466m) from current funds to a sinking fund to repay debt bringing the current servicing cost to €1.6 billion (2007: €1.6 billion). However, measurement of these costs on a cash basis masks the effect of servicing obligations which had accrued by year end but remained to be discharged.

3.20 When the debt service cost is measured on an accruals basis which recognises the costs incurred rather than those paid, the servicing cost for 2008 amounts to €2 billion (2007: €1.6 billion). Figure 11 shows the breakdown of the debt service cost as measured on an accruals basis. The increase in interest payable arises due to the increase in borrowings in 2008. Fees on borrowings rose mainly due to fees on saving schemes increasing in line with the level of deposits in the schemes, and increased bond syndication fees due to the extra volume of issuance and higher fee rates.

Figure 11 Debt Service Costs Measured on an Accruals Basis

Year End	2007 €m	2008 €m
Interest Payable (net of interest receivable on deposits)	1,571	1,970
Agency's Administration Costs for Borrowings	9	11
Fees on Borrowings	26	33
Total	1,606	2,014

3.21 The Agency's day-to-day responsibility for borrowing and management of the National Debt is exercised in accordance with guidelines given by the Minister for Finance. Detailed benchmark targets and performance measurement rules are agreed with his Department. The agreed benchmarking system compares the performance of the Agency against a monetary benchmark target in relation to its debt management activities.

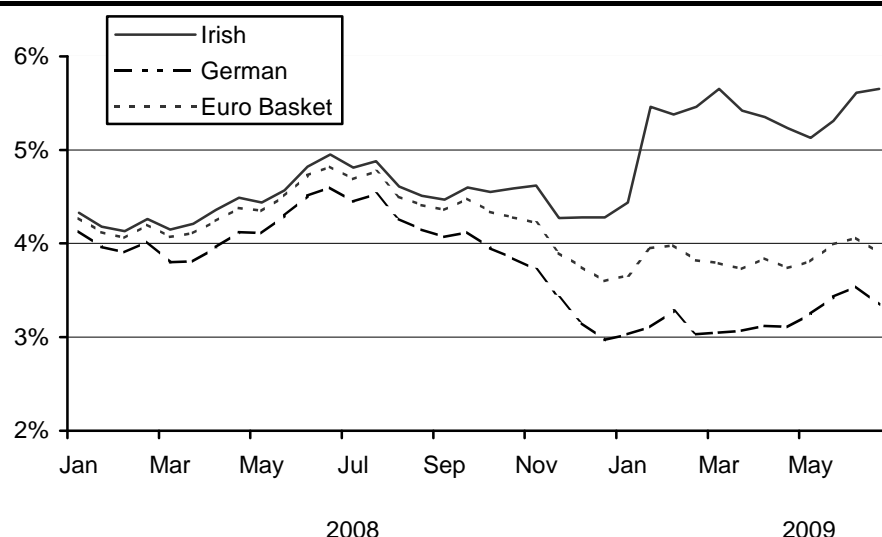
3.22 A firm of accountants is engaged to independently audit the benchmark results. For 2008 these verified results indicate that the Agency outperformed its benchmark by €130 million in relation to its management of the National Debt.

Future Debt Management Costs

3.23 The average interest cost of servicing the National Debt fell from 8.5 per cent in 1991 to 3.5 per cent in 2008 due to a combination of factors including the downward trend in global interest rates, Ireland's improved credit ratings, the Agency's debt management initiatives and Ireland's participation in the euro area. However, in recent months some credit rating agencies have downgraded Ireland's debt rating.

3.24 In recent years, the yields⁷ on Irish government bonds closely followed the German yields. However the difference or spread in the yields started to grow in recent times, most significantly from September 2008 onwards following the deterioration in international markets with the collapse of Lehman Brothers and the Government's announcement of the bank guarantee scheme. Figure 12 shows the yield on ten-year benchmark bonds for Ireland, Germany and a basket of euro-zone countries from the start of 2008.

Figure 12 Yield Spreads on Ten Year Benchmark Bonds



3.25 New borrowing to be undertaken by the Agency to fund expected budget deficits over the period 2009 to 2013, based on forecasts contained in the Supplementary Budget for 2009, will be in the region of €81 billion. In addition, the Agency will also need to fund debt that matures before the end of 2013 bringing the gross funding requirement to €97 billion over that period⁸. This does not include any debt issued in connection with measures announced to address the quality of loan assets of Irish financial institutions.

3.26 Based on conditions prevailing at the time of the 2009 Supplementary Budget the expected interest on the National Debt in the period to 2013 was projected to increase to 4.2% of GDP. The borrowing cost, in addition to being influenced by the volume of borrowing, may be impacted upon by increased servicing costs arising out of demand by lenders for increased yields to mitigate perceived risks. Based on current levels the impact of yield spread increases would contribute at least €3.5 billion to the cost of debt servicing up to 2013. However, over the five year period this projection is likely to alter due to factors such as fiscal management, economic performance, general market sentiment, market risk perceptions relating to lending between different countries, general supply and demand factors in the market, and investor demand for particular financial instruments.

⁷ The yield to maturity of a newly issued bond is the discount rate at which the present value of all future cash flows from the bond will equate to the issue price. It is a better measure of the true cost of borrowing than the coupon rate. Issuers of bonds refer to certain bonds as 'benchmark bonds' which provide a standard for measuring the cost and price of the bonds.

⁸ This is the position at the end of 2008 and does not take account of any new bond issued since that date and maturing before the end of 2013.

Audit Concern

The spread in bond yield raises concerns regarding the impact on debt service costs. I asked the Accounting Officer about any steps being taken to mitigate the effect of the bond yields. I also enquired about progress being made in securing the additional borrowing to meet the expected budgetary position.

Views of the Accounting Officer

3.27 The Accounting Officer stated that the Agency had taken a number of steps to address the risks arising from the spread in the bond yield including

- marketing initiatives and investor presentations
- introducing the Treasury Bill programme
- introducing a new US Commercial Paper programme.

3.28 The secondary trading portfolio⁹ was also expanded to boost liquidity in the Irish Government bond market. This, together with secured commitments from the primary dealers for the quotation of Irish bonds in the secondary markets within specified bid-offer spreads, aimed to improve the marketability of bonds thereby impacting positively on the bond yield prices.

3.29 He also stated that the Agency had raised €1.9 billion in medium-term and long-term funding to the end of July 2009, amounting to 87% of the total of this type of borrowing sought for the year. Three syndications raised a total of €16 billion. The remaining €5.9 billion was raised in five auctions. When borrowing under the retail schemes was taken into account, the NTMA had raised 92% of the total funding requirement for 2009 by end July. The new Treasury Bill programme also raised significant short-term funds with almost €15 billion outstanding at the end of July. The US Commercial Paper which had been launched to strong demand on 22 July 2009, raised €1.3 billion in its first week. The Agency planned to continue its monthly bond auctions and to tap the syndicated market whenever it considered it appropriate to do so.

Conclusions

Ireland's Gross National Debt at 31 December 2008 has increased to €72.5 billion from €42 billion at the end of 2007. An element of this was accounted for by the strategic build up of liquid resources with an eye to debt management demands in 2009 and the management of liquidity risks. Funding demands have increased due to the emergence of budget deficits and the cost of bank stabilisation measures. These demands which will lead to net borrowing of around €81 billion up to 2013 (before taking account of funding in relation to the proposed asset management agency) will, in combination with market forces, increase borrowing costs substantially in the medium-term.

⁹ The Agency maintains a secondary trading function which trades its bonds with other market participants in order to provide liquidity to the market.

Chapter 4 Central Government

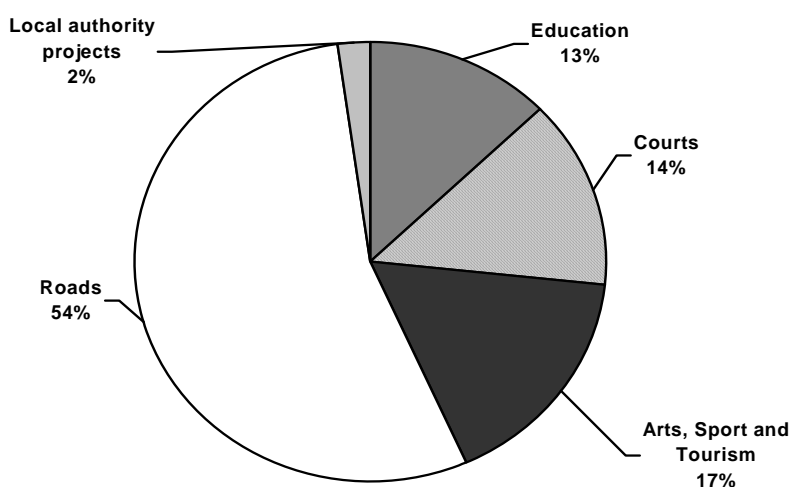
Financial Commitments under Public Private Partnerships

Financial Commitments under Public Private Partnerships

4.1 A Public Private Partnership (PPP) is an arrangement between public and private sector partners for the delivery of public infrastructure and/or public services.

4.2 The total outstanding commitments of central government departments and agencies in respect of contracted PPP projects are estimated at just over €4.27 billion. The distribution of these commitments by sector is shown in Figure 13.

Figure 13 Outstanding Commitments of Central Government Departments and Agencies under PPP Contracts, end 2008



Note:

- a Amounts shown in relation to local authority projects relate to outstanding commitments of the Department of the Environment, Heritage and Local Government towards the capital cost of local authority PPP projects. They do not include commitments under the contracts by the relevant local authorities to be met from their own future budgets.

4.3 Expenditure to the end of 2008 under individual contracts is shown in Figure 14. The outstanding commitments under each individual project are also shown.

Nature of PPP Arrangements

4.4 Typically, a PPP project involves a formal contract between a government agency and a private partner, where the latter undertakes to deliver specified facilities and/or services over the life of the contract. This is usually 25 to 45 years, depending on the scope of the project. Project risks, which are a feature of all long-term projects, are shared between the public and private sector partners, depending on which partner is in the best position to manage them. In most cases, the sponsoring government agency owns or receives the assets at the end of the contract period.

4.5 In terms of the financial commitments entered into by public bodies, PPP projects in Ireland take three main forms

- Unitary payment — this is where the sponsoring public agency makes regular payments (monthly, quarterly or annually) over the term of the contract to the private sector partner, subject to satisfactory performance in providing agreed facilities to the required standard. Typically, part of this unitary (or all-in) payment amount is fixed over the life of contract, with the remainder varying in line with price fluctuations (usually the Consumer Price Index). The split between the fixed and variable elements varies from project to project.
- Concession — with this kind of arrangement, the users of the service pay fees to the private sector partner e.g. motorists using toll roads. The State may pay an up-front contribution towards the capital costs of providing infrastructure. Where user payments exceed projected levels, there may be scope for the excess income to be shared between the public and private sector partners.
- Asset-based — in this kind of project, the public sector contribution to the project includes provision of an asset (usually land), with the private partner developing the asset e.g. social/affordable/private housing projects. Ultimately, much of the funding for this kind of project depends on sales or rentals on the open property market. Such projects are usually of shorter duration (five to seven years) than concession or unitary payment projects.

Report Focus

This report has been compiled to provide an accessible source of information about the financial commitments entered into by State agencies.

4.6 Figure 14 sets out the expenditure to end 2008 on major PPP projects together with the related commitments.

4.7 Annex A to this Chapter gives summary details of those contracts which were live in 2008 classifying them in terms of the elements to be delivered by the private sector partner.

4.8 The elements within the scope of the project may include some or all of the following

- D** **design** of service/infrastructure
- B** **build**/construct/extend/renovate capital assets
- F** provide **finance** (e.g. provide/secure private equity and borrowing, collect user charges)
- O** **operate** assets (e.g. facilitate management, employment of services staff)
- M** **maintain** assets over contract life.

In the Annex, project scope is often described using abbreviations. For example, a project that is described using the abbreviation DBFOM involves all the elements described above.

Figure 14 Expenditure to end 2008 and Outstanding Commitments on Large PPP Project Contracts, by Public Sector Agency and by Project^a

Sponsoring Authority/Project Name	Key Project Dates			Expenditure			
	Contract Signed	Service Commencement	Contract End	Pre 2008	2008	Future Commitment	Projected Total Contract Value
				€m	€m	€m	€m
Department of Education and Science							
Pilot PPP Schools Bundle	November 2001	2003	2027	63.6	10.7	208.7	283.0
Maritime College	February 2003	2004	2029	36.8	8.8	146.1	191.7
Cork School of Music	September 2005	2007	2032	11.0	8.2	199.6	218.8
Courts Service							
The Criminal Courts of Justice	April 2007	2009	2034	—	—	615.1	615.1
Department of Arts, Sport and Tourism							
National Conference Centre	April 2007	2010	2035	—	—	725.3	725.3

Notes:

- a The commitment amounts are projected based on the assumption that inflation will average 2% a year over the remaining life of each project. All amounts include VAT (unless otherwise stated).

Sponsoring Authority/Project Name	Key Project Dates			Expenditure			
	Contract Signed	Service Commencement	Contract End	Pre 2008	2008	Future Commitment	Projected Total Contract Value ^b
				€m	€m	€m	€m
National Roads Authority							
Kilcock/Kinnegad	March 2003	2005	2033	164.4	4.0	9.7	178.1
Dundalk Western Bypass	February 2004	2005	2034	—	0.2	0.6	0.8
Rathcormac/Fermoy	June 2004	2006	2034	85.7	5.2	63.8	154.7
Waterford City Bypass	April 2006	2009	2036	65.7	28.8	111.2	205.7
Limerick Tunnel	August 2006	2010	2041	64.6	51.0	143.4	259.0
Clonee/Kells	April 2007	2010	2052	—	111.2	616.2	727.4
Galway/Ballinasloe	April 2007	2010	2037	7.0	11.5	358.8	377.3
M7/M8 Portlaoise	June 2007	2010	2037	—	15.0	69.7	84.7
M50 Upgrade	September 2007	2007	2042	—	—	1,006.0	1,006.0 ^c

Notes:

b In the case of NRA concession contracts, the Projected Total Contract Value represents the total payments expected to be made to the PPP companies concerned over the life of the contract. These companies also benefit from user charges which contribute to their capital and operational costs.

c Excludes VAT.

Sponsoring Authority/Project Name	Key Project Dates			Expenditure			
	Contract Signed	Service Commencement	Contract End	Pre 2008	2008	Future Commitment	Projected Total Contract Value
				€m	€m	€m	€m
Department of the Environment, Heritage and Local Government^d							
<i>Sewage Treatment Projects</i>							
Dublin Bay Treatment Plant	March 2001	2003	2024	na	194.8	14.6	209.4
Wexford Treatment Plant	July 1999	2004	2026	na	18.3	—	18.3
Cork Treatment Plant	December 2001	2004	2027	na	65.2	—	65.2
Balbriggan/Skerries Treatment Plant	September 2004	2006	2028	na	23.8	—	23.8
South Tipperary Treatment Plant Group	March 2003	2007	2029	na	11.9	0.1	12.0
Dungarvan Treatment Plant	April 2004	2007	2029	na	11.5	—	11.5
Sligo Treatment Plant	September 2006	2008	2030	na	18.0	—	18.0
Donegal (A) Treatment Plant Group	June 2006	2008	2030	na	22.8	1.3	24.1
Waterford Treatment Plant	September 2006	2009	2032	na	18.0	4.8	22.8
Portlaoise Treatment Plant	December 2006	2009	2031	na	16.0	2.6	18.6
Meath Villages Treatment Plant Group	October 2007	2010	2032	na	12.3	6.5	18.8
Mullingar Treatment Plant	April 2008	2010	2032	na	6.4	9.6	16.0

Note:

d Expenditure/commitments data exclude those of local authorities. The Department was unable to provide expenditure data separately for 2008 and earlier years.

Sponsoring Authority/Project Name	Key Project Dates			Expenditure			
	Contract Signed	Service Commencement	Contract End	Pre 2008	2008	Future Commitment	Projected Total Contract Value
				€m	€m	€m	€m
Department of the Environment, Heritage and Local Government^d (continued)							
Castlebar Treatment Plant	September 2008	2010	2032	na	1.3	10.1	11.4
Shanganagh Treatment Plant	September 2008	2010	2034	na	6.7	45.4	52.1
Wicklow Treatment Plant	September 2007	2009	2031	na	10.9	2.6	13.5
Water Treatment Scheme							
Clareville Water Treatment Project	December 2006	2010	2030	na	22.5	—	22.5
Area Development Projects							
Fatima Mansions Redevelopment	June 2004	2006	2009	—	—	—	—
Greystones Harbour Development	December 2007	2012	2012	—	—	—	—

Note:

d Expenditure/commitments data exclude those of local authorities. The Department was unable to provide expenditure data separately for 2008 and earlier years.

Annex A

Description of Current PPP Projects in each Department

Department of Education and Science

The Department of Education and Science had, up to the end of 2008, agreed contracts in respect of three PPP projects in the education area. The total outstanding commitment under these contracts was €554.4 million at 31 December 2008.

- **Pilot PPP Schools Bundle (DBFOM)** — The Department agreed a contract in November 2001 with the Schools Public/Private Partnership (Ireland) Ltd for the provision of new second level schools in five locations (Clones, Dunmanway, Tubbercurry, Ballincollig and Shannon), catering for a total of 3,475 pupils. The schools became operational at the start of 2003 and the contract will run for 25 years from that date.
- **National Maritime College (DBFOM)** — In February 2003, the Department entered a 25-year contract with Focus Education (NMC) Ltd to provide and operate a third level college for education and training in merchant marine and naval service studies. The College has a capacity to cater for 750 whole time equivalent students in an academic year, and became operational in October 2004. In addition to the unitary payments being made by the Department, pass through charges in relation to utilities are paid by Cork Institute of Technology.
- **Cork School of Music (DBFOM)** — The Department entered a contract in September 2005 for the construction of a new building to house the Cork School of Music, which is part of the Cork Institute of Technology. The building became operational in mid 2007, and can accommodate approximately 400 full-time third-level students and 2,500 part-time students. In addition to the unitary payments being made by the Department, pass through charges in relation to electricity and gas are paid by Cork Institute of Technology.

Courts Service

- **The Criminal Courts of Justice (DBFOM)** — The Courts Service entered a 25-year contract with Babcock and Brown CCC Limited Partnership in April 2007 for the provision of a courts building to accommodate all the criminal court business in the Dublin area. The 23,000 square metre building will have 22 courtrooms, administration and judicial offices, separate public, jury, judicial and custody circulation systems and prisoner holding areas. The Bar Council will also have accommodation in the building. Under the contract, the private sector partner will provide a range of services including building maintenance, helpdesk and reception services, security and traffic management, cleaning, portering and reprographics, provision and operation of courtroom technology and utilities administration. Utility costs, and the costs of catering and jury minding will be additional to the unitary payment charge. The complex is expected to become operational by November 2009.

Department of Arts, Sport and Tourism

- **National Conference Centre (DBFOM)** — The Department of Arts, Sport and Tourism sanctioned a 25-year contract, entered into in April 2007 between the Office of Public Works and Spencer Dock Convention Centre Dublin Ltd for the provision and operation of a major conference facility. The Centre will have capacity to cater for conferences with up to 8,000 delegates. It will include a 2,000 seat auditorium, 22 multi-purpose meeting rooms and approximately 4,500 square metres of flexible exhibition and

banqueting space, along with associated press and delegate support facilities and general utility spaces. The centre is expected to open in 2010.

The risk of the Centre failing to realise projected demand will be borne by the PPP company which will suffer reduced unitary payments as a consequence.

The total outstanding commitment under this contract was €725.3 million at 31 December 2008 (€380 million in Net Present Value terms).

National Roads Authority

The PPP schemes for development of motorways were procured under concession contracts with durations varying from 30 to 45 years. The NRA is providing a contribution to the capital and operational costs on most of the projects. The concessionaire will recoup the remaining construction costs and on-going operation costs by the collection of tolls.

The total outstanding commitment under these contracts was €2.38 billion at 31 December 2008.

The NRA will benefit from a share of revenue from all schemes. This share of revenue is dependent on traffic volumes on the various schemes and is payable throughout the concession period. The value of revenues from PPP schemes is estimated at €1.7 billion. In addition, the Authority estimates that net toll revenues accruing to it from M50 tolling, collected under a separate contract, will amount to €1.04 billion in the period to March 2020.

- ***Kilcock/Kinnegad Motorway (concession)*** — The project involved the construction by Eurolink Motorway Operation Ltd of 39 kilometres of motorway, which opened to traffic in December 2005. The concession runs until 2033. The NRA received €0.5 million from the concessionaire in 2008 in the form of revenue share. Total receipts under the contract up to end 2008 were €1.1 million.
- ***Dundalk Western Bypass (concession)*** — The project comprises the construction by the Celtic Roads Group (Dundalk) Ltd of an 11 kilometres stretch of the M1 motorway, with an additional 8 kilometres of associated side roads and tie-ins. The road was opened to traffic in October 2005. The project also includes the operation and maintenance of 42 kilometres of existing motorway (Dunleer Bypass and Dunleer/Dundalk Motorway) and toll facilities on the M1 motorway. The contract runs to February 2034. The NRA received €1.4 million from the concessionaire in 2008 in the form of revenue share. Total receipts under the contract up to end 2008 were €24.3 million. In 2008, the NRA negotiated a variation in the contract to provide for additional landscaping. The agreed value for these works, to be met by the NRA, was €712,000 (excluding VAT).
- ***Rathcormac/Fermoy (concession)*** — This project, on the N8 Cork to Dublin route, involved construction by DirectRoute (Fermoy) Ltd of an 18 kilometres stretch of road incorporating bridges, underpasses and road realignments. The road opened to traffic in October 2006 and the PPP company's concession to operate and maintain the road and associated toll facilities runs to February 2034.
- ***Waterford City Bypass (concession)*** — This project involves the provision by Celtic Roads Group Ltd of 23 kilometres of dual carriageway, a bridge over the River Suir and approximately 4 kilometres of single carriageway. There are also 11 kilometres of ancillary road construction works, a 2 kilometre railway realignment and various roundabouts included in the project. The Bypass is expected to be completed ahead of schedule and to open in late 2009. The PPP company's concession to operate and maintain the road and associated toll facilities runs to April 2036.

- **Limerick Tunnel (concession)** — This project involves provision by DirectRoute (Limerick) Ltd of a tunnel crossing under the River Shannon, the construction of approximately 10 kilometres of new dual carriageway, and associated link roads and side roads. The Tunnel is expected to open in 2010. The PPP company's concession to operate and maintain the road and associated toll facilities runs to August 2041.
- **Clonee/Kells (concession)** — This PPP project is the largest single road scheme under the National Development Plan/Transport 21, involving construction by Eurolink Motorway Operations (M£) Ltd of over 110 kilometres of roads. It will include a tolled motorway section of approximately 47 kilometres, bypassing Dunshauglin, Navan and Kells, and associated local/regional road realignments/improvements. The PPP company's concession to operate and maintain the road and associated toll facilities runs to April 2052. The scheme is expected to open to traffic in 2010.
- **Galway/Ballinasloe (concession)** — This scheme provides for the construction by the ICON consortium (N6 Concessions Ltd) of 58 kilometres of tolled motorway on the Galway to Dublin route. The PPP company's concession to operate and maintain the road and the associated toll facilities runs up to April 2037. The scheme is expected to open to traffic in 2010.
- **M7/M8 Portlaoise (concession)** — The scheme involves the provision by Celtic Roads Group (Portlaoise) Ltd of 41 kilometres of motorway and approximately 18 kilometres of other roads, as well as a motorway interchange. The PPP company's concession to operate and maintain the road and the associated toll facilities runs to June 2037. The scheme is expected to open to traffic in 2010.
- **M50 Upgrade**¹⁰ — The NRA agreed a PPP contract in September 2007 with the ICON Consortium (M50 Concessions Ltd) for the upgrading of the M50 route. This involves the widening of 24 kilometres of the M50 from two-lane to three-lane carriageway in each direction, including the upgrade of junctions. The PPP company also immediately took on responsibility for the operation and maintenance of the entire M50 from the M1 interchange to the M11 tie-in. Under the contract terms, the NRA will make monthly unitary payments to the PPP company up to September 2042, amounting in total to over €1 billion at current prices. The upgrade works are planned to be fully completed by the end of 2010.

Department of the Environment, Heritage and Local Government

The Department of the Environment, Heritage and Local Government sanctions local authority PPP projects, and has supported many of the projects financially by providing capital funding contributions. The local authorities concerned are committed under the contracts to further payments.

Local authority PPP projects with a capital value of €20 million or more are listed below. The Department has stated that local authorities have agreed contracts with private sector partners for a further 47 PPP projects with a capital value of less than €20 million each. Of these, 34 are operating.

Most of the larger projects that received capital assistance from the Department involved the provision of treatment plants as part of area main drainage schemes. Typically, local authority waste water/sewerage treatment projects include a number of separate elements including pumping stations, collection systems and treatment plants, with separate contracts/contractors for each element. The Department considered that only contracts in respect of treatment plants would be

¹⁰ Chapter 27 reports on the deal to buy-out the M50 West-Link toll concession contract.

suitable for procurement under the PPP model, because only in that case was there potential for innovative design and build methods.

The total outstanding commitments under these contracts was €97 million at 31 December 2008.

- **Dublin Bay Treatment Plant (DBM)** — Construction of the treatment plant, designed to serve a population of 1.64 million, was completed in June 2003. The Department had contributed funding of €195 million by end 2008, out of a total allocation of €209 million. While the plant became operational, there were persistent odour problems which ABA, the private sector partner, had to address. Because of a conflict between the odour standards prescribed in the Environmental Impact Statement and the contract documents for the plant, the responsibility for solving the issue did not rest solely with the ABA consortium and the cost of rectifying the problem was borne by both the contractor and Dublin City Council. Odour control equipment now installed is expected to eliminate odour nuisance in the locality.
- **Wexford Treatment Plant (DBOM)** — Construction of the treatment plant, which has the capacity to serve a population of 30,000, was completed by the Brent Consortium in September 2004. The plant is now in operation. The Department has contributed its full allocation of funding — €18.3 million — to the project.
- **Cork Treatment Plant (DBOM)** — Construction of the treatment plant, with the capacity to serve a population of 413,000, was completed by the Degermont Consortium in September 2004. The plant is now in operation. The Department has contributed its full allocation of funding — €65.2 million — to the project.
- **Balbriggan/Skerries Treatment Plant (DBOM)** — This project involves the construction, operation and maintenance by Earthtech Ireland Ltd of a sewage treatment plant with an initial capacity to serve a population of 30,000. There is potential to expand the capacity of the plant to serve a population of up to 100,000, if required. The plant became operational in September 2006. The Department has contributed its full allocation of funding — €23.8 million and will recoup €0.4 million from other non-PPP elements of the larger project.
- **South Tipperary Treatment Plants Group Project (DBOM)** — This project involves the upgrading of seven existing sewage treatment plants and the construction of five new ones by Earthtech Ireland. The combined capacity of the plants would serve the needs of a population of up to 123,100. The plant became operational in 2007. The Department has contributed almost all of the €12 million allocated to the project.
- **Dungarvan Treatment Plant (DBOM)** — Construction of the treatment plant, with the capacity to serve a population of 35,000, was completed by the ABV consortium in July 2007. The plant is now in operation. The Department has contributed its full allocation of funding — €11.5 million and will recoup €0.2 million from other non-PPP elements of the larger project.
- **Sligo Treatment Plant (DBOM)** — Construction of the treatment plant, with the capacity to serve a population of 47,000, was completed by Anglian Water International in October 2008. The plant is now in operation. The Department has contributed its full allocation of funding — €18 million — to the project.
- **Donegal (A) Treatment Plants (DBOM)** — This project involves the construction, operation and maintenance of three sewage treatment plants (in Donegal Town, Ballyshannon and Rossnowlagh) by a Veolia led consortium. The combined capacity of the plants is designed to serve the needs of a population totalling 22,000. The plant became operational in June 2008. Up to the end of 2008, the Department had contributed a total of €22.8 million out of a total allocation for the project of €24.1 million.

- **Waterford Treatment Plant (DBOM)** — This project involves the construction, operation and maintenance by Anglian Water International of a treatment plant with the capacity to serve a population of 100,000. It is expected that the plant will become operational by August 2009. Up to the end of 2008, the Department had contributed a total of €18 million out of a total allocation for the project of €22.8 million.
- **Portlaoise Treatment Plant (DBOM)** — Construction of the treatment plant, which has the capacity to serve a population of 39,000, was completed by an Earthtech/Bowen Construction consortium in March 2009. The plant is now in operation. Up to the end of 2008, the Department had provided funding totalling €16 million, out of a total allocation for the project of €18.6 million.
- **Meath Villages Treatment Plants Group Project (DBOM)** — This project involves the provision, operation and maintenance by the EPS consortium of treatment plants for seven villages in County Meath. The combined capacity of the plants would serve the needs of a population of 5,000. The plants are due to become operational in 2010. By the end of 2008, the Department had provided funding totalling €2.3 million, out of a total allocation for the project of €18.8 million.
- **Mullingar Treatment Plant (DBOM)** — This project involves the construction, operation and maintenance by Veolia Water Ireland of a treatment plant with an initial capacity to serve a population of 30,000, increasing within three years to a capacity sufficient for a population of 55,000. It is expected that the plant will become operational by September 2010. Up to the end of 2008, the Department had provided funding of €6.4 million out of a total allocation for the project of €16 million.
- **Castlebar Treatment Plant (DBOM)** — This project involves the construction, operation and maintenance by Veolia Water of a treatment plant with a capacity to serve a population of 35,000. It is expected that the plant will become operational by November 2010. Up to the end of 2008, the Department had provided funding of €1.3 million out of a total allocation for the project of €11.4 million.
- **Shanganagh Treatment Plant (DBOM)** — This project involves the construction, operation and maintenance by a consortium involving Sisk, Dragados and Drace of a treatment plant with a capacity to serve a population of 103,000. It is expected that the plant will become operational in 2010. Up to the end of 2008, the Department had provided funding of €6.7 million out of a total allocation for the project of €21.1 million.
- **Wicklow Treatment Plant (DBOM)** — This project involves the construction, operation and maintenance by Veolia Water Ireland of a treatment plant with a capacity to serve a population of 34,000. It is expected that the plant will become operational in 2009. Up to the end of 2008, the Department had provided funding of €10.9 million out of a total allocation for the project of €13.5 million.

The Department has so far sanctioned and funded one water treatment project using a PPP structure.

- **Clareville Water Treatment Plant (DBOM)** — Limerick City Council entered a contract with the Veolia Water/Ascon Consortium in December 2006 for the construction, operation and maintenance of a water treatment plant to cater for the needs of Limerick city and its environs. The plant, which is expected to be completed in spring 2010 will have the capacity to treat around 100,000 cubic metres of water a day. The Department has contributed its full allocation of funding — €22.5 million — to the project.

The Department has also sanctioned two asset-based PPP projects involving residential/commercial/amenity development.

- ***Fatima Mansions Redevelopment (DBF)*** — This project involved a contract agreed in June 2004 between Dublin City Council and the Elliot/Moritz consortium in which the local authority contributed land that had low-density use to the private developer, in return for 150 new social housing units, some community facilities and a financial contribution to the City Council. The developer planned to fund the project by using some of the land to develop 70 affordable housing units and 395 private units for sale at market rates. Phase 1 of the project — provision of 110 the social housing units — was completed at the beginning of 2006 and the units provided are now occupied. Phase 2 — the provision of affordable and market rate housing and the remaining social units — is underway and due for completion by October 2009. The redevelopment also includes the provision of 500 square metres of enterprise space, a 2,890 square metres community centre, over 3,000 square metres of commercial space, a leisure centre and general infrastructure and landscaping works.
- ***Greystones Harbour Development (DBOF)*** — Wicklow County Council agreed contract terms in December 2007 with Sispar Consortium on a PPP project involving development of 341 residential units, around 5,600 square metres commercial space and the operation of a 230 berth marina with a 30-year concession period. In addition, public infrastructure will be provided including a new harbour, a public square, community club facilities, coastal protection and beach management works. The contract includes a revenue-sharing arrangement between Sispar and the Council. This is composed of fixed and variable elements. Under the agreement, the Council received €3 million in 2008 as part of the fixed element. A further amount will become payable on completion of the project.

Chapter 5 Central Government

Public Service Pensions

Public Service Pensions

5.1 Pension schemes¹¹ in the public service cover over 300,000 staff and over 100,000 pensioners, and dependents. Almost all public service pension schemes are defined benefit schemes under which the pension benefits payable are based on the level of final salary at the date of retirement and, in general, post retirement increases are awarded in line with pay increases with the approval of the Minister for Finance.

Special Report

5.2 A Special Report on Public Service Pensions, following an examination under Section 9 of the Comptroller and Auditor General (Amendment) Act, 1993, was signed by me on 21 August 2009 and sent to the Minister for Finance. The Minister will present the report to Dáil Éireann within three months.

Accrued Liability for Pensions

5.3 The accrued value of Public Service pension liabilities at 31 December 2008 was estimated to be approximately €108 billion. Assets held within funded pension schemes were valued at €1.9 billion¹² at that date. After taking account of these assets and a proportion of the value of the National Pensions Reserve Fund (NPRF) it is estimated that the net present value of those pension liabilities that had accrued to that date was €101 billion. Figure 15 outlines the composition of the gross liability by sector as well as the numbers of staff, pensioners and preserved pensioners to which the liability relates.

5.4 The accrued liability reported in Figure 15 represents the present value of expected future pension payments to current public service staff and their dependents in respect of service to date, along with the full liability for all future payments to current pensioners and their dependents and to former employees with preserved pensions. The figure covers occupational pensions for public servants only and does not cover the State's liability for Social Welfare pensions for either those in the private or public sector. The aggregate pension payments arising from the liabilities will be spread over 60 or more years into the future. The accrued liability figure is based on service to-date and uses the salary points of staff at the valuation date. It does not take account of future increases in pensionable remuneration which may arise from increments or from promotions.

¹¹ Pension schemes usually comprise a main superannuation scheme and an associated contributory spouses' and children's scheme.

¹² This includes assets valued at €1.7 billion to be transferred to the National Pensions Reserve Fund under legislation enacted in 2009.

Figure 15 Accrued Pension Liabilities at 31 December 2008

Sector	Gross Liability €m	Number of Serving Staff	Number of Pensioners	Number of Preserved Pension Cases
Civil Service	13,518	38,600	14,800	4,600
Health	22,892	112,500	29,500	46,200
Gardaí	8,342	13,400	7,800	—
Prison Officers	1,246	3,300	900	—
Defence Forces	8,574	9,500	11,700	—
Teachers ^a	28,167	57,400	17,700	11,000
VECs and ITs	6,009	21,100	4,700	4,200
Universities	4,832	14,000	2,800	5,400
Non Commercial State Sponsored Bodies	6,560	12,200	7,000	1,700
Constitutional, Ministerial and Judicial Office-Holders	785	400	600	—
Local Authorities ^b	7,499	34,900	15,900	1,100
Total	108,424	317,300	113,400	74,200
Assets	(1,865)			
Net Liability for Public Service	106,559			
One third of National Pensions Reserve Fund ^c	(5,381)			
Liability net of NPRF allocated assets	101,178			

Notes:

- a Includes primary teachers, post-primary teachers, special needs assistants and non-teaching staff in schools.
- b The estimate for local authorities was a limited exercise based on relativities derived from the Report of the Commission on Public Service Pensions (2000).
- c At 31 December 2008 the NPRF was valued at €16,142 million. One-third of this amount has been notionally allocated towards the cost of Public Service pensions and two-thirds towards the cost of the State pension.

5.5 The discount rate used to calculate the present value of expected future payments is based on an accounting standard issued in February 2008 by the International Public Sector Accounting Standards Board, IPSAS 25. Although the standard does not become effective until January 2011 its provisions were deemed the most appropriate basis for calculating public sector pension liabilities.

5.6 The calculation of the accrued liability is affected by a range of assumptions dependent, in turn, on conditions prevailing at the time the estimates are made. Many of the economic assumptions, in particular, are likely to be subject to variability in the current economic climate. For example, the effect of increasing the discount rate used by 0.5% would reduce the accrued liability from €108 billion to €99 billion. A reduction in the discount rate would have a similar impact in the opposite direction.

Funding of Pension Schemes

5.7 Most public service pension schemes are financed on a pay-as-you-go basis, with the annual cost of pensions being met from current revenue in the year of payment. A small number are funded schemes operated in some non commercial State sponsored bodies and universities.

5.8 With the passing of the Financial Measures (Miscellaneous Provisions) Act in June 2009, the assets of most of these pension funds will be transferred to and managed by the NPRF. The assets of the transferred schemes at the end of 2008 were approximately €1.7 billion with related liabilities estimated at €3 billion. Following the transfer, liabilities will be met on a pay-as-you-go basis.

5.9 Pension contributions by staff, including the recently introduced Pension Related Deduction¹³ are applied as current revenue, in most instances. These contributions are recorded under the appropriations in aid heading of the appropriate Vote and are assigned for current expenditure purposes, rather than netted against pension payments. Pension deductions from staff of non commercial State sponsored bodies are generally applied for current purposes.

Accounting for Pensions

5.10 Under the cash-based approach to accounting for State pension costs operated in Departments and Offices, the accrued cost of pensions earned by staff is not captured in the Appropriation Accounts. Instead, pension payments made are accounted for as a charge to a central Superannuation Vote and analogous arrangements apply to HSE staff, teachers, Gardaí and the Defence Forces with the relevant Votes reflecting payments of pensions in those sectors.

5.11 Non commercial State sponsored bodies and universities use accrual accounting in preparing annual financial statements with the result that the net pension cost for the year of account is measured and reported in the income and expenditure account and the gross accumulated liabilities and any related funds are recorded on their Balance Sheets.

Conclusions

The detailed findings, which are set out in Special Report Number 68 submitted to the Minister for Finance for presentation to Dáil Éireann, include

- At 31 December 2008, €108 billion had accrued in respect of the State's obligations for public service pensions.
- The pension burden will increase substantially over the next 50 years. Currently net pensions paid are equivalent to 0.5% of GNP. This will rise over time to 1.8% assuming the new pension related deduction introduced in 2009 is maintained.

¹³ The Government introduced a Pension Related Deduction for staff in the Public Service under the Financial Emergency Measures in the Public Interest Act, 2009. Deductions have been made with effect from 1 March 2009.

Chapter 6 Central Government

European Union – Financial Transactions 2008

European Union – Financial Transactions 2008

6.1 The budget of the European Union is financed by own resources and some additional receipts. Own resources comprise

- the proceeds of customs duties, agricultural duties and sugar levies less a retention of 25% to cover collection costs (16% of total EU revenue)
- a VAT-based own resource under which an annually agreed percentage is levied on the VAT base of all member states (16% of total revenue)
- an own resource based on gross national income (GNI¹⁴) under which the same percentage is levied on each member state's GNI in accordance with EU rules (67% of total revenue)
- other receipts into the EU budget including interest, refunds and any surplus carried over from the previous year. (1% of total revenue).

6.2 The Irish contribution to the EU budget for 2008 was €1.6 billion. The component elements of this total are shown in Figure 16.

Figure 16 Ireland's Contribution to EU Budget 2008

Contribution Element	2008 Determination Base ^a	Amount
		€000
Traditional Own Resources	75% of total received into Exchequer	201,697
VAT-based Contribution	0.3311% of established VAT base	260,066
GNI-based Contribution	0.6440% of established GNI	983,931
UK Correction Mechanism ^b		141,015
Total		1,586,709

Notes:

- a The rates presented for the VAT and GNI based contributions are those agreed at the beginning of the budget year. These can alter during the year as amending budgets are agreed.
- b Since 1985, the UK has received a partial refund of its EU budget contributions. The refund is financed by contributions from all other member states in proportion to their national percentage of EU GNI.

6.3 The payments to the EU budget over the past five years are set out in Figure 17.

Figure 17 Ireland's Contribution to EU Budget 2004 - 2008

Year	Annual Payment €bn
2004	1.2
2005	1.5
2006	1.5
2007	1.6
2008	1.6
Total 2004-2008	7.4

Source: Department of Finance

6.4 The EU has made payments to Ireland in each of the past five years as set out in Figure 18.

¹⁴ GNI is GDP less primary income payable by resident units to non-resident units plus primary income receivable by resident units from the rest of the world.

Figure 18 Ireland's Receipts from EU Budget Funds 2004-2008

Year	Annual Receipts €bn
2004	2.6
2005	2.4
2006	2.2
2007	2.1
2008	2.1
Total 2004-2008	11.4

Source: Department of Finance

6.5 The receipts of €2.1 billion from the EU in 2008 were sourced from particular EU Funds and Programmes as specified in Figure 19. The foregoing 2008 receipts were applied by Ireland in the following fashion

▪ Amounts voted by Dáil Éireann	€467,600,000
▪ Central Fund Payments	€129,900,000
▪ Paid directly to Implementation Agencies and Beneficiaries	€1,464,000,000

Figure 19 Ireland's 2008 Receipts by Source

Source of EU Receipts	Amount €000	Application of EU Funds		
		Votes €000	Central Fund €000	Direct ^a €000
European Regional Development Fund (ERDF) ^b	127,700		127,700 ^c	
European Agricultural Guarantee Fund (EAGF)	1,450,300			1,450,300 ^d
European Agricultural Fund for Rural Development (EAFRD)	355,000	355,000		
European Agricultural Guarantee and Guidance Fund (EAGGF) – Guidance	9,000	9,000		
European Social Fund (ESF) ^b	79,900	79,900		
Cohesion Fund (CF)	—	—	—	—
Other	39,600	23,700	2,200	13,700
Total	2,061,500	467,600	129,900	1,464,000

Source: Department of Finance

Notes:

- a These receipts are held separately from State or Voted funds and paid to recipients on behalf of the EU.
- b Included in the above are receipts from the Programme for Peace and Reconciliation of €9.1 million and €5.3 million respectively.
- c Included in the ERDF figure is €14.2 million in advances from the EU Commission for programmes under the 2007-2013 Multi-Annual Financial Framework for the operation of the EU Budget as adopted by the European Council in June 2007. This money is held in a suspense account until the allocation of funds begins in a programme.
- d The principal components are Single Farm Payments (€1.3 billion) and Sugar Restructuring Payments (€149 million).

6.6 The €39.6 million in Other EU Receipts set out in Figure 19 is comprised of the funds detailed in Figure 20.

Figure 20 Estimated EU Receipts from Other Sources

Source of Other EU Receipts	Amount €000	Application of EU Funds		
		Votes €000	Central Fund €000	Direct €000
Financial Instrument for Fisheries Guidance (FIFG)	11,500	11,500		
Fisheries Protection/ Conservation and Management of Fisheries	1,200	1,200		
European Fisheries Fund (EFF)	2,900	2,900		
Veterinary Fund	8,100	8,100		
Education Programmes	12,800			12,800
EEA/TENs/Other	2,200		2,200	
CSO – Eurostat Receipts	400			400
LIFE +	500			500
Total	39,600	23,700	2,200	13,700

Source: Department of Finance

Ineligible Expenditure and Financial Corrections

6.7 On checking of claims submitted there is the possibility of loss to the Exchequer arising from audit results. Where it is concluded (by Commission and ECA auditors) that ineligible expenditure has been included in a claim for EU funds, such amounts may be disallowed by the Commission. In addition, financial corrections may be imposed by the Commission as a result of internal control weaknesses found during audit. These may be specifically quantified corrections relating to an individual operation, extrapolated corrections where the irregularity is assumed to have occurred more widely throughout a measure or programme, or flat rate corrections where the outcome of a control breach is not quantifiable.

Audit of EU Funds

6.8 The application of EU Funds is the subject of audit by specially established control units, by the audit services of the EU Commission, the European Court of Audit (ECA) and by my Office.

Control Units

6.9 Audit authorities known as Financial Control Units have been established in the Departments of Finance and Enterprise, Trade and Employment, while a dedicated control unit within the Internal Audit Unit of the Department of Agriculture, Fisheries and Food undertakes the function for forestry and fishery programmes. Each audit authority is an independent unit that provides the EU Commission with an annual opinion on the functioning of systems of control and on the legality and regularity of expenditure. The audit authority follows an audit strategy previously notified to the Commission, and provides annual reports of its audit findings including any shortcomings in management and control.

6.10 The common agricultural policy funds – EAFRD and EAGF – are administered by the Department of Agriculture, Fisheries and Food. Management assurance on the effectiveness of controls is informed by the work of the Internal Audit Unit of the Department. A firm of commercial auditors, appointed periodically following a public tendering process, provides an independent annual certificate and report on internal controls to the EU Commission.

Audits by EU Commission

6.11 Audit services from the EU Commission carry out a number of audits annually in Member States on EU funded schemes and related controls.

European Court of Auditors

6.12 The ECA is required to give an annual statement of assurance (an audit opinion) on the reliability of the Accounts of the European Union and of the legality and regularity of the transactions underlying those accounts. In carrying out those functions, ECA staff visit Member States to review management structures, test systems of control and to examine in detail a sample of applications submitted in support of payments to final beneficiaries. Liaison arrangements provide for ECA visits to Ireland to be organised by the Office of the Comptroller and Auditor General and all correspondence including the ECA audit findings and management responses are addressed to the Comptroller and Auditor General for transmission to the audited body. Following consultation with the certifying authority, the findings are incorporated into the annual report of the ECA.

Audit by the Comptroller and Auditor General

6.13 Where a Department or State Body audited by the Comptroller and Auditor General is in receipt of EU funds, the receipt and application of the funds are audited in like manner to national funds and to all other transactions by that body. Audit planning has regard to the audit tasks undertaken by others including the ECA and the certifying body for agricultural supports. Audit work includes testing of compliance with national rules that have been transposed from EU Directives and Regulations. However, the transposition process is outside of the remit of the audit.

Chapter 7 Central Government

Banking Stabilisation Measures

Banking Stabilisation Measures

7.1 Difficulties in the US housing market in 2006 and 2007 led to the exposure of other problems in financial markets around the world. This resulted in a global financial crisis that centres on concerns about the solvency of financial institutions and impairment of financial assets, including lending secured on complex and opaque financial products. In Ireland, the problems came to a head in September 2008, when serious concerns emerged about the stability of the Irish banking system. Since then, the Government has implemented a series of measures aimed at restoring the stability of the financial sector, protecting depositors and enabling and encouraging credit institutions to resume lending.

7.2 Some of the banking stabilisation measures implemented have involved the use of public funds, sourced from accumulated public reserves or increased State borrowing. Guarantees in respect of banking liabilities have exposed the State to very significant contingent liabilities.

Report Focus

This Chapter has been compiled to present an overview of the main measures implemented, and of the financial impacts to date.

International Comparison of Stabilisation Measures

7.3 Central banks in many countries have significantly increased the scale of their normal operations in support of the liquidity of financial institutions. For example, the European Central Bank has expanded its support for financial institutions since mid 2007, initially through lengthening of the lending period, and since October 2008, through an increase in the aggregate amount of liquidity provision.

7.4 In addition to central bank liquidity support operations, many countries have provided, or announced the intention to provide, further special support for their financial sectors. The main types of measures that have been implemented are

- **capital injections into financial institutions** — many countries have recapitalised banks, particularly those considered to be systemically important
- **asset purchase and direct lending** — governments and some central banks have purchased illiquid assets from financial institutions and/or have provided substantial direct loans
- **special central bank/treasury support** — central banks have provided credit lines to financial institutions, purchased asset-backed securities and commercial paper and engaged in asset swaps
- **guarantees for financial sector liabilities** — guarantees have been provided for bank deposits, interbank loans and, in some case, bonds
- **deposit guarantees** — deposit guarantee scheme limits in place prior to the financial crisis have been raised in most countries.

7.5 Figure 21 presents International Monetary Fund (IMF) data showing the range and scale of the measures provided by advanced economies up to mid-May 2009. The data are expressed in terms of percentage of Gross Domestic Product (GDP) to facilitate comparison of the scale of the interventions.

Figure 21 IMF Estimates of Support for the Financial Sector in Selected Countries, at Mid-May 2009, (as a Percentage of GDP)

	Capital Injection	Purchase of Assets/ Direct Lending	Central Bank Support backed by Treasury	Special Liquidity Provisions by Central Bank	Liability Guarantees	Up-Front Government Financing ^a
	%	%	%	%	%	%
Australia	—	0.7	—	—	8.8	0.7
Austria	5.3	3.5	—	—	26.6	8.9
Belgium	4.8	—	—	—	26.4	4.8
Canada	0.9	8.8	—	1.9	13.5	9.8
France	1.4	1.3	—	—	16.4	1.6
Germany	3.8	0.4	—	—	18.0	3.7
Greece	2.1	3.3	—	—	6.2	5.4
Ireland	5.4	—	—	—	261.0	5.4
Italy	0.8	—	—	2.5	—	0.8
Japan	2.4	11.4	—	1.2	7.3	0.8
Korea	2.5	5.0	—	0.2	12.7	0.3
Netherlands	3.4	2.8	—	—	33.9	6.2
Norway	2.0	15.8	—	—	—	15.8
Portugal	2.4	—	—	—	12.0	2.4
Spain	—	4.6	—	—	18.3	4.6
Sweden	2.1	4.8	—	15.4	47.5	5.2
Switzerland	1.1	—	—	7.2	—	1.1
United Kingdom	3.9	13.8	12.8	—	51.1	18.9
United States	4.6	2.3	0.7	41.9	31.4	7.5

Source: IMF Staff Position Note SPN/09/13, Fiscal Implications of the Global Economic and Financial Crisis, June 2009.

Note:

a Includes elements of support reported in first three columns that involve up-front government outlays.

7.6 The pattern in Figure 21 indicates that different choices have been made by different countries about the most appropriate measures to use to support their respective financial sectors.

7.7 Based on the IMF data, it appears that Ireland's up-front government financing up to mid-May 2009 (5.4% of GDP) was significant but not exceptional in relative terms. Norway and the United Kingdom had provided substantially higher levels of up-front government support, equivalent to 16% and 19% of GDP, respectively.

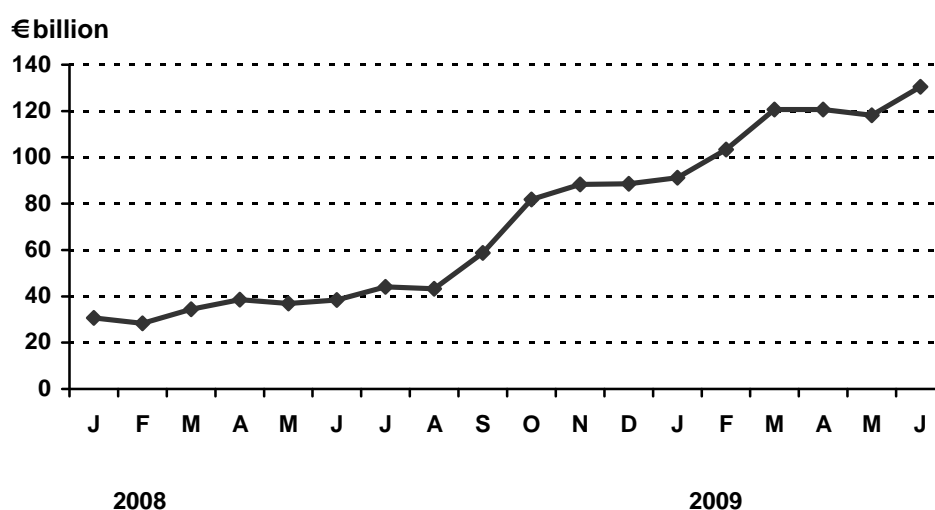
7.8 The Department of Finance considers that the IMF used an incorrect estimate of Ireland's guarantees for financial sector liabilities in compiling the data, and that the measure of liability guarantees shown by the IMF was consequently overstated. The Department estimates that at the end of March 2009, the value of credit institution liabilities covered by State guarantees equated to 164% of GDP. This excludes the value of customer deposits covered by the Deposit Guarantee Scheme. Furthermore, the Department has stated that while Ireland's guarantee of credit institution liabilities is formal and legally-binding, governments in a number of other countries have given robustly-worded commitments which, although less formal, are much closer in scope and intent to the Irish guarantee than would be evident from the formal legal position.

Central Bank/Eurosystem Liquidity Support

7.9 The Central Bank, acting on behalf of the European System of Central Banks (Eurosystem), has provided substantial funding to support the liquidity of the banking sector, in the form of lending backed by collateral. In practice, it has provided as much liquidity as banks sought, as well as broadening the list of assets acceptable as collateral.

7.10 As Figure 22 indicates, Central Bank Eurosystem lending to credit institutions increased from €38 billion at the end of June 2008, to €130 billion at the end of June 2009.

Figure 22 Central Bank/Eurosystem Lending to Credit Institutions, January 2008 to June 2009



Source: Central Bank Monthly Statistics Bulletin

Extension of Deposit Guarantee Scheme

7.11 A Deposit Guarantee Scheme was put in place in 1995, giving effect to EU Directive 94/19/EC. Under the scheme, certain depositors in credit institutions were provided with a guarantee of limited compensation in the event that the institution(s) went into liquidation. The level of protection provided was limited to the minimum allowed under the EU Directive. From 31 December 1999, the level of compensation was limited to the lesser of €20,000, or 90% of deposits held in current accounts, demand deposit accounts and term deposit accounts, in any one institution.

7.12 Institutions subject to the provisions of the Scheme are required to deposit funds in a Deposit Protection Account administered by the Central Bank/Financial Regulator. Since the

inception of the Scheme, the required deposit to be maintained in the account by each institution has been set at a level of 0.2% of the total value of current customer deposits with the institution — not just of the value of deposits guaranteed.

7.13 At end 2008, around 50 credit institutions were subject to the provisions of the Scheme. The balance in the Deposit Protection Account was €669 million (up from €526 million at the end of 2007).

7.14 In the event of the liquidation of a credit institution, claims by depositors would be met in the first instance by the Central Bank, using the resources of the Deposit Protection Account. Any shortfall would be met from the Central Fund of the Exchequer. Subsequent payments into the Deposit Protection Account from surviving credit institutions to restore their required deposits would be used to repay the Exchequer.

7.15 No claims have been made under the Scheme since its inception.

7.16 Because of apparent consumer concerns about the security of their deposits in credit institutions, the Government announced a number of reforms of the Deposit Guarantee Scheme on 20 September 2008. These included

- an immediate increase in the compensation limit from €20,000 to €100,000 per eligible depositor per institution
- the ending of the requirement whereby the depositor bore at least 10% of any loss
- the extension of the scheme to cover deposits in over 400 credit unions — previously, the deposits of some credit unions had been covered by a more limited, non-statutory deposit protection scheme.

7.17 Subsequent to the announcement of the planned changes to the Deposit Guarantee Scheme, the EU initiated a number of other reforms of these schemes. These include reducing the normal time limit for the payment of compensation under the schemes from three months to 20 working days.

7.18 The Financial Services (Deposit Guarantee Scheme) Act 2009 was passed on 18 June 2009 to provide for the necessary changes. A statutory instrument that came into effect on 30 June 2009 increased the guarantee limit to €100,000 and provided for the time limit for payment of compensation to be reduced with effect from the start of 2011. A further statutory instrument will implement the necessary changes in relation to credit unions.

Bank Guarantee Scheme

7.19 The Credit Institutions (Financial Support) Scheme (referred to as the Bank Guarantee Scheme) was initially announced on 30 September 2008. It provides a two-year State guarantee in respect of all deposits of seven credit institutions, to the extent that they are not covered by existing deposit guarantee schemes in the State or in other jurisdictions, and for certain other liabilities of the institutions. The Scheme is voluntary, but certain terms and conditions are imposed on the institutions participating in it. These include

- payment to the Exchequer of quarterly charges in respect of the guarantee over the life of the Scheme
- a requirement on each of the covered institutions to appoint two public-interest directors from a Government-nominated panel to their boards
- limits on the remuneration of senior bank officials

- more intensive regulatory oversight of the covered institutions, including more frequent prudential reporting (daily reports on liquidity) and permanent on-site Financial Regulator observers (e.g. attending credit committee meetings).

Liabilities Covered by Guarantee under the Bank Guarantee Scheme

Liabilities covered by the Scheme are

- all **retail and corporate deposits** (to the extent not covered by existing deposit protection schemes in Ireland or any other jurisdiction) — this includes any credit balance with a covered institution that results from funds left in any account or from banking transactions and which the credit institution is obliged to repay; any such debt evidenced by a certificate issued by a credit institution; and money in share accounts with building societies
- **interbank deposits** (but excluding intra-group borrowing, and excluding any debt due to the European Central Bank arising from Eurosystem monetary operations)
- **senior unsecured debt** — includes all securities that have priority ahead of all other unsecured subordinated debt in ranking for payment in the event of default. It includes debt instruments such as: short-term paper; medium-term notes (fixed or floating); convertible or exchangeable debt instruments; loan facilities; structured unsecured debt products (including interest rate linked notes, inflation linked notes, equity linked notes, commodity linked notes and foreign exchange linked notes); and crystallised exposures under derivative contracts after taking into account any netting.
- **asset covered securities**
- **dated subordinated debt** (lower tier 2) — This is debt with a specific redemption or maturity date, as opposed to a ‘perpetual’ debt that has no fixed maturity. It is subordinate to other debts, meaning that it would be honoured after those debts should a credit institution be wound up. The term ‘lower tier 2’ is a classification used for regulatory purposes.

7.20 Figure 23 indicates the estimated total value of the liabilities covered by the guarantee at the end of each quarter since the Scheme was initiated. It also indicates the estimated value of the deposits in the institutions participating in the Scheme that were covered under the Deposit Guarantee Scheme¹⁵.

Figure 23 Estimated Value of Guaranteed Liabilities of Covered Credit Institutions, December 2008 to June 2009

	Deposit Guarantee Scheme coverage ^a	Bank Guarantee Scheme coverage	Total value of guaranteed liabilities of covered institutions
	€bn	€bn	€bn
End December 2008	82.5	344.5	427.0
End March 2009	83.7	299.1	382.8
End June 2009	81.6	264.9	346.5

Source: Department of Finance

Note:

a Relates only to eligible deposits in the institutions covered by the Bank Guarantee Scheme.

¹⁵ Some of the liabilities of the credit institutions are covered by the Deposit Guarantee Scheme, but this is not regarded as a State guarantee.

7.21 The Scheme provides for the Minister for Finance to publish the aggregate value of the covered liabilities on a quarterly basis. The covered credit institutions are required to produce audited figures for the amounts of the covered liabilities at the end of each quarter. It took some time for consistent definitions and methodologies to be agreed between the Department of Finance, the credit institutions and their auditors. The first of the audited figures were submitted to the Department in July 2009. The Department intends to publish a report on the value of the covered liabilities as soon as a complete set of audited data is available.

Guarantee Premium Payments

7.22 The Guarantee Scheme provides for each of the covered institutions to pay quarterly charges in respect of the guarantee of their liabilities. This is intended to recover from the institutions concerned an appropriate amount in respect of the financial cost and the risk incurred by the State as a result of providing the guarantee.

7.23 The overall sum to be recovered through charges is based on the estimated increased cost of funding Government debt as a result of the provision of the guarantee. In practice, there is a difficulty in separating the impact of the guarantee on Government funding costs from the impact of other factors, particularly in the exceptional market conditions that now prevail. In arriving at the sum, account was also taken of the capacity of the covered institutions to pay the charges, given the circumstances that gave rise to the need to introduce the guarantee.

7.24 Based on the advice of the National Treasury Management Agency, the Department of Finance assumed that the cost of funding Government debt would rise as a result of the guarantee by between 0.15% and 0.3%, and determined that the sum to be collected from the covered institutions should be around €500 million a year for two years.

7.25 The model adopted for calculating the distribution of the charge between the covered institutions was based on long-term credit ratings as indicators of the risk profiles of the individual institutions. Each institution is required to calculate the amount to be paid each quarter, and to have the amount verified by the institutions external auditors. Other than in the first quarter of operation of the guarantee, the institutions are required to pay the charge within five working days of the start of the quarter.

7.26 A special account has been set up at the Central Bank into which the charges paid by covered institutions are lodged. This is being maintained as a reserve for any payments to be made under the scheme. Any balance remaining at the expiry of the Scheme will be paid to the Exchequer. Figure 24 indicates the amounts paid into the Guarantee Scheme account to date.

Figure 24 Payments by Covered Institutions of Guarantee Charges, Quarter 4 2008 to Quarter 2 2009

	Payment for Quarter	Cumulative Payment at end of Quarter
	€m	€m
Quarter 4 2008	110	110
Quarter 1 2009	115	225
Quarter 2 2009	70	295

Source: Department of Finance

7.27 The Guarantee Scheme provides for the Minister for Finance, at his discretion, to review the charges levied on covered institutions. The charges have not been revised to date.

7.28 Covered institutions have also committed in their respective guarantee acceptance deeds to indemnify the Minister in respect of any payments made under the guarantee, and to reimburse other costs incurred (e.g. administration costs).

Review of the Scheme

7.29 A review of the Bank Guarantee Scheme was undertaken in April 2009. This concluded that, while the Scheme was successful in its immediate aim of preventing a systemic banking crisis, the liquidity position of the Irish banking system remains under stress. The review concluded that a reason for this was that because the guarantee will expire within a relatively short time, the covered institutions were unable to obtain long-term funding from the markets. In contrast, it was found that most of the guarantee schemes introduced in other EU member states, while smaller in scope, provide for guarantees of debt instruments within a specified maturity term e.g. five years from date of issue to maturity. The review concluded there was justification for continuing the Bank Guarantee Scheme, and that there was a need to introduce a guarantee for debt issues with maturities up to five years.

7.30 The Government has indicated that it intends, under a new scheme, to put a State guarantee in place for future issues of debt securities with maturities of up to five years. It is expected that debt covered by this guarantee would be substituted for debt covered by the Bank Guarantee Scheme, and so would not add to the overall stock of guaranteed liabilities.

Recapitalisation of Banks

7.31 Because of the increased market focus on the capital position of banks in the later part of 2008, the Financial Regulator commissioned PriceWaterhouseCoopers to carry out an independent assessment of the loan books and capital position of the credit institutions covered by the Guarantee Scheme. Based on the results of the assessment, the Government decided in December 2008 to assist in recapitalisation of certain credit institutions through preference shareholding.

7.32 The banks included in the recapitalisation proposal were AIB, Bank of Ireland and Anglo Irish Bank, with an initial proposed provision of €5.5 billion. Following further analysis by PriceWaterhouseCoopers, the Government decided instead to nationalise Anglo Irish Bank.

7.33 Further work was also undertaken by PriceWaterhouseCoopers and Jones Lang La Salle, a firm of independent valuers, in relation to the value of the property-base loan portfolios of AIB and Bank of Ireland. Based on that work, the proposed recapitalisation provision for the two banks was increased in February 2009 to a total of €7 billion.

7.34 The recapitalisation was funded from the National Pension Reserve Fund, with €4 billion coming from the Fund's current resources and €3 billion provided by means of frontloading of the Exchequer contributions to the Fund for 2009 and 2010. The funding was invested in preference shares with a fixed dividend of 8% payable annually. Dividends will be paid into the Fund.¹⁶

7.35 Provision was made for the proposed investment by the National Pension Reserve Fund by way of primary legislation, passed on 5 March 2009¹⁷. In preparation for the investment, the National Pension Reserve Fund Commission carried out a detailed due diligence exercise in relation to the two banks, with the assistance of PriceWaterhouseCoopers and others.

¹⁶ The key features of the investment mechanism are described in Chapter 42, which reports on the operation of the National Pension Reserve Fund.

¹⁷ Investment of the National Pensions Reserve Fund and Miscellaneous Provisions Act 2009.

7.36 At subsequent extraordinary general meetings of AIB and BOI, shareholders agreed to the terms and conditions of the recapitalisation. The investment in Bank of Ireland occurred on 31 March 2009.

7.37 In advance of the planned investment in AIB, the Commission of the National Pension Reserve Fund conducted a due diligence process that concluded that in certain extreme stress test scenarios, AIB's Core Tier 1 capital could need to be further strengthened. Following discussions, the Minister for Finance and the bank formed the view that it would be appropriate that AIB would strengthen its capital position by a further €1.5 billion, over and above the National Pension Reserve Fund's investment of €3.5 billion. As part of this process, AIB engaged in a debt buy-back operation in June 2009 which increased its capital position by approximately €1 billion. The investment in AIB occurred on 13 May 2009.

7.38 Each of the banks paid an arrangement fee of €30 million which was deducted from the investment amount on the closing of the respective investment deals.

Nationalisation of Anglo Irish Bank

7.39 Following the proposal in December 2008 to recapitalise Anglo Irish Bank, the evident absence of market confidence in the bank and growing concerns about the bank's governance resulted in a Government decision on 15 January 2009 to take the bank into State ownership.

7.40 The nationalisation was given effect through the Anglo Irish Bank Corporation Act 2009, which was signed on 21 January 2009. The bank remains subject to regulation by the Financial Regulator and must comply with liquidity and regulatory capital requirements.

7.41 Anglo Irish Bank remains a 'covered institution' under the terms of the Bank Guarantee Scheme. The bank also has support in the form of a letter of comfort issued by the Minister for Finance on 30 September 2008 backing Anglo Irish Bank's borrowings from the Central Bank under the Eurosystem.

Valuation of Shares

7.42 The Act provides for the appointment of an assessor to assess whether shareholders in Anglo Irish Bank at the date of the nationalisation should receive compensation in respect of their lost shares, and if so, to determine a fair amount. If the assessor determines that compensation should be paid, a scheme will be established to effect the payment. The Act specifies that the compensation will be paid out of Anglo Irish Bank funds, if available. If not, any compensation payments made will be made out of the Central Fund.

7.43 An assessor has not yet been appointed to examine the issue of compensation payments.

Recapitalisation of Anglo Irish Bank

7.44 Detailed internal assessment of the Anglo Irish Bank loan book was carried out for the period leading up to the end of March 2009, and was reviewed independently by PriceWaterhouseCoopers. As a result, it was recognised that there was very substantial impairment of certain loans, resulting in the bank's half year accounts published at the end of May 2009 showing pre-tax losses of €4.1 billion.

7.45 In light of the losses, the Minister announced that, subject to EU approval, he would provide up to €4 billion of capital for the bank. Part of the injection of capital was to be used by the bank to buy back certain outstanding subordinated loans from bondholders at a significant

discount on their par value. EU approval for the Government's capital injection was received on 26 June 2009.

7.46 On 29 June 2009, the Government provided capital to the bank through the purchase of ordinary shares in Anglo Irish Bank Corporation Limited to the value of €3 billion. This sum was paid out of the Central Fund, under Section 6 (9) of the Credit Institutions (Financial Support) Act 2008.

7.47 Further capital of up to €1 billion is expected to be provided by the Government following the agreement of the terms of a programme whereby the bank will repurchase its debt. On 9 July 2009, the bank announced that it proposes to make an offer for securities with a nominal value of €3.05 billion.

Purchase of Financial Assets

7.48 Much of the concern about asset quality in Irish banks relates to loans advanced to fund property transactions, particularly lending for land acquisition and development in Ireland and in the UK. A collapse in property values has resulted in impairment of related loans and doubt as to the value of asset-backed lending.

7.49 Following an examination by a consultant¹⁸ of options to deal with impaired assets, the Government announced on 7 April 2009 that it would establish a National Asset Management Agency (NAMA) on the basis that it would be the most effective way to bring stability to the Irish banking system. It is intended that the agency will purchase land as well as development and related loans from the banks, thereby removing the doubtful assets from their balance sheets. This is expected to improve their capacity to source funding from financial markets and facilitate lending to the economy.

7.50 One of the more difficult challenges in operating the NAMA model will be to establish the appropriate price for the agency to pay for the property loans it will acquire. The book value of the loans to be transferred is estimated to be in the region of €80 billion to €90 billion. However, NAMA will not be paying the book value, so the banks concerned will have to recognise losses in their accounts on the transfer of the loans to NAMA.

7.51 Payments to the banks will be by means of issue of government or government-guaranteed bonds directly to the banks. The value of the bonds to be issued is dependent upon the loan valuation process and has therefore to be determined.

7.52 Income from the assets acquired, and the proceeds from their eventual sale, will accrue to NAMA. If NAMA has made a profit by the time it comes to be wound up, this will accrue to the State. If NAMA eventually ends up with a loss, it is the Government's intention to apply a levy on the banks to recoup the shortfall.

7.53 NAMA will operate under the aegis of the National Treasury Management Agency. The initial preparations for the agency, including the drafting of the necessary legislation, are being managed by a steering group made up of representatives of the Department of Finance, the Office of the Attorney General and the NTMA. An interim Managing Director has been appointed to lead the implementation process.

7.54 Legislation to provide for the establishment of NAMA has been published and is scheduled for consideration by the Oireachtas in Autumn 2009.

¹⁸ Dr Peter Bacon.

Regulatory Reform

7.55 The failure of regulatory systems to restrain the development of high risk banking practices has been identified as a contributory factor to the global financial crisis. As a result, changes are being made in regulatory regimes in many jurisdictions.

7.56 The oversight of banks has been intensified since the introduction of the Credit Institutions (Financial Support) Scheme. The Scheme provides for a heightened direct engagement with each of the covered institutions and new reporting arrangements, including the provision of Scheme compliance certificates by the covered institutions themselves and by their external auditors.

7.57 On 18 June 2009, the Government announced its intention also to establish a single fully-integrated regulatory institution, to be called the Central Bank of Ireland Commission. This will replace the current board structure of the Central Bank and the Financial Services Regulatory Authority. The proposed Central Bank Commission will be chaired by the Governor of the Central Bank and will be responsible for both the supervision of individual firms and the stability of the financial system generally.

7.58 Two top-level posts will be established within the Central Bank of Ireland as ex-officio members of the Commission.

- A Head of Financial Supervision will report to the Commission on the regulatory and supervisory functions and objectives of the new structure. The process of recruiting the Head of Financial Supervision is already underway.
- A Head of Central Banking will report on the performance of central banking functions (other than those that relate to the independent role of the Governor under the Eurosystem and ECB structure).

7.59 It is intended that the organisational reforms will be supported by a significant expansion of regulatory capacity within the new structure. Substantial additional staff with the skills, experience and market-based expertise needed to meet the objectives of the new structures will be appointed. Those recruited will also have the expertise to regulate the international financial services sector. The Financial Regulator is working through business changes in light of a business review process.

7.60 The consumer information and education role currently carried out within the Consumer Directorate in the Financial Regulator will be re-assigned to the National Consumer Agency, which is to be amalgamated with the Competition Authority.

7.61 The Government has indicated that it intends to enhance the accountability of the new regulatory structures to the Oireachtas and to strengthen processes for the evaluation and quality assurance of regulatory performance.

Administrative Costs

7.62 In the course of developing and implementing the measures aimed at stabilising the banking sector, there has been very significant recourse to the services of legal, financial and economic advisors. This was necessary because of the highly technical issues that have arisen, and because of the need to complete elements of the work within a short timeframe. The urgency of the work also necessarily resulted in the procurement of some services without recourse to competitive processes. Significant internal costs in relation to staff engaged in the design and implementation of the stabilisation measures were also incurred.

7.63 Up to the end of May 2009, the Department of Finance had paid a total of €3.9 million to Arthur Cox Solicitors for legal advice in relation to the Bank Guarantee Scheme, the recapitalisation of banks and the nationalisation of Anglo-Irish Bank. In late July 2009, the Department invoiced the credit institutions covered by the Guarantee Scheme a total of around €2.5 million in respect of recoupable costs, including €1.6 million in respect of legal expenses.

7.64 The expenses of the Minister for Finance in connection with the nationalisation of Anglo Irish Bank are recoupable from the bank under Section 33 of the Anglo Irish Bank Corporation Act 2009. The Department has stated that the expenses will be charged in due course. Separately, there is a provision in the agreement for the Anglo Irish Bank recapitalisation that the bank will reimburse the Minister for the costs relating to the execution of the agreement. These costs are currently being compiled and will be charged when the recapitalisation process is complete.

7.65 The Financial Regulator paid a total of €2.95 million to PriceWaterhouseCoopers and a further €0.84 million to Jones Lang LaSalle for financial and property consultancy services in relation to the Bank Guarantee Scheme. The Financial Regulator levied fees totalling €3.4 million on the relevant institutions up to the end of December 2008.

7.66 The National Treasury Management Agency paid a total of €7.3 million to Merrill Lynch for investment banking advice.

Conclusions

The range of actions taken and measures implemented by State agencies have had the common aims of restoring the stability of the financial sector, protecting depositors and enabling and encouraging credit institutions to resume lending.

Up to the end of June 2009, the State had directly expended a total of €10 billion on banking stabilisation measures. This comprised

- €3.5 billion invested in preference shares in Bank of Ireland
- €3.5 billion invested in preference shares in AIB
- €3 billion invested in the State-owned Anglo Irish Bank.

A further €1 billion is expected to be invested in Anglo Irish Bank in the near future.

In addition to the expenditure incurred, the State has taken on very substantial financial commitments. At end June 2009, State guarantees covered liabilities of credit institutions totalling €65 billion.

The financial implications for the State of the proposed NAMA have yet to be determined.

Chapter 8 Central Government

Public Procurement

Public Procurement

8.1 Procurement of goods and services by departments, offices and agencies must be conducted in accordance with EU and national regulatory requirements, and guided by practical guidance issued from time to time by the Department of Finance. In general, there is an obligation on Government agencies to follow a competitive process, carried out in an open, objective and transparent manner. This is expected to result in best value public procurement.

8.2 EU directives set out advertising requirements and tendering procedures for contracts above certain value thresholds. For contracts or purchases below the threshold values, less formal procedures are allowed. For example

- Supplies or services costing less than €5,000 in value may be purchased on the basis of verbal quotes from one or more competing suppliers.
- Supplies or services contracts between €5,000 and to €50,000 in value may be awarded on the basis of responses to specifications sent by fax or email to at least three suppliers or service providers.

8.3 A reform of procurement procedures in 2002 gave rise to the establishment within the Department of Finance of the National Public Procurement Policy Unit (NPPPU), which deals with procurement policy, legislation and organisation. The NPPPU also analyses returns made to it by departments and offices on the recourse by them to non-competitive tendering. In the course of this, it seeks to identify trends in order to determine the reason for them and to consider if any action might be required. These returns are also submitted to my Office.

Exceptions to Competition

8.4 Exceptional arrangements are allowed under national and EU procurement rules in limited circumstances. Department of Finance Circular 40/2002 outlines the course to be followed in those cases where Government departments and offices propose to award contracts without a competitive process.

8.5 Under the Circular 40/2002 procedure, proposed contracts that exceed €25,000 in value (exclusive of VAT) not subject to a competitive process are required to be reviewed prior to award by the relevant department's/office's Internal Audit or by an appropriate senior officer who was not part of the procurement process.¹⁹ The Circular also requires

- Accounting Officers to complete an annual statement in respect of non-competitive contracts, and to submit it to my Office by 31 March of the following year. This return should give details of the subject or purpose of the contract, its value and the reasons for not having a competitive process
- each department/office to maintain an up-to-date central register of non-competitive contracts
- each department/office to designate a Procurement Officer to collate the information on these contracts.

¹⁹ The Department of Finance issued a supplement to Circular 40/2002 in July 2003, providing guidance for officers reviewing the case for such proposed contract awards.

Audit Focus

This report has been compiled to provide an account of the expenditure declared to have been undertaken in 2008 on foot of contracts entered into without recourse to competitive procurement processes. It also presents an analysis of the declared reasons why a competitive process was not followed in those cases. The views of the NPPPU are set out and recent proposed changes to procurement procedures outlined.

Scope of Application of Circular 40/2002

8.6 The Health Service Executive (HSE) is one of the major State purchasers of supplies and services. Although funded by a vote, it is not included within the scope of Circular 40/2002. Consequently, it is not required to submit annual returns in relation to significant purchases of goods and services where procurement was by non-competitive means.

8.7 In 2006²⁰, the Department of Finance stated that it intended to extend the scope of the Circular to the HSE, and it wrote to the Department of Health and Children proposing the extension. The Department of Health and Children informed the Department of Finance in May 2009 that the HSE had now put in place procedures that incorporate the provisions of the Circular. It was expected that these would apply to procurements undertaken for 2009 and subsequent years. Information was not available about the level of non-competitive procurement by the HSE (and its agencies) in 2008.

Extent of Non-Competitive Procurement

8.8 The annual returns of non-competitive procurement for 2008 from departments and offices show that payments were made in 2008 under 508 contracts concluded without competition. The total value of the contracts reported in 2008 was €82.8 million. Figure 25 shows the number of contracts and the total contract expenditure disclosed in the departmental returns.

8.9 Both the number and value of non-competitive procurement payments reported increased in 2008 relative to previous years. The total number of contracts reported in 2006 was 192, with a combined value of just under €22 million. The increase in the number and value of contracts reported in 2008 is likely to be due, at least in part, to more comprehensive reporting than in earlier years.

²⁰ Annual Report 2006, Chapter 1.2 – Exceptions to General Procedures in Public Procurement

Figure 25 Reported Contracts Awarded without Competition, 2008

Department/Office	Number of cases	Total Contract Expenditure €m
Prison Service	193	27.7
Agriculture, Fisheries and Food	6	13.4
Justice, Equality and Law Reform	61	7.7
Garda Síochána	38	7.7
Defence	42	4.4
Community, Rural and Gaeltacht Affairs	4	2.8
Courts Service	21	2.6
Revenue Commissioners	17	2.6
Office of Public Works	18	1.9
Finance	2	1.7
Enterprise, Trade and Employment	13	1.6
Communications, Energy and Natural Resources	11	1.2
Health and Children	8	1.2
Arts, Sport and Tourism	9	1.0
Foreign Affairs	8	1.0
Others ^a	57	4.3
Total	508	82.8

Note:

a There were 13 nil returns by departments and offices.

Reasons for Non-Competitive Procurement

8.10 Figure 26 sets out the main reasons given in the returns by departments and offices explaining why competitive processes were not used in the procurement process.

Figure 26 Reasons Cited for Departure from Use of Competitive Process

Reason	Number of Cases	Value of Contracts €m
Urgency	23	13.8
Purchase of proprietary goods	121	18.8
Single suitable supplier	83	12.5
Expert service/recent experience with supplier	52	9.1
Extension/rollover of existing contract	127	17.5
Security considerations	11	1.5
Other reasons	91	9.6
Total	508	82.8

Urgency Exception — €13.8 million

8.11 Circumstances can arise from time to time where departments and offices are required to respond urgently to events. The rationale for the exception in these cases is that where there is a requirement to procure goods and services, there may not be time to set up a competitive procurement process. It may also be the case for confidentiality reasons that a public or

widespread procurement process may not be consistent with optimum management of the public business involved.

8.12 Significant recourse to non-competitive procurement under this exception in 2008 included the following

- Payments were made by Department of Agriculture, Fisheries and Food in respect of services to deal with dioxin-contaminated pork supplies in late 2008. The collection, rendering and destruction of material under the pigmeat recall scheme and the pig and cattle disposal scheme cost €10.2 million.
- The engagement by the Department of Finance of legal advisors to assist in the development of banking stabilisation measures and the preparation of related legislation cost approximately €1.6 million in 2008.
- The engagement by the Department of Enterprise, Trade and Employment of financial consultants to advise in relation to an application for provision of State aid for the Waterford-Wedgewood company, at a cost of €226,000.

Proprietary Goods Exception — €18.8 million

8.13 Generally speaking, non-competitive purchases of proprietary goods relate to branded or named products or exclusive services. In some instances, these procurements include maintenance of previously acquired goods or services, upgrades or additional purchases. This accords with EU Directive 2004/18/EC which allows contracting authorities to award public contracts by a negotiated procedure when, for technical or artistic reasons, or for reasons connected with the protection of exclusive rights, the contract may be awarded only to a particular economic operator. Procurement of so-called proprietary goods arises when specific branded goods are selected to meet a need. It can also arise when there is a desire to restrict the number of different products in use for simplicity of maintenance or carriage of spares.

8.14 Of the 121 instances of purchasing of proprietary goods contained in the 2008 departmental returns, 32 were in respect of purchases by the Prison Service to a value of €6.8 million; 28 were in respect of purchases by the Garda Síochána to a value of €5.1 million and 24 were in respect of purchases by the Defence Forces which cost €2.2 million. The proprietary goods purchased, in general, related to information and communications technology or to technical systems including those associated with weapons systems or special vehicles. Where departments and offices specify proprietary goods, the potential of a competitive procurement process to result in value for money may be lost. The scale of purchasing of proprietary goods also emphasises the importance of considering whole-life costs when planning technical procurements.

Single Suitable Supplier Exception — €12.5 million

8.15 This category relates to procurements where departments and offices consider there is only one suitable supplier of the required service. In 2008, expenditure was incurred under 83 single supplier contracts, at a combined cost of €12.5 million.

8.16 An example of the kind of services procured in this way was the hiring by the Department of Social and Family Affairs of the Economic and Social Research Institute, at a cost of €330,000, to supply a variety of services including analysis of the impact of budget changes on poverty levels, using the Institute's tax-benefit model, profiling of people on the live register and analysis of the National Employment Action Plan.

8.17 The Department of Agriculture, Fisheries and Food hired a contractor to provide a range of services over five years at a total cost of €3 million for the development and running of the

National Rural Network²¹. Even though a competitive process had technically been initiated, it was appropriate because of the single offer for the Department to treat it as a contract coming within the terms of the Circular.

Expert or Recent Experience Exception — €9.1 million

8.18 A considerable number of cases were reported where departments and offices took the view that their interest was best served by entering contracts where they had used the services of individuals or firms in the recent past or had identified, without recourse to competitive processes, persons or firms whose expertise coincides with their requirements. This does not exclude the possibility that there might be other suitable suppliers. Examples include

- The hiring of retired public servants to carry out consultancies for the Department of Justice, Equality and Law Reform (at a cost of €107,000) and the Department of Health (at a cost of €45,000), based on their previous professional experience.
- The hiring by the Office of Public Works of an internationally renowned company to restore the organ in the Chapel Royal in Dublin Castle at a cost of €136,000.
- The hiring by the Department of the Environment, Heritage and Local Government, at a cost of €103,000, of a consultant to complete the design of phase 1 of a specialist National Parks and Wildlife Service database, to finalise data transfer and to deliver tested software products.

Extension/Rollover Contracts Exception — €17.5 million

8.19 A significant number of contracts reported involved the extension or rolling-over of existing contracts for goods and services. Some of the contracts extended or rolled over had been in place for several years.

8.20 Justifications reported by departments and agencies for continuing with existing contractual arrangements included

- the contractor had relevant experience gained from prior involvement with the department
- the contractor was best placed to provide the required goods/services without undue extra cost to the Exchequer
- it was not possible to go to the market due to staffing difficulties.

8.21 Almost all of the contracts in this category are for the provision of services. Examples include

- the extension by the Department of Education and Science, at a cost of €150,000, of a consultancy contract for the provision of the professional services of an accountant to work on the Department's financial management system
- the award of an extension, at a cost of €437,000, by the Department of Justice, Equality and Law Reform to carry out further work on the Department's human resources management system.

8.22 The extent to which the contracts being rolled over had originally been subject to competitive processes is not captured in the returns. The key risk that arises in this category is that failure to test the market on a regular basis may lead to poor value for money being achieved.

²¹ The National Rural Network is a component of the Rural Development Programme (RDP) for Ireland 2007-2013. Its purpose is to link organisations involved in rural development to facilitate exchange of experience and information.

Security Considerations — €1.5 million

8.23 Competition was limited in the interests of security in a number of instances reported in the returns, including cases where

- the Office of Public Works engaged contractors to carry out security works on the private residences of a number of judges, at a total cost of €347,000
- the Department of Justice, Equality and Law Reform engaged plant hire contractors and site surveying experts, at a total cost of €303,000, to carry out site surveys and excavations in Monaghan and Wicklow on behalf of the Location of Victims' Remains Commission.

Other Reasons — €9.6 million

8.24 There were 91 reported instances of contracts being awarded for a variety of other reasons. Of these, 81 contracts at a total cost of €8.5 million, were awarded by the Prison Service. A large number of these were in respect of the local purchase of various goods and services such as cleaning, catering and transport services as well as the purchase of televisions and electrical equipment.

Views of the National Public Procurement Policy Unit

8.25 Based on its analysis of the 2008 returns, the NPPPU noted that some of the non-competitive procurement could be attributed to clearly exceptional circumstances but that the high level of non-competitive procurement and extension of contracts gave rise to concern.

8.26 The NPPPU has stated that there would often be an element of judgment in regard to what might constitute justifiable non-competitive procurement which only the contracting authority could make. In 2003, it provided guidance for reviewing offices on what might be considered 'justifiably exceptional circumstances' for recourse to non-competitive procedures. It had highlighted the system and emphasised the need for compliance via the Government Contracts Committee, which comprised representatives of the biggest procuring departments and offices. It had followed up with reminders when annual returns were due or overdue, as required. Overall, the NPPPU was satisfied that the Circular 40/2002 measures, together with the exercise of the normal accountability and auditing functions, significantly limited the extent of recourse to unjustified non-competitive procurement.

8.27 The NPPPU was satisfied that, in general, departments and offices were applying the requisite controls where they proposed to have recourse to non-competitive procurement. In addition, the recording and reporting process drew attention to trends and areas of concern. For example, internal reviews of non-competitive procurement in the Department of Justice, Equality & Law Reform and the Irish Prison Service had identified a significant number of cases where competitive procurement should have been used. The extent of recourse to non-competitive procurement was being addressed and changes in procedures had been put in place.

Procurement Improvement Initiatives

8.28 The Department of Finance has been promoting a policy of reform of public procurement functions. As part of this reform, departments and offices that engage in a significant procurement function are required to examine their purchasing profile and draw up corporate procurement plans that identify the most appropriate procurement procedures. One of the objectives of this is to reduce the amount of 'once-off' or 'off contract' spending.

8.29 It was originally envisaged the NPPPU would operate in tandem with a central procurement operations unit, but this was not set up at the time. The idea was to have a central unit to support procurement activity by public agencies.

8.30 In 2008, a decision was made to push ahead with establishment of a National Public Procurement Operations Unit (NPPOU), based in the OPW, and replacing the Government Supplies Agency. The initial planned scope of the NPPOU was to support procurement by central government departments, but a decision was taken subsequently to extend it to include also procurement by local authorities, agencies, third level education and health sector.

8.31 The NPPOU was established in March 2009. Its early development is coinciding with the transfer of OPW functions/head office to Trim, Co Meath, where it will be located.

Role of the NPPOU

- Put in place central public sector procurement arrangements for common goods and services (except construction) including computer equipment, vehicles, trucks, fuel, electricity, etc.
- Act as a 'centre of excellence' for the provision of procurement advice and for implementation of procurement policy in line with best practice and Government initiatives.
- Continue development of e-procurement strategies.

8.32 The kinds of methodologies that the NPPOU envisages using to achieve better procurement include

- aggregated contracts
- framework agreements
- drawdown agreements.

8.33 Current staffing of the NPPOU is around 25-30, and is expected to rise to about 50. The Unit envisages that while most client organisations will need to retain some staffing to deal with procurement issues, there may be scope for staff savings in those organisations as a result of its establishment.

8.34 A planned first initiative being implemented by the NPPOU involves

- a survey of public bodies to identify and record the profile of current procurement — type of goods and services procured and the cost of all procurements worth €100,000 or more
- a related drive to secure an agreed or negotiated reduction of 8% in the expenditure on goods and services procured, including termination of contracts and re-tendering, where feasible and economic to do so
- identification of 'top 30' suppliers of goods and services, as a means of identifying common requirements that might be targeted for centralised negotiation.

8.35 Other initiatives envisaged for the Unit are

- an invitation to staff generally to report areas where they believe better value could be obtained, and to explain how that could be done
- identify and publicise transferable good practice
- training for staff involved in procurement.

Conclusions

From a public accountability viewpoint, procurement must meet two criteria

- achieve value for money
- be conducted in an open, transparent and competitive way.

In general, these are mutually supporting in that competition is acknowledged as a primary means of achieving best value. However, in exceptional circumstances, it may be necessary to depart from competitive processes. To ensure that this only occurs in appropriate cases, it is incumbent on purchasers to have processes in place to identify their procurement needs in a timely manner.

Almost €19 million was spent on proprietary goods in the absence of competition. It is important that departments and offices avoid identifying their needs by reference to branded products. Specifications should, where possible be described in generic terms so as to encourage real competition. While the results of many procurements may be the purchase of branded products or services, the procurement process should be characterised by efforts to minimise ‘brand capture’ and to ensure that procurement decisions do not result in future streams of payments over which departments and offices have little or no control.

In circumstances where only one supplier emerges from a tender competition, it can be difficult for purchasers to be sure that the bid on offer represents good value. Following the Circular 40/2002 procedure and having the proposed deal reviewed in advance of award by Internal Audit or by an independent manager would be good practice in these cases.

At organisational level, the adoption of corporate procurement plans and active monitoring of trends in the extent of non-competitive procurement together with regular analysis of the reasons for not using competitive processes are required. The challenge is to move quickly to align the efforts of the central units in the Department of Finance and the OPW with more strategic approaches to procurement on the part of the major purchasing departments.

The recent establishment of the NPPOU creates an opportunity to identify potential improvements in the approach of State organisations to procurement of goods and services so as to achieve better value, and to ensure that good practice is recognised and shared.

Chapter 9 Central Government

Termination of Major ICT Projects

Termination of Major ICT Projects

9.1 Circumstances may arise that require long-term projects that are unlikely to deliver good value for money to be terminated. A key challenge in managing these projects is to recognise in a timely way when it is appropriate to terminate them.

9.2 Termination of information and communications technology (ICT) projects may come about for a number of reasons, including

- lack of user involvement or acceptance
- absence of need for the technology delivered
- changes in technology or alternative technologies have rendered the product obsolete
- technological difficulties make the solution difficult or impossible to implement or its cost too high.

9.3 In the last two years, two major Government ICT projects have been terminated. These were

- the electronic voting project
- the Public Service Broker.

Audit Focus

The circumstances of the project terminations were reviewed to establish the extent of the write-offs involved, what value (if any) has been recovered from the project investments and what residual benefits of the projects remain.

Termination of the Electronic Voting Project

9.4 The 2003 Annual Report²² included a Chapter on the Electronic Voting project being managed by the Department of the Environment, Heritage and Local Government. This project aimed to replace the existing manual voting and counting process with an alternative computer-based system for voting and vote counting. The system was piloted in a number of Dáil constituencies during the 2002 general election and the second referendum on the Nice Treaty in the same year. Subsequently, the computer hardware and software required to operate the system on a nationwide basis was acquired from Nedap, a system supplier in the Netherlands. The total costs of acquiring and developing the system were €1.3 million.

9.5 Arrangements were made by Returning Officers for storage of the equipment at a number of locations around the country. Some of the storage facilities were provided in publicly owned property (e.g. local courthouses). In other cases, Returning Officers entered lease arrangements with private sector providers of storage facilities.

9.6 Following considerable public concern about the new voting process, the system was examined by a Commission on Electronic Voting. Based on the Commission's findings (published in a report in December 2004), the Government decided that further assessment, testing and validation of the electronic voting and counting system should be undertaken. The

²² Annual Report of the Comptroller and Auditor General, published in September 2004.

Commission published its second report in July 2006 in which it recommended against the use of the system pending a number of changes being made to both hardware and software. The Government established a Cabinet Committee to report to it on the implications of the Commission's recommendations.

9.7 In 2008, the Department undertook a structured analysis of options on the future of the project. Four options were identified and examined in terms of risks, costs, benefits and impacts. Cost estimates were provided in respect of each of the options and account was taken of hardware and software changes, training, education, information programmes, transport, storage and testing of the system. The four options considered and presented to Government are outlined in Figure 27.

Figure 27 Options presented to Government

Option	Outline of option
A	<ul style="list-style-type: none"> ■ Modify the voting system in line with the recommendations of the Commission on Electronic Voting ■ Undertake testing and roll out the system nationally
B	<ul style="list-style-type: none"> ■ Modify the voting system in line with the recommendations of the Commission on Electronic Voting ■ Retro-fit the system with a voter verifiable audit trail ■ Undertake testing and roll out the system nationally
C	<ul style="list-style-type: none"> ■ Refer the question of the future use of the chosen system to an independent Electoral Commission
D	<ul style="list-style-type: none"> ■ Cease the electronic counting and voting project ■ Establish an Interdepartmental Task Force to oversee the disposal of the equipment and termination of storage arrangements

9.8 Having considered the results of the Department's analysis, the Government decided in April 2009 to terminate the electronic voting project (option D). In announcing the decision, the Minister for the Environment, Heritage and Local Government stated that significant additional costs would arise if electronic voting was to be advanced and that the decision had been taken to avoid those costs. The Government also decided that the Department should establish an Interdepartmental Task Force to bring the project to a conclusion and oversee the disposal of the relevant equipment and the termination of storage arrangements.

Cost of the Project

9.9 Total expenditure on the electronic voting project up to May 2009 is estimated at €54.4 million. A breakdown of the expenditure is shown in Figure 28.

Figure 28 Expenditure on the Electronic Voting Project to May 2009

Expenditure Category	€000	€000
Voting Equipment		
Voting Machines	41,028	
Voting Machine Retrofit	2,913	
Other Hardware Costs	2,330	
Software, Development and Support	828	47,099
Training and Awareness		
Training	132	
Awareness and Education Campaign	2,566	2,698
Other Development Costs		
Consultancy/Testing Costs	731	
Miscellaneous	669	1,400
Other Costs		
Local Storage	2,753	
Centralised Storage (Preparatory Costs)	328	
Freight and Insurance	136	3,217
		54,414

9.10 Most of the cost of the electronic voting project was met directly from the Central Fund, rather than through the Vote of the Department. However, the Department included the value of the voting equipment in the Statement of Capital Assets attached to its Appropriation Account. This was being depreciated over 20 years, to reflect the expected operating life of the equipment. The termination of the project will result in a write-off in due course of the residual value of the equipment.

Storage Costs

9.11 The Department wrote to all Returning Officers in January 2003 requesting them to make arrangements for storage of the voting equipment in advance of delivery starting in September 2003. In 20 areas, lease arrangements of varying duration and cost were entered into.

9.12 Because of decisions not to use the voting equipment in elections between 2003 and 2007, dispersed storage was not necessary. The Department sought to rationalise the storage arrangements in order to save money. Between February and November 2007 the Department was able to move voting equipment from 12 local storage points into the Department of Defence facility at Gormanstown, Co Meath. This absorbed the full available capacity at Gormanstown. Site preparation and consultancy costs in planning the move amounted to €328,000.

9.13 Some of the leases entered into were of relatively short duration and could be terminated at short notice. In a few cases, long-term leases had been agreed. For example, in Cavan-Monaghan, a lease costing €16,800 per annum is due to run until 2029. A lease in Cork city, costing €25,200 each year is due to run until 2024.

9.14 Consultants were engaged by the Department in 2007 to examine a number of local storage arrangements where leases had been entered into. The objective of the consultancy was to bring forward recommendations in relation to the conclusion of the leases on a least-cost basis for the State and to manage the process on a case-by-case basis.

9.15 The consultants recommended retention of leases in five locations. This was based on there being an ongoing need for manual equipment storage coupled with a lack of suitable alternatives in the local area and/or a lack of marketability of the existing leases in the local market.

9.16 The consultants recommended termination of leases in seven cases and this has since happened in three cases. No additional payments were made in respect of these terminations. Negotiations are in progress with a view to terminating the other four leases.

Disposal of the Voting Equipment

9.17 The Accounting Officer informed me that the Department was putting in place arrangements to address the matters that followed from the Government decision of April 2009 concerning the disposal of the voting equipment. The Department had established an Interdepartmental Task Force to bring the project to a conclusion and to oversee the disposal of the relevant equipment and the termination of the storage arrangements. The first meeting of the Task Force took place in July 2009.

9.18 The Accounting Officer stated that, in considering options for the disposal of the equipment, the priority for her Department would be to pursue the most economically advantageous approach, with a view to achieving the maximum recovery of cost possible in the circumstances. She stated that the Department was in communication with the suppliers of the equipment.

9.19 Developments in other jurisdictions might have implications for the disposal value of the equipment.

- In 2008, the Government of the Netherlands decided to end the use of similar Nedap electronic voting equipment. In that case, the supplier agreed to accept the equipment for disposal.
- In March 2009, the German Constitutional Court ruled against further use of Nedap voting equipment in that jurisdiction. While it found that there was no evidence that the equipment had failed in the past, the Court ruled against its further use on the grounds that voters should not have to be computer literate to vote, and because it would be difficult to detect programming errors or manipulation of the equipment.

Termination of the Public Service Broker Project

9.20 Reach was a unit within the Department of Social and Family Affairs charged with developing the Public Service Broker. The Broker was a key eGovernment infrastructure project that aimed to provide a set of publishing and customer interaction facilities, including a facility for interactive exchange of messages, aimed at integrating all public services and making them readily available to the users of services on-line.

9.21 Reach delivered the first operational version of the Broker in December 2005, with a limited range of on-line services.

9.22 A previous examination of progress on development of the Broker²³ found that, while it did not operate in the way originally envisaged, it nevertheless had some potential if it could be used to make available a wider range of services and if the public used those services. Aspects of the system that were operating effectively included

- the Inter Agency Messaging Service, which provided a means for departments and agencies to exchange documents and data with each other
- identity authentication for PAYE taxpayers
- a death notification service linking the General Register Office with almost 40 other departments and agencies.

However, it was also found that there was an overlap of some of the Broker's functions with other on-line Government services.

Continuity of Broker Functions

9.23 A subsequent report of an inter-departmental review of the Broker project recommended that responsibility for Reach and the Broker should be transferred from the Department of Social and Family Affairs to a central Government department. It also made recommendations about how the operational elements of the Broker should be handled.

9.24 In April 2008, the Government approved the transfer of responsibility for the project to the Department of Finance. The main operational elements of the Broker were subsequently dealt with as follows.

- The Reachservices.ie information portal was shut down and the content and links were integrated with the main Government website.
- The Inter-Agency Messaging Service was replaced by bilateral message exchanges using the secure Government Networks infrastructure and messaging technology already in place in the organisations concerned.²⁴
- Identity authentication for Revenue on-line PAYE services was replaced initially by a lower-cost service developed by the Department of Finance, and subsequently was integrated into the Revenue PAYE Anytime service.
- The death notification service was also replaced by an in-house developed lower-cost service based in the Department of Finance.
- The Broker included an on-line form filling (eForms) function, but Reach had discontinued its use prior to the transfer of responsibility to the Department of Finance. Since then, the Department has helped a number of organisations to design forms for on-line delivery of services using in-house development.

Cost of Reach and the Broker

9.25 The Department of Social and Family Affairs has stated that its total expenditure on Reach, from its establishment in 2000 to its transfer to the Department of Finance in April 2008, was €71.4 million. This included the costs of developing and supporting the Broker. By 2007, the annual expenditure on Reach and the Broker was in the region of €14 to €15 million.

²³ Special Report No. 58: eGovernment, Comptroller and Auditor General, October 2007

²⁴ For example, the transfer of messages between Revenue and the Department of Agriculture, between the General Register Office and the Department of Social and Family Affairs, and between the Courts Service and An Garda Síochána.

9.26 Following the transfer of responsibility and the replacement of functions by alternative services, the Department of Finance wound down the Reach operations through the re-assimilation of departmental staff to their parent departments and the termination of the contracts of contracted staff. A substantial contract with a company for services in support of the operation of the Broker was terminated by agreement, and the technical infrastructure of the Broker was dismantled. Termination costs incurred by the Department amounted to an estimated €1.49 million.

9.27 The Department has stated that the current cost of delivering the functionality previously delivered through the Broker is minimal.

Accounting for the Termination

9.28 The Department of Social and Family Affairs disclosed the capital costs it incurred in developing the Broker in a note to its annual Appropriation Account dealing with capital assets under development. The total amount capitalised up to the end of March 2008 was €32.3 million. This related to the direct costs of developing the Broker, including project pay and consultancy costs.

9.29 In recognition of the transfer of responsibility for Reach and the Broker out of the Department of Social and Family Affairs with effect from 1 April 2008, a note to the Department's Appropriation Account for the year records the transfer of assets under development valued at the full recorded amount of €32.3 million.

9.30 However, following the closing of the Reachservices portal and the replacement of other Broker operations by alternative and cheaper means of provision, the Department of Finance valued the Broker's residual assets — principally computer software being retained for use — at €5 million. The assets have been brought onto the Department's fixed asset register at that value, and are recorded in its statement of assets and liabilities in the Appropriation Account for 2008. This effectively wrote off €27.3 million of the accumulated capital cost of development of the Broker.

eGovernment and Major ICT Projects — Views of the Accounting Officer of the Department of Finance

9.31 I sought the views of the Department of Finance on

- the risks that need to be managed in major ICT projects such as those terminated and
- the steps taken by it to encourage and promote better management of the development of major ICT projects.

9.32 The Department is of the view that problems experienced in the management of large ICT projects usually stem from a lack of internal ICT skills, knowledge and experience, which in turn leads to an over-reliance on external resources. Such outsourcing usually leads to a lack of control over ICT architecture development and to over-use of complex solutions built to standards which minimise risks to the service providers rather than the procuring departments. Such standards usually involve the use of 'best-of-breed' commercial software which carries very high licensing, maintenance and support price tags. Considerable development/consultancy effort is usually required to get software to work together and this can lead to considerable lock-in effects. Lack of technical knowledge and experience often leads to an inability to manage outsourced development well.

9.33 It stated that the Government had already decided that expenditure on external ICT resources must be reduced by 50%, and that public bodies must enhance their internal ICT

capability and put in place plans to increase self-sufficiency. The arrangements set out in a circular letter²⁵ gave effect to these decisions. As a consequence, the Department, as part of its ICT expenditure approval role, favoured

- the use of pilots to validate concepts and proposed technology approaches
- small projects to minimise exposure to risk and
- in-house development or the use of contractors under the direct management control of civil service staff (rather than companies or large system integrators).

9.34 To support this, the Department has formulated proposals to help civil and public service bodies improve their internal ICT capability. These are currently under consideration in the context of the studies on Public Service Numbers and Expenditure Programmes. Additionally, all major projects must now be subjected to a detailed peer review process.

9.35 The Accounting Officer sees the key central role of the Department of Finance as

- provision of important elements of technical infrastructure such as Government networks
- provision of certain key elements of information infrastructure including central eGovernment systems
- establishment and management of central ICT procurements for national frameworks
- indirect support by promoting good practices and the provision of advice with a view in particular to securing the maximum value for money for the State's investments in ICT infrastructure
- policy support in promoting better ICT staff policies in the public service.

Conclusions

It is in the nature of large ICT projects that they can be overtaken by technical developments or that the solutions developed may not achieve user acceptance. In such instances, the challenge for management of projects is to recognise when they are not working as intended and to act appropriately. The decision to abandon a project that is not working is the correct course because it avoids spending further public moneys – both capital and current – in a non-effective way.

In the case of Reach and the Broker, the technology used to maintain the functionality of the project had been overtaken by readily available and cheaper alternatives. To continue to invest in the Broker in those circumstances would not have represented value for money. Replacement of the Broker by alternative services resulted in an effective writing off of some €27.3 million of capital expenditure incurred on development.

The accumulated expenditure up to May 2009 on the electronic voting system was €54.4 million. Once it was decided by Government to terminate the electronic voting project, the expenditure falls to be written off. The process of disposal of the equipment and wind-down of the storage arrangements is ongoing. It is not yet possible to determine whether and to what extent any recoveries will be made on the disposal of the equipment.

In the case of both projects, reasonable steps have been or are being taken to wind down the projects and re-use or dispose of assets no longer being utilised.

²⁵ Department of Finance Circular 2/09.

Chapter 10 Revenue

Revenue Collection

Revenue Collection

10.1 This Chapter examines

- Revenue's collection performance in 2008
- the extent of tax written off in 2008
- the amount of tax outstanding at 31 March 2009
- the risk to collection in the current environment
- the results of the audit of the Revenue Account.

Revenue Collection and Repayment

10.2 The gross amount collected by Revenue in 2008 totalled €60.1 billion. When the amounts collected on behalf of other Departments and agencies are excluded, €50.1 billion of the gross collection was attributable to the core revenue of the State.

10.3 €9.2 billion was repaid to taxpayers in 2008. These repayments represented 18% of gross taxes and duties collected. Repayments occur mainly on two taxheads.

10.4 In the case of VAT they arise where the VAT on a trader's purchases exceeds that on his sales. Some traders can be permanently in a repayment situation in cases where their sales are at the reduced rate or zero rated but they are being charged VAT on some or all of their purchases - for example some food businesses. It can also occur when a trader increases stock or purchases an expensive item of equipment in a period.

10.5 The other heading where there is a high level of repayments is Income Tax. In this case, as well as repayments under the different components of Income Tax, the repayment figure includes payments of tax relief for mortgage interest and medical insurance. Of the total Income Tax repayments of €3,398 million in 2008, €1,026 million is accounted for by payments to mortgage and insurance providers in respect of tax relief at source.

10.6 The total collection amounts attributable to other agencies and repayments are summarised in Figure 29.

Figure 29 Collection and Repayment of Revenue

	2007		2008	
	€m	€m	€m	€m
Gross Collection		66,148		60,061
<i>Less attributable to other Departments and Agencies</i>				
PRSI ^a	(9,292)		(9,612)	
Health Levy	(188)		(166)	
Tobacco Levy	(168)		(168)	
Environmental Levy	(22)		(26)	
Other	(7)	(9,677)	(6)	(9,978)
Gross Taxes and Duties Collected		56,471		50,083
Less Repayments of Taxes and Duties		(9,137)		(9,178)
Net Taxes and Duties Collected		47,334		40,905^b

Notes:

- a Net receipts of PRSI were €9,541 million (€9,217 million in 2007) after taking account of repayments of €71 million.
- b Includes some €76 million collected as part of the various special investigations being carried out by Revenue (see Chapter 11).

10.7 The gross collection, repayments and net collection for each taxhead in 2007 and 2008 are set out in Figure 30 together with the percentage change in net receipts in 2008.

Figure 30 Tax Collected and Repaid by Taxhead

Taxhead	2008	2008	2008	2007	Percentage Change
	Gross Receipts	Repayments	Net Receipts	Net Receipts	
	€m	€m	€m	€m	
Income Tax	16,593	3,398	13,195	13,582	3%
Value Added Tax	17,992	4,560	13,432	14,519	8%
Excise	5,535	103	5,432	5,835	7%
Corporation Tax	6,046	975	5,071	6,393	21%
Stamp Duties ^a	1,812	49	1,763	3,244	46%
Custom Duties	260	15	245	273	10%
Capital Acquisitions Tax	351	8	343	391	12%
Capital Gains Tax	1,494	70	1,424	3,097	54%
Total	50,083	9,178	40,905	47,334	14%

Note:

- a The Finance (No. 2) Act, 2008 provided for an incentive scheme to encourage the presentation of instruments for stamping that had not been presented to Revenue within the required time limits. Provided such instruments were presented for stamping and the duty and interest due were paid within 56 days from the passing of the Act, no further penalty was payable. The deadline was 17 February 2009 and by that date 3,687 instruments had been presented to Revenue resulting in the collection of €57.6 million (including interest of €11 million). Most of this amount was received in 2009.

10.8 Repayments of Income Tax, Corporation Tax, Capital Acquisitions Tax and Capital Gains Tax have increased despite the fall in gross receipts for those taxheads. Gross Income Tax receipts fell by €195 million (1%) while repayments increased by €192 million (6%).

10.9 Revenue has stated that this is due to

- an increase in payments of tax relief at source for mortgages and medical insurance
- increases in repayments to PAYE taxpayers which is most likely to be explained by more taxpayers claiming their entitlements to credits and reliefs as a result of Revenue's campaign to encourage taxpayers to claim and arising from financial necessity caused by the economic downturn
- increased repayments of self-assessed Income Tax probably as a result of taxpayers overestimating their tax liability when paying preliminary tax.

10.10 These increases were partially offset by

- reduced repayments of Relevant Contracts Tax arising from the contraction in the construction sector and
- the ending of the SSIA scheme, payments in respect of which were previously included in income tax repayments.

10.11 In response to my enquiries Revenue have stated that they were examining the reasons for the increases in repayments in the following tax heads

- Corporation Tax where repayments increased by €39 million (4%) despite a fall of €1,283 million (18%) in gross receipts
- Capital Gains Tax where repayments increased by €6.5 million (10%) and gross receipts fell by €1,667 million (53%).

The results of this examination are not yet available.

Payover to the Exchequer

10.12 The net revenue payable to the Exchequer from taxes and duties for the year was €40.9 billion. €40.8 billion was paid to the Exchequer²⁶ in 2008.

10.13 The 2008 Budget day Exchequer target for tax revenues was €48.9 billion. Accordingly, a tax revenue deficit of €8.1 billion was experienced in the year. A breakdown of the net shortfall by individual taxhead is provided in Figure 31. Over 80% of the shortfall is accounted for by VAT, Corporation Tax, Capital Gains Tax and Stamp Duty.

²⁶ The amount paid to the Exchequer over time takes account of suspense balances in cases where a taxpayer has paid taxes but they are not allocated. The amount prepaid at 31 December 2008 was €200 million (€329 million at 31 December 2007).

Figure 31 2008 Tax Revenue Paid to Exchequer Compared to Forecast

Taxhead	Forecast	Payments to Exchequer	Excess/ (Shortfall)	Percentage Reduction
	€m	€m	€m	
Income Tax	13,900	13,177	(723)	5%
Value Added Tax	15,550	13,430	(2,120)	14%
Excise	5,989	5,443	(546)	9%
Corporation Tax	6,700	5,065	(1,635)	24%
Stamp Duties	2,855	1,651	(1,204)	42%
Custom Duties	300	248	(52)	17%
Capital Acquisitions Tax	405	332	(73)	18%
Capital Gains Tax	3,210	1,430	(1,780)	55%
Total	48,909	40,776	(8,133)	17%

10.14 Revenue has stated that

- the shortfall in VAT is explained by the downturn in the economy and its effect on consumer spending, particularly in construction and the motor industry
- the impact of the downturn in the global economy on corporate profits, particularly in the financial sector, is the most likely cause of the shortfall in Corporation Tax
- Stamp Duties, Capital Gains Tax and Capital Acquisitions Tax have been negatively impacted by the downturn on the property and shares markets.

Sectoral Performance

10.15 As can be seen from Figure 30 net receipts in 2008 were €6.4 billion less than 2007. Revenue's internal management information captures collection activity by sector using codes to identify the primary economic activity of the taxpayer. However, a sectoral breakdown of receipts is not available for VAT on imports, Excise, Stamp Duties, Customs Duties and Capital Acquisitions Tax. A decline in receipts of Stamp Duty and Capital Acquisitions Tax accounted for €1.5 billion or 23% of the fall of €6.4 billion.

10.16 Revenue's management information is capable of classifying receipts by sector for the following taxheads which account for 74% of the net receipts shown in Figure 30.

- domestic VAT (90% of VAT receipts)²⁷
- Income Tax paid through the PAYE system and by the self employed (89% of Income Tax receipts)²⁸
- Corporation Tax
- Capital Gains Tax.

10.17 Receipts from these taxes in 2008 fell by an estimated €4.6 billion by comparison with 2007, accounting for 72% of the total fall in receipts of €6.4 billion. PRSI receipts which increased by €53 million in 2008, can also be classified by sector. When PRSI is taken into account, the total reduction in receipts for which an analysis by sector is feasible is approximately €4.3 billion.

²⁷ The balance of VAT receipts arises from VAT on imports.

²⁸ An analysis by sector is not available for the other elements of Income Tax such as Deposit Interest Retention Tax, Professional Services Withholding Tax and Dividend Withholding Tax.

10.18 The preliminary information supplied by Revenue, which is still subject to its internal validation work²⁹ indicates that tax receipts fell in all but three³⁰ of the 18 sectors with the following six sectors accounting for over 90% of the fall in tax receipts

- Agriculture, Hunting and Forestry — comprises the activities of growing crops, raising animals, harvesting timber, and harvesting other plants and animals from a farm or their natural habitats
- Real Estate, Renting and Business Activities — as well as real estate activities this category includes renting of goods and the provision of a wide range of services, mainly to businesses
- Construction — includes general construction, specialised construction and building installation and completion
- Financial Intermediation — this category includes insurance and pension funding and activities auxiliary to financial intermediation
- Wholesale and Retail Trade — includes the wholesale and retail trade of any type of goods as well as the repair of motor vehicles, motorcycles and personal and household goods
- A residual sector that includes businesses where the sector of operation is not classified.

10.19 The preliminary results suggest that in absolute terms

- Domestic VAT receipts had fallen most in the Wholesale and Retail Trade sector and in the Real Estate, Renting and Business Activities sector
- Employment Taxes which comprise PAYE and PRSI, reduced in five of the 18 sectors – the largest reduction was in the Construction sector
- Taxes on profits which comprise Corporation Tax and Income Tax paid by the self-employed, dropped most in the Financial Intermediation sector, the Construction sector and the Real Estate, Renting and Business Activities sector
- Capital Gains Tax reduced substantially in the Real Estate, Renting and Business Activities sector.

Conclusions – Collection Performance

Taxes on capital gains reduced in yield by 54% over 2007. Stamp duties fell by 46% while Corporation Tax reduced by 21%.

Preliminary sectoral figures suggest that while most sectors showed a fall across all taxheads, the collection was markedly reduced in Agriculture, Construction, Real Estate, Renting and Business Activities and Financial Intermediation. In addition, there were considerable differences between sectors in the extent to which Domestic VAT, Employment Taxes, Taxes on Profits and Capital Gains Taxes were affected.

Revenue has undertaken to supply validated sectoral data which will be the subject of a separate report under Section 11 of the Comptroller and Auditor General (Amendment) Act, 1993.

²⁹ The sectoral outturns, and in particular the Agriculture, Hunting and Forestry sector, are subject to review by the Revenue Commissioners.

³⁰ These were the Education sector, the Public Administration and Defence sector and the Health and Social Work sector.

Write-Offs of Tax and PRSI

10.20 Details of tax and PRSI outstanding are set out below. Where Revenue is unable to collect outstanding amounts or where Revenue considers the cost of collection to be disproportionate, the amounts are written off. The outstanding tax remains on the taxpayer's record but a write off marker is placed on the computer record of the case which has the effect of halting further collection activity. Lists of all cases proposed for write off are formally submitted to the Revenue Chairman for approval. Should the circumstances in a case change, the write off marker is removed and collection efforts can recommence.

10.21 €129 million of taxes and PRSI was written off during the year ended 31 December 2008. €4.1 million, relating to 239,909 cases with balances of less than €1,000 which were considered uneconomic to pursue, was written off on an automated basis in 2008. The balance was assessed for write off on a case-by-case basis. A breakdown by taxhead of the total amount written off is shown in Figure 32. Of the €129 million written off in 2008, €18 million or 91% was in respect of fiduciary taxes.

Figure 32 Taxes Written Off

Tax	2007	2008
	€000	€000
Value Added Tax ^a	46,195	57,710
PAYE	24,009	19,831
PRSI	21,899	25,438
Relevant Contracts Tax	14,796	12,581
Income Tax	6,219	5,310
Corporation Tax	1,496	3,016
Capital Gains Tax	479	985
Automatic Write Offs	2,544	4,125
Total	117,637	128,996

Note:

- a The increase in the amount of VAT written off is mainly due to an increase in the amount of tax, including VAT, written off in liquidation cases.

10.22 Revenue records the reason for write off in each case and Figure 33 gives details of the number of cases and the amount written off for each category. Over €13 million of the amount written off arose in cases where businesses had ceased or encountered difficulties. The balance of €5 million relates to cases where the amount outstanding was not collected due to factors such as an inability to locate the taxpayer, a decision by Revenue that the amount outstanding did not warrant the committing of resources to its collection and compassionate grounds.

Figure 33 Reasons for Write Off

Reason	2007	2007	2008	2008
	Number of Cases	€000	Number of Cases	€000
Business Cessation/Difficulty				
Liquidation/Receivership/Bankruptcy	704	41,798	728	78,041
Ceased Trading – No Assets	1,196	46,423	709	26,633
Uncollectable due to Financial Circumstances of Taxpayer	191	4,678	134	3,752
Examinership	10	2,275	24	4,839
Deceased and Estate Insolvent	80	834	26	355
Other Reasons				
Cannot be Traced/Outside Jurisdiction	325	9,763	199	6,491
Uneconomic to Pursue ^a	8,498	9,735	240,445	7,404
Compassionate Grounds	122	1,827	101	1,323
Unfounded Liability	53	304	32	158
Total	11,179	117,637	242,398	128,996

Note:

- a Includes 239,909 cases written off automatically (7,641 in 2007). The increase in the number of cases arises from an adjustment to the automatic write off computer programme which resulted in the write off of a large number of cases with balances of less than €1 that had not previously been identified for write off.

10.23 The largest single amount written off in 2008 was €9.9 million in respect of Employer's PAYE/PRSI and VAT owed by a liquidated company in the security industry. There were eight other cases where the amount written off was greater than €1 million.

10.24 The Internal Audit Branch in Revenue undertakes an annual examination of tax write offs. Its 2008 audit examined a sample of 207 cases, representing 41% (€1 million) of the value of non-automated write offs (€25 million). Internal Audit was satisfied that all amounts were written off in accordance with the criteria prescribed. Internal Audit also examined the results of the five automated write off runs in the year and confirmed the correct application of the authorised selection criteria for each run.

Taxes and PRSI Outstanding

10.25 Tax is regarded as outstanding from the date the liability is placed on the taxpayer's record - usually as a result of the receipt of a return or the raising of an estimate. Figure 34 reflects activities and transactions in the twelve-month period to 31 March 2009, prepared on the basis of data furnished by the Revenue Commissioners.

10.26 The amount of tax outstanding at the end of March 2009 has increased by €575 million to €1,861 million. The outstanding liabilities have increased by 45% over the amount outstanding at March 2008. Figure 34 also shows that of the amount outstanding, €628 million is the subject of an appeal by the taxpayer and, while the appeals are being disposed of, Revenue is prevented from seeking to collect it. This is an increase of €237 million or 61% over the amount under appeal twelve months previously. The balance of €1,233 million which is available for Revenue to collect, has increased by €338 million or 38% over the March 2008 amount.

Figure 34 Outstanding Taxes and PRSI

Balance at 31 March 2008	Tax or Levy	Net Charges Raised	Paid	Written Off	Balance at 31 March 2009	Analysis of Balance at 31 March 2009	
						Under Appeal	Available for Collection
€m		€m	€m	€m	€m	€m	€m
242	VAT	12,358	(12,082)	(57)	461	109	352
130	PAYE	11,879	(11,846)	(13)	150	7	143
169	PRSI	9,363	(9,302)	(18)	212	2	210
313	Income Tax (excluding PAYE)	2,928	(2,872)	(6)	363	87	276
—	DIRT	648	(648)	—	—	—	—
219	Corporation Tax	6,080	(5,932)	(3)	364	273	91
190	Capital Gains Tax	1,094	(1,032)	(1)	251	141	110
3	Capital Acquisitions Tax	343	(343)	—	3	—	3
8	Abolished Taxes	—	—	(3)	5	—	5
12	Relevant Contracts Tax ^a	7	45	(12)	52	9	43
1,286	Total	44,700	(44,012)	(113)	1,861	628	1,233
2.7%^b	Debt as % of net charges raised				4.2%	1.4%	2.7%

Notes:

- a The RCT net charges raised of €7 million comprises assessments and declarations relating to principal contractors of €769 million, less claims of €762 million from sub-contractors. The net repayment of €45 million comprises €721 million received from principal contractors and €766 million repaid to sub-contractors (or offset against other tax liabilities).
- b Net charges raised in the year to March 2008 were €47,220 million.

10.27 Figure 35 sets out an aged analysis of the balance outstanding at 31 March 2009. At 31 March 2009, 30% of the amount outstanding related to the most recent tax period (2008). In March 2008, the amount outstanding for the then most recent period (2007) represented 26% of the total outstanding. Some 55% of the amount outstanding relates to tax periods prior to 2007.

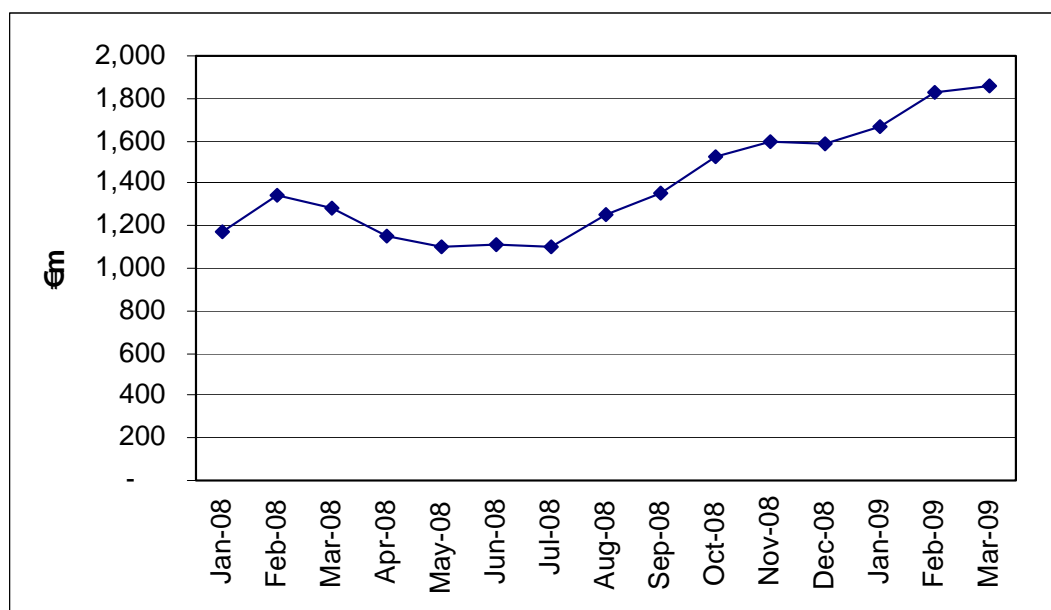
Figure 35 Aged Analysis of Debt at 31 March 2009

Tax	Total Tax Outstanding at 31 March 2009	Amounts Outstanding for 2008	Amounts Outstanding for 2007	Due for 2004 to 2006	Due for earlier periods (i.e. > 5years old)
	€m	€m	€m	€m	€m
VAT	461	249	43	98	71
PAYE	150	87	20	25	18
PRSI	212	140	32	26	14
Income Tax	363	3	103	93	164
Corporation Tax	364	60	11	218	75
Capital Gains Tax	251	2	58	52	139
Capital Acquisitions Tax	3	—	—	—	3
Abolished Taxes	5	—	—	—	5
Relevant Contracts Tax	52	18	9	19	6
Total	1,861	559	276	531	495
Comparator ^a	1,286	331	228	331	396

Note:

a These are the corresponding figures for the amount outstanding twelve months previously.

10.28 Figure 36 sets out an analysis of the debt each month from January 2008 to March 2009 and shows the increasing amount outstanding each month since the middle of 2008.

Figure 36 Monthly Tax Outstanding January 2008 to March 2009

Risks to Collection

10.29 Revenue's overall experience in 2009 has been that the effort involved in securing collection has increased. There has also been an increase in demand from business for more time to pay. The upward trend in the level of tax outstanding reflects the difficult economic circumstances. Revenue measures the extent to which taxpayers submit returns and make payments on time on a weighted basis for the main taxes. Revenue has stated that between 2007 and 2008, the compliance rate for large and medium cases remained at 92% and 86%, respectively, and the rate for all other cases increased from 68% to 72%³¹.

Views of Accounting Officer

10.30 The Accounting Officer stated that Revenue's main goal was to maximise taxpayer compliance with tax and duty obligations and was very conscious that the radically changed economic climate that the country was now experiencing posed a number of challenges and risks to tax collection. Even prior to this, in its Statement of Strategy for 2008 – 2010, published in February 2008, Revenue had recognised that slower economic growth was likely to present a greater challenge to its debt collection efforts and the achievement of targets for timely compliance rates. It did not, however, foresee the scale of the challenge and Revenue was now operating in a business environment where sales of goods and services, and profits, were declining in most, if not all, sectors of the economy.

10.31 Apart from the importance to the Exchequer of timely compliance, the Accounting Officer pointed out that Revenue was also mindful of the unfair competitive advantage a business could achieve when persistent late payment or non-payment of tax put it in a position to undercut compliant businesses. For these reasons, Revenue expected businesses, notwithstanding the more difficult economic circumstances in which they were now operating, to maintain a clear focus and organise their financial affairs to ensure that tax debts were paid as they fell due. She said that Revenue could not become a banker of last resort.

10.32 Revenue recognises that many businesses are facing very considerable difficulties in relation to their cash flow, especially as access to working capital is now much more limited and, as a result, therefore, it can be more difficult for some businesses to meet their tax obligations on time. Revenue is happy to work with those businesses and taxpayers in an effort to find an agreed way through their difficulties and restore voluntary timely compliance. A key requirement for the success of this approach is that there is a positive, early and honest engagement with Revenue and that the fundamentals of the business are sound.

10.33 In regard to Revenue's debt management strategies, which are focused on prioritising compliance interventions on the higher risk cases – in terms of tax yield – the Accounting Officer stated that they remained valid notwithstanding the changed economic environment. The Collector General's Debt Management Units had been restructured to ensure that there was close monitoring of cases that posed the greatest risk to the Exchequer, were they to fall into non-compliance, and priority attention was given to taxpayers who do. Revenue's case management systems facilitated the identification of non-compliant cases and supported the assignment of those cases to teams of caseworkers, on the basis of risk rating.

10.34 The Accounting Officer said that the dilemma for Revenue was to distinguish between businesses that will not pay, businesses which could not and never would be able to pay, and

³¹ Notwithstanding this the balance outstanding increased from 2.7% of net charges raised to 4.2% in the year to 31 March 2009.

businesses which were viable but were unable to pay just now. Often, there were jobs and livelihoods at stake. Revenue has developed a framework to manage these cases, known as the Case Decision Escalation Framework, and has published material in relation to its approach to cases experiencing tax payment difficulties. This framework has been designed to allow for the speedy and appropriate referral of cases for a higher-level decision. Recognising that it is in everybody's interest to help otherwise viable businesses to remain tax compliant, Revenue has ongoing widespread discussions with tax practitioner bodies and representatives of business in relation to this issue.

10.35 Remedying late payment or non compliance is preferably achieved through engagement with the taxpayer, but where that engagement is only partially forthcoming, or perhaps not at all, the Accounting Officer said that Revenue would utilise measures such as the charging and collection of interest or the deployment of collection enforcement measures, including sheriff and solicitor referrals and attachment orders to secure payment of the tax debt and to encourage future voluntary timely compliance.

Conclusions – Outstanding Tax and Collection Risk

2008 saw an increase of €75 million in the amount of tax outstanding. Revenue has noted that the effort involved in securing collection has further increased in 2009. This underlines the challenge that Revenue faces in ensuring that the reduced tax take is not further eroded by taxpayers delaying payment or failing to pay their tax liabilities. It is important to ensure that all taxpayers pay their full liability on time both to ensure the equity of the tax system and to maximise Exchequer revenue.

The approach to those encountering difficulties as outlined by the Accounting Officer – identification of non-compliance in the higher yielding cases as early as possible, and providing a mechanism for viable business and personal taxpayers to manage liquidity problems – appears to be appropriate. However, the situation calls for ongoing vigilance in order to detect changing compliance trends and respond appropriately.

Audit of Revenue Account

10.36 Under the Comptroller and Auditor General (Amendment) Act, 1993 I am required to

- carry out such examinations as I consider appropriate in order to ascertain whether systems, procedures and practices have been established that are adequate to secure an effective check on the assessment, collection and proper allocation of the revenue of the State and to satisfy myself that the manner in which they are being employed and applied is adequate
- examine the account of revenue received and paid over to the Exchequer by the Revenue Commissioners (the Revenue Account) in order to satisfy myself as to its completeness and accuracy and to report to Dáil Éireann on the results of my examination.

10.37 On a cyclical basis I examine Revenue's systems for the assessment and collection of tax.

10.38 I form an opinion on the completeness and accuracy of the Revenue Account on the basis of the examination and testing carried out by my Office on the various receipting, repayment and accounting systems within Revenue. I also take assurance from the systems work referred to above.

Overall Conclusions

The Revenue Account together with my opinion thereon is set out in Appendix B. I have given a clear report on that account.

Chapter 11 Revenue

Revenue Checks and Investigations

Revenue Checks and Investigations

11.1 This Chapter examines

- the extent and outcome of Revenue compliance checking including audits
- the risk to settlement collection in the current environment
- the extent of deterrence actions in non-compliant cases
- the extent of publication of defaulter details
- the outcome of special investigations.

Compliance Checks

11.2 The outcome of the 2008 programme of Revenue audits and assurance activity is summarised in Figure 37.

Figure 37 Revenue Audit and Assurance Activity

Category	2008		2007	
	Number Completed	Yield €m	Number Completed	Yield €m
Comprehensive Audits ^a	3,904	261.6	3,875	344.5
Multi Tax/Duty Audits	2,065	64.6	2,206	71.2
Single Tax/Duty Audits	6,082	184.2	6,603	151.6
Single Issue/Transaction Audits	1,363	58.8	1,624	120.3
Total Audits	13,414	569.2	14,308	687.6
Assurance Checks	347,445	63.1	237,626	46.2
Total Interventions	360,859	632.3	251,934	733.8

Note:

- a Includes random audits, details of which are set out in Chapter 12. Also includes the yield from audits of special investigation cases of approximately €90 million (€147 million in 2007).

Types of Audits or Intervention

11.3 Since most tax is collected on a self-assessed basis it is necessary to have a range of checks to ensure that taxpayers are compliant. Revenue seeks to tailor the audit intervention in any case to the perceived risk in that case. The Risk Analysis, Evaluation and Profiling System (REAP) (see Chapter 13) is increasingly used to identify cases for intervention as well as the particular risks associated with those cases. The types of intervention or audit undertaken by Revenue are as follows

- A comprehensive audit takes place mainly as a response to an Income Tax or Corporation Tax issue but in cases where there are significant risks associated with other taxes, these are also considered.
- Multi-taxhead and single taxhead audits arise where cases are selected primarily for reasons other than Income Tax or Corporation Tax and the audit covers compliance with one or more tax or duty types.
- Single issue or transaction audits focus on more specific tax matters including compliance work in relation to a particular tax relief or regime.

- Assurance checks are initiated with the intention of assuring Revenue, without recourse to a resource intensive audit or enforcement activity, that the customer is broadly compliant in the areas that are the subject of the check.

11.4 The number of assurance checks reported has grown significantly, from 98,981 in 2005 to 347,445 in 2008. Part of this increase may be due to previous non-recording and an increased awareness in Districts of the need to log such checks. An internal Revenue group is examining the current system of assurance checking and reporting. Assurance checks include

- verification of documentation and requests for additional information in relation to Income Tax, Corporation Tax, VAT and capital taxes (196,324 checks in 2008)
- checks of customs documentation (78,573)
- excise checks including VRT (50,631)
- checks arising from suspicious transaction reports (7,662)
- eligibility checks arising from special investigation voluntary disclosure schemes (1,404)
- special REAP assisted assurance checks carried out in the South West Region (12,851).

Comprehensive Audits

11.5 The outcome of the 3,904 comprehensive audits completed in 2008 is further analysed in Figure 38. The yield of €262 million includes interest charges of €82 million and penalties of €28 million. The highest settlements were €15.6 million for Income Tax and €10.02 million for Corporation Tax. Comprehensive audits were completed in 45 bogus non-resident account cases with settlements totalling €8.54 million. In 213 offshore assets cases settlements totalled €41.99 million and in 260 life assurance product cases settlements of €39.64 million were made³².

Figure 38 Yield from Comprehensive Audits

Agreed Settlements	2008		2007	
	Number	Yield €m	Number	Yield €m
€1 to €30,000	1,480	14.02	1,354	13.6
€30,001 to €100,000	516	29.41	612	35.2
€100,001 to €500,000	368	81.65	490	105.4
€500,001 to €1 million	55	36.19	66	46.8
Over €1 million	36	100.33	56	143.5
No Additional Tax Payable	1,449	—	1,297	—
Total	3,904	261.6	3,875	344.5

11.6 While the number of audits completed in other audit categories has fallen, the number of comprehensive audits has increased. Nevertheless, the yield from comprehensive audits fell by almost €83 million. Revenue has stated that this is due to a very significant yield in a number of large cases in 2007 that was not repeated in 2008. The continuing fall in the number of special investigation cases is also a factor.

³² Some of the yield in these special investigation cases was collected in earlier years.

Risks to Collection of Audit Settlements

11.7 The current economic situation affects many aspects of Revenue's operations, including its ability to recover tax from cases where compliance checks uncover additional liabilities. I sought the views of the Accounting Officer on the particular risks in this regard.

11.8 The Accounting Officer informed me that, generally speaking, when a tax liability arose in the context of an audit, the case was settled by the collection of the tax, together with the appropriate interest and penalties. However, Revenue auditors were meeting, more frequently than heretofore, requests for instalment arrangements or situations where there was agreement on the quantum of liability but the taxpayer was pleading 'inability to pay'.

11.9 In such cases, the Code of Practice for Revenue Auditors³³ provided instructions to Revenue auditors aimed at distinguishing between customers who genuinely had difficulty in paying and those who would not pay, and emphasised the need for the taxpayer to prove an inability to pay. The choice of action was a matter for judgement by an auditor, in consultation with management where necessary.

11.10 The Code of Practice for Revenue Auditors was being revised at present. As part of this, and in light of recent experience, consideration was being given to whether this aspect of the Code needed to be amended. If an audit ended in 'inability to pay', then there was a sense that tax evasion had 'worked'. Revenue were exploring introducing an option for the auditor to consider deferring the finalisation of an audit settlement in proven inability to pay cases with the full responsibility to prove inability to pay continuing to lie with the taxpayer. This option would also involve close monitoring of payment of current taxes during the deferral period and perhaps some other conditions. This type of approach would give the taxpayer time to provide for the additional liability.

³³ Code of Practice for Revenue Auditors, Office of the Revenue Commissioners, 2002.

Conclusions – Compliance Work and Settlements

The various special investigations undertaken by Revenue have been the source of a significant number of comprehensive audits in recent years. Audits sourced in this way are, by definition, more likely to identify non-compliance. There is a need for separation of special investigation cases from other cases for reporting and analysis purposes in order to better gauge baseline audit performance.

Because of the wide variety of interventions encompassed within assurance checks, meaningful evaluation of the resource requirements and results would be facilitated if the inputs and outputs related to the component categories were identified and reported.

In a self-assessed system, it is essential that when checks reveal under-declarations, the full amount of tax, interest and penalties is pursued for recovery. As well as acting as a deterrent, this ensures that the system is seen to be equitable and that the Exchequer receives its full entitlement. Revenue is reviewing its approach to audit settlements for the increasing number of audit cases who plead 'inability to pay'. In order to transparently record the results of audit, it would be desirable to capture information at three levels

- the liability assessed by the revenue auditor
- the settlement agreed
- the payments made.

Accordingly, Revenue should consider recording and reporting the full amount of tax, interest and penalties due as a result of audits, as well as the amount actually paid.

Non Compliance – Deterrence Actions

11.11 For a self-assessment system to work effectively, there has to be an adequate deterrent to non-compliance. This is especially important in cases where taxpayers choose not to declare and remit the true amounts due to Revenue. Tax legislation contains a number of provisions to which Revenue can have recourse in order to improve compliance and deter evasion. These can be broadly categorised into civil penalties and criminal proceedings.

Civil Penalties

11.12 The main instance in which Revenue imposes civil penalties is where incorrect returns are made fraudulently or negligently. Penalties for incorrect returns are generally imposed as a result of a Revenue audit. Figure 37 sets out the results of Revenue's audit interventions in 2008 and the total audit yield of €569.2 million includes €42.2 million in penalties³⁴.

11.13 The Finance (No. 2) Act, 2008 introduced amendments to the civil penalty regimes. Provision is now made for court determination of penalties in the event of failure to agree on the penalty or failure to pay. The amendments also placed on a statutory footing the Revenue practice of mitigating penalties based on the category of default, the level of co-operation and whether disclosure of the default was made.

³⁴ The audit yield of €569.2 million in 2008 comprised €416.6 million additional tax, €110.4 million interest and €42.2 million penalties.

11.14 Revenue can also impose civil penalties for failing to submit returns on time. In 2008, Revenue imposed penalties totalling €1.2 million in 759 cases which did not submit P35 returns on time. Civil proceedings for non-payment of these fines were taken in 236 cases.

Criminal Proceedings

11.15 Criminal proceedings arise in relation to the non-filing of returns, prosecutions for summary customs and excise offences and prosecutions for serious evasion.

Non-Filing of Returns

11.16 Criminal prosecutions of cases that failed to file VAT returns resulted in 48 cases being heard in Court in 2008 and fines of €374,719 being imposed. One person was sent to prison for failure to pay a fine. There were 1,169 convictions for failure to file Income Tax and Corporation Tax Returns with €2.26 million in fines imposed. Failure to pay fines led to criminal prosecutions in 50 cases.

Summary Prosecutions for Customs and Excise Offences

11.17 There were 455 successful summary prosecutions for customs and excise offences in 2008 resulting in fines of €654,071. These included cases of cigarette smuggling, marked oil offences and VRT prosecutions.

Prosecutions for Serious Tax Evasion

11.18 Revenue's prosecution procedures involve forwarding cases to Investigation and Prosecutions Division (IPD) for investigation with a view to criminal prosecution where there is *prima facie* evidence of serious revenue offences having been committed. Within IPD, these cases are further evaluated by a Prosecutions Admissions Committee before commencement of resource intensive criminal investigation work which can take several years before a case is presented in Court. In 2008, 36 cases were determined to be suitable for investigation with a view to prosecution (21 in 2007). Convictions were obtained in 15 of the 18 cases decided in Court in 2008. There were acquittals in two cases and a *nolle prosequi* was entered in the other case. Summary details of the 15 cases are set out in Figure 39.

Figure 39 Convictions in 2008 for Serious Tax Evasion

Occupation/Activity	Fine €	Custodial Sentence
Property Rental Company	1,800	None
Company Director	600	None
Landlord	6,050	None
Restaurant	6,000	None
Company Director	3,750	Three month term of imprisonment, suspended for 3 years conditional on good behaviour. 10 days in prison in case of default on fines
Property Developer	—	Three month term of imprisonment, suspended for 3 years conditional on good behaviour
Landlord	3,085	One month prison sentence suspended for 2 years. On appeal the prison sentence was rescinded and the original fine of €7,300 reduced
Timber Harvesting Company	4,500	None
Company Director	4,500	None
Farmer	125	None
Software Company	140,000	None
Plastics Company	—	Three year suspended sentence on each of four charges, bound to the peace for 5 years and a bond of €200 imposed
Caterer	—	Four sentences of three years each with two years and six months of each sentence suspended. Eight sentences of one year each with six months of each sentence suspended. All sentences to run concurrently.
Motor Company	50,000	None
Engineering Company	960,000	None

11.19 107 cases of serious tax evasion were under active consideration in IPD at the end of 2008. The updated status of those cases at the end of April 2009, the latest date for which information was available, is shown in Figure 40.

Figure 40 Status of Serious Tax Evasion Cases at April 2009

Status	Number of Cases
Under investigation	59
With the Revenue Solicitor's Office	10
Submitted to the DPP	9
Directions issued by DPP to prosecute	14
Before the court	10
Closed	2
Convictions obtained	3
Total	107

11.20 Of these 107 cases, 77 are in relation to individuals, 28 are companies and two involve both individuals and companies. 39 of the cases relate to the construction and property sector, 12 are in the motor industry, eight in the security industry and seven are engaged in haulage activities. The remaining 41 cases are spread across a range of different activities.

11.21 In addition, there were five convictions for serious Customs and Excise offences in 2008. Fines totalling €16,295 were imposed in these cases and in three of the cases suspended prison sentences were imposed.

Publication of Defaulters

11.22 To further deter evasion the details of audit settlements may, in certain circumstances, be published. Cases are not published where

- a 'qualifying disclosure' is accepted
- the settlement is less than €30,000
- the penalty does not exceed 15% of the tax ultimately due.

11.23 In 2008, details of 401 cases of non-compliance were published. The total amount of tax, interest and penalties in published cases settled in 2008 was €74.8 million.

Special Investigations

11.24 A number of special investigations have been carried out by Revenue in the past eleven years. The background to pre-2008 investigations is set out in previous reports. Figure 41 sets out the cumulative amounts received to the end of April 2009 as a result of each investigation.

Figure 41 Special Investigation – Revenue Collected

Investigation	Year Commenced	Number of Cases Involved	Payments to Date €m
DIRT - Look Back Audits (financial institutions)	1999	37	225
<i>DIRT Underlying Tax:</i>			
Voluntary Disclosure Scheme	2001	3,675	227
Post Voluntary Disclosure Investigations	2001	8,500 ^a	414
NIB – Offshore Investment Schemes	1998	465	60
Ansbacher-type Schemes	1999	289	106
Pick Me Up Schemes	1998	71	1
Tribunal-related reviews	1998	49	41
Offshore Assets	2004	14,832	939
Undisclosed Funds – Life Assurance Products	2005	5,376	469
Undisclosed Funds in Irish Bank Accounts	2008	1,232	74
Total			2,556

Note:

a This is an estimated figure.

11.25 The total amount collected in 2008 was €76 million. Of the €2,556 million collected to date from all investigations, some €1,390 million or 54% was collected from the voluntary disclosure schemes which formed part of four of the investigations³⁵.

³⁵ Voluntary disclosure schemes were available for the investigations into DIRT Underlying Tax, Offshore Assets, Life Assurance Products and Undisclosed Funds in Irish Bank Accounts.

Undisclosed Funds in Irish Bank Accounts - 2008

11.26 The most recent investigation is one into undisclosed funds in Irish Bank Accounts. This investigation, which commenced in 2008, is pursuing tax owed by persons who held undeclared income or gains in domestic bank accounts. Under a regulation made in 2008³⁶, financial institutions are required to make returns to Revenue of interest and other similar payments on accounts or investments where the gross payment was more than €635 in a year. For the years 2005 and 2006 financial institutions were required to provide details of interest paid to their customers by 15 September 2008 and for 2007 by 31 October 2008. For 2008 and subsequent years, returns are required by 31 March in the year following the year in which interest is paid.

11.27 In advance of the first returns, Revenue gave taxpayers who had €100,000 or more (which included undeclared money) in accounts at any time between January 2005 and the end of 2007 an opportunity to make a voluntary disclosure. The benefits to those who did so were mitigation of penalties, non-publication of settlement details and the fact that Revenue would not investigate with a view to prosecution. The deadline for submission of a notice of intention to make such a disclosure was 15 September 2008 and full disclosure and payment was required by 15 January 2009.

11.28 Over 1,800 notices of intention to make a disclosure were received. Not all persons who submitted notices made a disclosure. 418 cases withdrew the notice of intention having established that there were no outstanding tax liabilities and, ultimately, 1,232 cases made a disclosure by the 15 January deadline. Revenue is following up the cases that submitted notices of intention but did not make a disclosure. The details provided by the financial institutions to date are being analysed by Revenue. As at 30 April 2009, €73.8 million had been paid to Revenue.

Overall Conclusions

€2.6 billion has been collected as a result of special investigations over the past decade. At the same time standard audit procedures have yielded an estimated €3 billion. It may be opportune at this juncture to extract the lessons to be learned from those special investigations in terms of taxpayer behaviours and collection system effectiveness in order to more effectively target future audit, compliance and assurance work.

³⁶ Return of Payments (Banks, Building Societies, Credit Unions and Savings Banks) Regulations 2008 (S.I. 136 of 2008)

Chapter 12 Revenue

Random Audit Programme – Revenue

Random Audit Programme

12.1 Chapter 11 sets out the results of audits carried out by Revenue in 2008. Most audits are targeted at those cases which are perceived to represent the greatest risk of underdeclaration. However, each year a number of cases are selected for audit on a random basis. Chapter 2.9 of the 2002 Report set out the results of a review of the Random Audit Programme (RAP) in place at that time. The review found that although initial selection of cases was on a random basis, screening of those cases at District level resulted in an element of risk assessment being introduced. As cases were not selected purely on a random basis, the results could not be used to accurately estimate the overall level of non-compliance.

12.2 It is recognised that there is a cost to Revenue in implementing a random audit programme both in terms of staff and other administrative costs, and the impact of the diversion of resources from risk based audits that are likely to produce a higher yield. A random audit programme also imposes an additional burden on the selected taxpayers of whom the majority would be tax compliant. However, its value lies in its potential to objectively determine the level of actual compliance within the taxpaying population and allow Revenue to focus their compliance activities.

12.3 Following its examination of the Chapter, the Committee of Public Accounts (PAC) recommended that random audits should be factored into Revenue's audit strategy and the results used to estimate the scale of undeclared tax liabilities³⁷. The Revenue response to the PAC Report acknowledged that a random audit programme

- was beneficial in improving risk identification and the validation of the risk criteria used to select cases for targeted audits
- had the capacity to provide a statistically valid compliance measure and that, over time, the results would give some indication of the scale of undeclared tax liabilities
- ensured that no taxpayer was exempt from audit

12.4 The programme was re-launched in 2005 with case selection on a fully random basis. Since 2005, the annual RAP has sought to carry out a comprehensive audit on some 400 randomly selected taxpayers. Selection of cases and compilation and analysis of the results is carried out centrally by Revenue's Planning Division, while audit staff in the District responsible for each case carry out the audits. To date, all of the audits have not yet been completed for any of the re-designed RAPs.

Audit Focus

As the re-launched RAP was now entering its fifth year, I was concerned at the ongoing failure to complete the required set of audits. This militated against exploitation of the benefits of random audit in terms of using the results to assess the level of overall compliance, to measure performance and to inform the risk assessment process.

³⁷ Committee of Public Accounts, Second Interim Report for 2002, June 2005.

Objectives of the RAP

12.5 The stated objectives of the RAP for 2007 and 2008 were to ensure all taxpayers had an equal chance of being selected for audit and to validate the risk based approach. Earlier programmes also set an objective of measuring and tracking compliance.

Selection of Cases

12.6 Cases are selected at random by Revenue's IT Division from those cases having a 'live' registration for at least one of the following taxes – Income Tax, Corporation Tax, VAT, Employer's PAYE/PRSI, Relevant Contracts Tax or Capital Gains Tax. PAYE only cases are excluded. Income Tax and Corporation Tax cases that have markers on the computer record showing that they have not commenced trading, have ceased trading or have no net liability are also excluded.

12.7 Basic checks are carried out centrally on the selected cases to ensure that they meet the criteria for selection. Where it is clear from the taxpayer's record that the case does not meet the criteria for selection but the relevant case markers do not reflect this fact, the case is excluded. Any case that is under investigation or is already the subject of an audit is also excluded. Cases are then allocated to the Regions (including Large Cases Division) in accordance with the ratio of cases per Region that emerged from the initial random selection. More than the 400 cases required are initially selected to allow for validation and subsequent replacement of invalid cases.

Type of Audit

12.8 A comprehensive audit (i.e. examination under all taxheads) is required to be carried out on each case. The audits are carried out on the same tax period for each case (e.g. the 2007 RAP required that the audit be carried out on 2005). As for all audits, random audits are conducted in accordance with the Code of Practice for Revenue Auditors³⁸. There are no separate quality control procedures for random audits. They are covered by Revenue's standard quality control processes.

Audit Procedures

12.9 A sample of audit files for random audits from the 2007 programme was examined during this review. In general, the level of testing carried out and the computation of the tax liability was clear from the files. However, in a small number of instances, that audit trail was more difficult to follow. Revenue should ensure that the same rigour is applied to random audits as is applied to the general risk-based audits.

Random Audit Results

12.10 Districts submit quarterly returns to Planning Division showing the current status of all of the audits in the programme. An overall evaluation of the results of the programme has not been carried out to date by Revenue on the grounds that all audits have not yet been completed for any of the programmes since the RAP was re-designed in 2005.

³⁸ Code of Practice for Revenue Auditors, Office of the Revenue Commissioners, 2002.

12.11 The results (as at June 2009) of the RAPs for 2006 to 2008 are set out in Figure 42. As can be seen from that figure, the number of non-yielding cases is between 67% and 72%, which is in line with the number of non-yielding cases from the RAPs of 1998 to 2002 as reported in the 2002 Chapter. This would indicate that, over an extended period, around 30% of self-employed taxpayers (including proprietary directors) and businesses under-declare their tax liability in any given year. The table shows the audit yield from the specific year being audited (the base year) as well as any yield that arises during the course of the audit from other years. While the average additional tax yield for the base year fell from €3,882 in 2006 to €2,036 in 2007, there has been a slight increase to €2,696 for the 2008 audits. The total average yield, which takes account of the yield from all tax periods audited, has fallen from €5,585 in 2006 to €4,878 in 2008. It is too early to say whether the increase in the number of non-yielding cases and the fall in average yield since 2006 could be an indication of improved compliance generally or could simply reflect the higher number of outstanding cases for later years which Revenue has noted generally include the more difficult cases that are more likely to produce a yield.

12.12 The Accounting Officer stated that although none of the re-launched random audit programmes had been completed to date, the 2006 programme was 98% complete, the 2007 programme was 94% complete and the 2008 programme was 81% complete.

Figure 42 Random Audit Results 2006 to 2008

	2006	2007	2008
Number of Cases			
Sample Selected	402	401	403
Completed Cases	383 ^a	376	327
Incorrect Period Audited	11	2	—
Cases on Hands at 30 June 2009	8	23	76
Yield			
	€	€	€
Yield for Base Year	1,479,200	765,571	881,498
Yield from Other Years	709,974	1,116,557	713,566
Total Yield	2,189,174	1,882,128	1,595,064
Average Yield for Base Year	3,882	2,036	2,696
Total Average Yield	5,585	4,979	4,878
Yielding cases as a % of completed cases	31%	33%	28%

Note:

a Includes two dropped cases

Review of Results of 2007 Programme

12.13 Revenue do not analyse the results of random audit cases under the trade sector in which the case operates. Such an analysis by Revenue could provide information on compliance risks and taxpayer behaviour in particular sectors. As part of this review, the results of the cases completed to date from the 2007 RAP were examined. The trade sector in which each case operated was determined from the tax record. The percentage of yielding and non-yielding cases in each sector is shown in Figure 43 which also shows the proportion of revenue collected from each sector based on receipts under the main tax headings and the percentage of random audits carried out in each sector. The quality of this analysis is subject to the accuracy of the trade sector code recorded on the tax record.

12.14 Some sectors show significant departures from the overall totals of 33% yielding and 67% non-yielding. Care is required in using these sectoral figures, particularly where a small number of cases were audited in a sector. Review of the six sectors where more than 25 random audits were completed, suggests significant differences in the pattern of yielding audits. Two of these sectors (construction and transport) have a higher level of yielding cases than the average at 45% and 52% respectively. While three other sectors (agriculture, community and proprietary directors) have a relatively lower number of yielding cases at 25%, 21% and 8%, respectively. On the basis of a smaller number of completed audits (15 and 11 respectively) the outcome of 40% of yielding cases in the health sector and 46% in the wholesale trade sector may also merit further review. This simple analysis demonstrates the value that could be obtained from a more detailed sectoral analysis of the results of random audits, not least in determining whether the results of random audits support Revenue's view of where risk lies.

Figure 43 RAP 2007 – Sectoral Analysis

% of Revenue Collected in Sector ^a	% of Random Audits in Sector	Sector	Yielding Random Audits
%	%		%
2	14	Agriculture, Hunting, Forestry, Fishing.	25
10	5	Manufacturing	18
13	15	Construction	45
5	2	Motor Industry	67
8	3	Wholesale Trade of Personal and Household Goods	46
8	4	Retail Trade of Personal and Household Goods	38
3	3	Hotel and Restaurant	33
5	8	Transport, Storage and Communications	52
11	2	Financial Industry	50
16	17	Professional Services	35
6	1	Public Administration, Education and Defence	60
4	4	Health Industry	40
2	8	Community, Social and Personal Service Activities	21
— ^b	11	Proprietary Directors	8
7	3 ^c	All Other Sectors	9
100	100	Total	33

Notes:

- a Includes Domestic VAT, PAYE, Self-Assessed Income Tax, Corporation Tax and Capital Gains Tax only. Percentages are based on revenue collected in 2007.
- b Revenue collected in this sector is included in the All Other Sectors category.
- c These are cases for which trade sector codes could not be identified.

12.15 While acknowledging the value of sectoral studies and welcoming any ideas on how to improve Revenue's analytic capability in relation to the various economic sectors, the Accounting Officer stated that in her view a random sample based on the general body of taxpayers could not be validly used to make inferences about specific economic sectors. Separate random samples of those sectors would be required in order to do this.

Audit Yield and Declared Liability

12.16 The total additional base year yield from the 2007 RAP audits completed to date is some €765,571 (€540,682 tax and some €224,889 in interest and penalties). A key element in establishing the significance of this outcome would be provided by relating it to the original declared liability for the audited cases. Revenue does not, at present, collate this information, although it is planned to do so³⁹.

12.17 My audit established the original declared liability in respect of the cases from the 2007 programme for two sectors, wholesale trade of personal and household goods and professional services. In this sample test, the audit yield as a percentage of the original declared liability was just over 2% — 0.6% for wholesale trade and 4% for professional services. The percentage uplift for each of the two sectors examined analysed by taxhead is set out in Figure 44. The regular performance of this type of analysis for all RAP cases would provide an indication, on a monetary basis, of where non-compliance is concentrated.

Figure 44 Percentage Increase in Liability for Two Sample Sectors

Sector	Income Tax	VAT	Employers' PAYE/PRSI	Total
Percentage Increase in Declared Liability from Random Audit				
	%	%	%	%
Wholesale Trade	2.1	0.3	1.3	0.6
Professional Services	4.5	7.3	0.3	4.0
Total	4.5	2.0	0.8	2.2

Note: Percentages have been computed using audit yield before interest and penalties

12.18 This analysis of audit yield and declared liability in two sectors demonstrates that the percentage of yielding audits by sector as set out in Figure 43 can only be taken as indicative and that a more in-depth review of compliance within sectors on the lines of that presented in Figure 44 would be needed in order to draw firm conclusions capable of driving Revenue's compliance actions. However, subject to that the potential of the information yielded should not be underestimated. Overall, the benefit of random audit results lies in their connection to real world client behaviour, thus providing a solid basis to ground compliance actions.

Type of Non-Compliance

12.19 The reason for the additional liability as agreed is summarised in the audit report on every yielding Revenue audit, including random audits. Revenue does not collate this information in respect of the yields arising on the random audit programme.

12.20 My examination sought to establish from the relevant Revenue audit records the type of non-compliance that led to the audit yield in a sample of 25 cases. In nine of these cases the taxpayer made a voluntary disclosure of underdeclared tax. The reasons in each of the 25 cases could be broadly categorised as follows

³⁹ The Central Statistics Office has requested this information as they wish to use it to estimate the increase required to the calculation of GDP arising from undisclosed income.

- Understatement of liability 15 cases
- Technical tax matter 9 cases
- Other 1 case.

12.21 It is difficult to be fully certain of the cause of the increased liability when not directly involved in the audit and therefore such categorisation is best done by those who conducted the audit. Analysis of the reasons for audit yield on random audits into appropriate categories could allow Revenue to categorise risks identified as well as provide valuable information into patterns of non-compliance and intelligence on taxpayer behaviour. It would also be beneficial in seeking to broaden understanding of the underlying causes of non-compliance.

Measuring Compliance

12.22 The ultimate measure of performance of a State Revenue service is the extent to which it minimises uncollected tax. Uncollected tax is often classified into two categories that are commonly referred to as the “tax gap” and the “audit gap”.

12.23 The “tax gap” is a wider concept covering all recorded and unrecorded economic activity in the State including the “grey economy”. It has been defined as the difference between the total amount of tax due if all those liable to tax complied with all legislative provisions, including registration, and the amount of tax actually paid.

12.24 The Accounting Officer stated that Revenue did not attempt to estimate the tax gap.

12.25 The “audit gap” is a more immediate target for Revenue activity, in that it refers to the difference between the amount of tax that would be collected if all taxpayers were audited and the amount they voluntarily pay under the self-assessment system.

12.26 A well-designed and well-operated random audit programme would provide a realistic indication of the valuation of the audit gap through the extrapolation of its results. The quality of information is dependent on the selection process, a commitment to completion of all audits within a reasonable period, the accurate recording of the required details and fully collating all relevant information.

12.27 While estimation of the amount of the audit gap provides a guide to the application of resources, the movement in the amount from year to year is an important measure of overall performance.

12.28 In relation to the audit gap, the Accounting Officer stated that the percentage of non-yielding audits in the random audit programme had been fairly stable at around 70% over a number of years. She stated that many of the yielding random audits were only marginally yielding i.e. yields of less than €2,000.

12.29 Revenue has commenced a project to examine the use of the Risk Analysis, Evaluation and Profiling System (REAP) scoring (see Chapter 13) to track movements in compliance measurement for the whole taxpaying population, for specific groups or for sectors. When a suitable model is developed it can be used to track the risk related to any group of identified cases. Revenue hope to have the general shape of the model ready before the end of 2009.

12.30 The Accounting Officer also informed me that Revenue were examining how elements of the discontinued re-audit programme (see Chapter 3.7 of the 2007 Report) could be incorporated into REAP as a means of tracking compliance. Some 500 cases were to be selected across a range

of audit outcomes but focussing mainly on higher yielding cases. These cases would then be tracked electronically through the REAP system.

Conclusions

A random audit programme has an important role to play in validating risk assessment, measuring both compliance and organisational performance and promoting awareness that every taxpayer has a chance of being audited.

The re-launched random audit programme is now entering its fifth year and if its benefits are to be fully realised, Revenue needs to ensure that there is a clear focus to the programme, audits are completed promptly, audit quality is maintained and full use is made of the results. The results of random audits to date have not been used to measure compliance across the taxpayer population generally.

Revenue should now be in a position to ensure that the programme meets these objectives and to consider how the data provided by the programme can be utilised as a performance measure for the organisation.

The programme could also have a value in targeting sectoral compliance work through its capacity to identify sectors that may need additional in-depth follow up.

Chapter 13 Revenue

Risk Evaluation, Analysis and Profiling in Revenue

Risk Evaluation, Analysis and Profiling

13.1 Revenue's Risk Evaluation, Analysis and Profiling System (REAP) was introduced to all Districts in 2006 and from 2008 there was a requirement that they use REAP in the selection of cases for audit. The system enables Revenue to risk assess the full taxpayer population and partly replaces manual screening of cases in each District. The cost to date of introducing the system is €3.5 million as set out in Figure 45.

Figure 45 REAP Costs

	€
Software Purchased	1,233,133
Cost of In-House Development	161,695
Project Team Staff Cost ^a	747,000
External Resources	246,335
Ongoing Maintenance Costs to date	873,976
Other (Licence and Training)	284,490
Total	3,546,629

Note:

- a These are the estimated costs of staff who were diverted to the core project team between November 2002 and December 2006.

13.2 The REAP system comprises

- software to interrogate, at central level, the information available to Revenue in relation to each taxpayer and assign a risk score to each case
- software used at District level to analyse the risk scores for all cases in the District and assign cases for audit or other interventions
- a Risk Profile Viewer to allow auditors to examine the reasons for particular risk scores in individual cases.

Central Procedures

13.3 Risk ranking is carried out a number of times each year and the resultant ranking is available to each Region/District for their taxpayer base. In the course of this, software analyses the information held by Revenue in relation to each case. This information comprises both the details accumulated by Revenue during the course of its dealings with the taxpayer and data available from third parties. Analysis rules have been built into the system derived from the knowledge and experience of Revenue auditors. Risk scores are automatically assigned to each case reflecting the significance of the tax collection exposure based on the amount of tax at risk, the taxpayer's track record and an assessment of the results based on the rules that 'fired' for that case taking account of the confidence measurement assigned to each rule which, in turn, is based on its reliability as an indicator of risk. This results in a risk score being assigned to each case and a risk ranking of cases.

Local Procedures

13.4 At local level, managers examine the risk ranked results and select cases for further examination and the most appropriate intervention for each. In doing so, they take into account not only the risk as assessed by REAP but also any further information they may have in relation

to the case. The Risk Profile Viewer enables the risk profile of individual cases to be examined and shows which rules ‘fired’, the scores given to those rules and the periods in question.

Audit Focus

REAP has fundamentally changed the way that Revenue assesses the compliance risk associated with each taxpayer. Although the use of REAP across all Districts is still quite recent, I considered it opportune to review its use and consider how Revenue might assess its effectiveness. I sought to ascertain the extent to which the system is predictive and establish the degree to which there can be confidence in its effectiveness as a profiling tool.

Use of REAP

13.5 Revenue set a target for 2008, and again for 2009, that 60% of its audit interventions would relate to the 20% of cases that presented the highest risk according to the REAP system. 58% of the audits actually completed in 2008 which were recorded on Revenue’s Audit Case Management System (ACM)⁴⁰ and for which there was a risk ranking in REAP⁴¹ were ranked as being in the top 20% of risk. The breakdown of this 58% across the different audit categories is set out in Figure 46.

Figure 46 Percentage of Settled Audits 2008 in Top 20% of Risk

Type of Audit	Number Completed	Number Recorded in ACM	Number Risk Rated	Number in Top 20%	Percentage in Top 20%
Comprehensive Audits	3,904	3,854	3,398	1,756	52%
Single Tax/Duty Audits	6,082	4,891	4,471	2,637	59%
Multi Tax/Duty Audits	2,065	2,064	1,950	1,288	66%
Single Issue/Transaction Audits	1,363	1,363	1,147	642	56%
Total Audits	13,414	12,172	10,966	6,323	58%

13.6 Some of these audit cases settled in 2008 would have been selected prior to the full use of REAP in all Districts and some related to various special investigations and special projects carried out by Revenue. Not all of them, therefore, would be cases that were originally selected on the basis of the REAP ranking. Nevertheless, the results show that a significant portion of Revenue’s audit activity is focused on the areas of risk as identified by REAP.

13.7 At this stage of its implementation, the use of REAP is likely to vary from District to District and will depend on the expertise and ingenuity in using the Case Select Tool available in each District. Cases can be selected based on particular rules or combinations of rules that ‘fired’. Based on certain rules for particular sectors, programmes of low level inquiries by post have been initiated in some Districts with the aim of assessing risks highlighted by REAP. If the response to initial inquiries is unsatisfactory, the case proceeds to a higher-level intervention. REAP is also used by Districts to assist in selecting cases for audit as part of the various sectoral projects which are undertaken by Revenue.

⁴⁰ As yet, not all audits are recorded on the Audit Case Management System. The results are instead reported manually.

⁴¹ Not all cases are risk ranked. For instance, cases that are no longer ‘live’ are excluded.

13.8 As well as taking account of the risk of underdeclaration, REAP rules also score the risk associated with failure to submit returns and failure to pay declared amounts. This means that the reason for a high risk ranking for many of the cases within Districts is not due to potential underdeclaration of taxes and the cases are already being dealt with by caseworkers elsewhere, mainly in the Collector General's Office. Districts use the Case Select Tool and the Risk Profile Viewer to determine these cases and, in general, the District takes no further action if satisfied that the risk is already being dealt with.

13.9 For each rule that 'fires', the Risk Profile Viewer presents an explanation of what the rule means as well as what the caseworker should consider in deciding what action to take. The focus of the intervention in any case should be on the risk identified by REAP. This has the benefit of improving the system through the feedback mechanism – if the rule properly identified a risk the rule is valid, if not the rule can be amended. It also has the advantage of allowing the case selection manager in each District to allocate cases to staff commensurate with their skills.

13.10 The quality of the data that the rules interrogate is clearly a key factor in determining the ability of REAP to accurately assess risk. A vital factor is the sector in which the case operates which is identified on the computer record by the NACE code. In 2007, Revenue operational divisions' business plans included a commitment to ensure that these codes were accurate. Planning Division continues to play a quality assurance role in relation to NACE codes.

13.11 A system is in place for each District to provide feedback to the central REAP unit in relation to individual rules and this is used to amend or drop rules. This is an important way in which the system can learn from the outcomes of interventions 'on the ground'. This feedback from Districts is co-ordinated at regional level.

13.12 The Accounting Officer informed me that a sectoral analysis was provided to Districts as part of each risk run. This enabled Districts and Regions to see the dominant sectors in the high-risk categories and tackle these risks on a sectoral basis. A project commenced in 2009 whereby each Region was examining one sector. Test cases in the top 20% of REAP had been randomly selected from the relevant sectors. These cases were being examined to establish the sector risks with a view to devising a sector specific strategy to counter those risks. Depending on the results of this exercise, decisions would be made about whether to extend the enquiries to cover the entire sector (regionally or nationally), what risks to address and how to encourage voluntary disclosure. The flexibility of REAP enabled a view to be taken of risk by sector at both national and District level and also through a specific risk rule or selection of rules.

Effectiveness of REAP

13.13 While REAP could still be considered to be 'bedding in' to Revenue's work practices, it is important that there is a clear focus from the start on ways of assessing its effectiveness.

Change in Revenue Yield

13.14 One of the expected outcomes of the use of REAP to identify cases for intervention would be an increase in the number of interventions which produce a yield – an accurate assessment of risk of underdeclaration and appropriate action by Revenue should produce a yield. The total number of audits completed and the percentage where there was a yield for 2008, 2007, 2004 and 2003⁴² is set out in Figure 47. Care is needed in interpreting these figures both because only 58% of audits completed in 2008 were ranked by REAP in the top 20% and because of the relatively early stage of implementation of the system. The percentage of yielding audits in the

⁴² Analysis of audits by settlement amount is not available for 2005 and 2006.

comprehensive audit category has fallen since 2007, from 67% to 63%, and there has been a significant decrease over 2003 and 2004, when there were 82% and 86% yielding comprehensive audits, respectively. The percentage of yielding audits in each of the other audit categories has increased between 2007 and 2008. The percentages for 2008 also show an increase over those in 2003 and 2004 for the single and multi tax head audit categories.

Figure 47 Percentage of Yielding Audits 2003, 2004, 2007 and 2008^a

Audit Category	2003	2004	2007	2008
Percentage of Yielding Audits ^b				
	%	%	%	%
Comprehensive	82	86	67	63
Single Taxhead	52	46	54	61
Multi Taxhead	60	49	57	64
Single Issue ^c	n/a	n/a	49	71

Notes:

- a Analysis of audits by settlement amount is not available for 2005 and 2006.
- b Figures are based on audit results recorded on the Audit Case Management System. Not all audits are recorded on that system.
- c The categorisation of audits changed in 2005. Information for this category is not available for 2003 and 2004.

13.15 The Accounting Officer informed me that the percentage of yielding audits in the comprehensive audit category in 2003 and 2004 was heavily influenced by cases from the Bogus Non-Resident Account and the Offshore Assets investigations. These cases were guaranteed to deliver a high proportion of yielding cases. 56% of the comprehensive cases for 2003 and 42% of 2004 were from these investigations. The percentage of such cases in 2007 and 2008 fell to 23% and 13%, respectively. The steady rise in yielding cases from the other categories of audit is likely to be a reflection of better targeting by case selectors as their skills and confidence in REAP improves.

13.16 In relation to REAP cases which fail to produce a yield, the Accounting Officer stated that a structured feedback process was in place to enable each auditor to report on rules that were falsely contributing to the risk of a case. This was rarely a case specific issue but was generally related to a specific sector. The relevant rule could then be turned off for the particular sector and rectified in the next risk run. This was part of the normal knowledge management cycle and enhancement process. The same rules in relation to classification of a case as yielding or non-yielding applied to REAP and non-REAP selected cases. Essentially, once a liability was established a case is regarded as yielding unless there was a proven inability to pay i.e. no assets, no continuing trade or insufficient income.

13.17 Revenue is currently working on a model to improve yield predictability from REAP scores. This model is being built on an analysis of both yielding and non-yielding cases. The prototype model had identified cases that Revenue believe had a higher propensity to yield and these had been distributed for testing to two Regions.

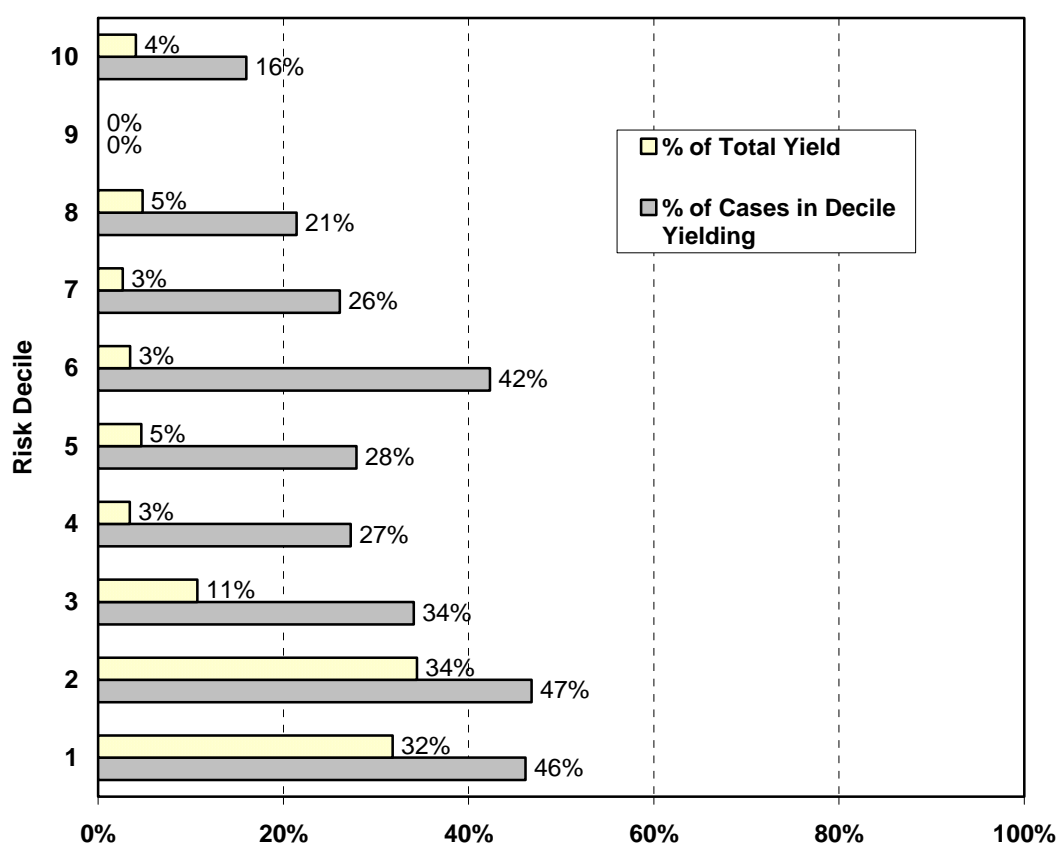
13.18 The Accounting Officer stated that data is currently being analysed to evaluate the results of audits sourced from REAP by comparison with non-REAP selected audits.

Consistency with Random Audit Results

13.19 Another means of assessing the effectiveness of risk assessment is through the results of the Random Audit Programme and one of the stated objectives of that programme is to validate the risk-based approach.

13.20 Figure 48 shows the percentage of random audits from the 2007 programme in each REAP risk decile⁴³ that produced an audit yield and the percentage of the total random audit yield that arose in each risk decile. As these cases were selected entirely at random, the results when compared with the risk score from the REAP system should provide a good indication of the accuracy of the risk score assigned to each case. The expectation would be a high percentage of yielding audits in the higher risk deciles and a low percentage in the lower risk deciles.

Figure 48 Random Audits 2007 - % of Yielding Audits and % of Yield by Risk Decile



13.21 The highest percentage of yielding audits is in the two highest risk deciles with just under 50% of audits in each decile producing a yield and the extra tax collected from those two deciles accounts for 66% of the total yield. This means that over 50% of cases in these high risk categories did not produce a yield.

13.22 A trend of a decreasing percentage of yielding audits as the risk decreases would also be expected but there are significant increases in the percentage in the sixth and tenth deciles. While

⁴³ The risk-assessed cases have been sorted into ten equal categories or deciles of risk. The cases in decile 1 are the 10% of cases assessed by REAP as having the most risk with those in decile 10 being the 10% with the least risk.

none of the cases in the ninth decile produced a yield, a surprising 16% of cases in the tenth decile, which should represent the cases with the least amount of risk, did produce a yield and this accounted for 4% of the total yield. At least 20% of cases in risk deciles four to eight produced a yield accounting in total for almost 20% of the yield.

13.23 Figure 49 shows the average yield for random audits from the 2007 programme in each risk decile. Falls in average yields as the risk decreases are to be expected but the average yields for the eighth and tenth deciles are greater than some of the deciles assessed with greater risk. However, these are influenced by high yields in respect of one case in each decile.

Figure 49 Random Audits 2007 - Average Yield by Risk Decile

Risk Decile	Number of Cases	Average Yield
1	52	4,062
2	47	4,864
3	44	1,619
4	33	689
5	43	718
6	26	884
7	23	765
8	28	1,141
9	15	–
10	25	1,080
All Deciles	336^a	1,977

Note:

- a The random audit cases included in this analysis are those that were completed at December 2008 and which were included in the October 2007 REAP risk run.

Conclusions

Although still at a relatively early stage of its implementation across all Districts, the influence of REAP on Revenue's compliance activities is increasing. Therefore, it is essential that Revenue continually assess the robustness of the risk assessment. Feedback from audit staff and continual amendment of the set of rules embedded in the system will help in this regard.

Analysis of the results of random audits by reference to the risk rating predicted by REAP would seem to provide a means of establishing whether the use of REAP is leading Revenue to focus on areas of greatest risk. To maximise the effectiveness of targeted interventions, it should focus on cases which will produce the highest yield. The development of a yield prediction model, on which work has commenced, may assist in this regard.

In addition, the fact that almost all risk classes contributed at least 3% of the total yield from random audits would suggest that in-depth analysis of these 'outliers' may, in fact, isolate factors which the REAP model does not currently allow for. There would be merit in conducting such an analysis.

Chapter 14 Valuation Office

Valuation Output and Performance

Valuation Output and Performance

14.1 In February 2008 a special report was completed on the Valuation Office (the Office). The report examined two main issues

- progress on a project to revalue rateable property throughout the country
- the work of that Office on the ongoing revision of valuations.

14.2 Following consideration of that report by the Committee of Public Accounts two main issues were identified for follow up review

- the timeliness of the revaluation programme
- the methods used to measure the output of ongoing revision work by the Office.

14.3 This report records the current status of developments in those two areas.

Revaluation Programme

14.4 The revaluation programme is designed to bring rateable property valuations into line with current rental values throughout the country. The Office commenced its national programme of revaluation in November 2005 in the rating authority of South Dublin County Council (SDCC).

Audit Concern - Revaluation Programme

There has been slow progress on the national revaluation of property. The 2008 special report concluded that it was necessary to reassess the resourcing, timeframe and budget of the revaluation programme, building on the experience of the first full cycle of revaluation in SDCC. I enquired into progress to date.

Audit Findings

14.5 A new valuation list for SDCC was published on schedule on 31 December 2007. The rate of appeal to the Commissioner against valuations was 11.5%. All appeals were determined by early August 2008. Further appeals were lodged against the Commissioner's decision to the Valuation Tribunal in 227 cases. 219 of these cases were determined within the statutory deadline (within six months of receipt).

14.6 The Office began a review of the revaluation programme in June 2008. The review was led by a retired Commissioner of Valuation in Northern Ireland. The initial remit of the review was to identify and propose, within current resource parameters, practical measures, which could be implemented in the shortest possible time with a view to expediting the progress of the revaluation programme, while at the same time maintaining or, where necessary, enhancing the quality of outcomes.

14.7 The review was subsequently extended to include most of the elements due to form part of a broader review which was originally intended to be completed at the conclusion of the full revaluation cycle in SDCC. The review report (known as the Rainey Report) was submitted to the management committee at the end of August 2008.

14.8 Key recommendations of the Rainey Report included

- moving away from 100% inspection of properties to be revalued
- pursuing an adjustment of a facilitation agreement with unions that gives rise to significant inflexibilities in the operations of the Office
- securing the necessary flexibility to deploy available staff resources so as to meet business needs and deliver on the mandate of the Office in the most efficient and effective manner.

14.9 In September 2008, the management committee substantially endorsed the conclusions and recommendations contained in the report.

14.10 The Accounting Officer informed me that these recommendations were currently the subject of exchanges between Office management and unions. He said that their successful implementation was critically important to the efficiency of the programme.

Change Management Challenge

14.11 The Accounting Officer stated that assuming full implementation of the Rainey proposals the national revaluation programme could be completed within a period of ten years, in contrast to the estimated several decades which it would take if the current inflexibilities, structural demarcations, working practices and methodologies continued to apply. He acknowledged that addressing deployment inflexibilities was vital to delivery of the national revaluation programme within a reasonable timeframe.

14.12 He stressed, however, that to achieve the ten-year timescale full implementation of the Rainey Report recommendations was essential. This, in particular, would require a significant change of mindset and attitude on the part of staff, unions and management and the possible outsourcing of some elements of the data capture process. He also stated that a structural problem created by the deployment of contract valuer resources to the revaluation task must also be addressed. Trained contract valuer staff working in the Revaluation Unit (the only area of the Office in which such staff can, currently, be employed) were invariably successful in competitions for permanent posts elsewhere in the Office, resulting in high turnover and a loss of trained and experienced staff to the Revaluation Unit. This, in turn, gave rise to a continuous programme of recruitment (there have been five successive competitions since the revaluation programme commenced) and frequent diversion of resources to the training of new staff.

14.13 He said that flexibility in terms of staff deployment and mobility could only be achieved by the effective removal of the distinction between valuers working on ongoing revision and those working on revaluation. While it was not envisaged that this would involve increased costs to the Office it would require Department of Finance approval. He added that completion of the project within ten years by fully implementing the Rainey Report clearly held open the potential for a final cost very significantly below the figure outlined in the special report on the Office.

14.14 On the assumption that the Rainey Report recommendations and suggestions were implemented in full, both he and the Office management viewed as realistic and achievable a ten year timescale for completion of the national revaluation programme, the overall objective of which was to address anomalies in rateable valuations throughout the country, leading to more equitable, robust and defensible valuation lists for rating authorities.

Conclusions – Revaluation Timescale

The completion of the national revaluation programme within a ten-year timeframe depends on removal of the inflexibilities and structural demarcations which currently exist within the organisation. Critical to this is the abolition of the distinction between valuers working on revision and revaluation which is necessary to facilitate more flexible deployment of staff throughout the organisation. The outcome of management/union negotiation is central to the achievement of a more streamlined business process within the organisation.

Valuation Revision Programme

14.15 As Departments and Offices move to report their output, there is a need to ensure that the output measures are consistent, internally coherent and relevant. It is acknowledged that the Office faces two main challenges in measuring its work

- valuation revision requests from rating authorities and ratepayers can generate a variable number of valuation revisions
- the amount of work devoted to different classes of revision varies.

14.16 In its Output Statement for 2008, the Office set a target of 10,000 revisions. A total of 13,187 revisions were reported for 2008 – 7,676 requests were processed which generated a further 5,511 new property records. However, only 8,152 of the reported output related to revisions that were 'list rateable'.⁴⁴ Output details provided by the Office for the three years 2006 to 2008 are shown in Figure 50 below. Less than 60% of cases reported as output, currently culminate in income to the Office.

Figure 50 Statutory Valuation Work Undertaken by the Office 2006 – 2008

Year	Revision Output ^a	Number of 'List Rateable' Properties	Percentage of Overall Cases	'List Rateable' Properties which Incurred a Fee ^b	Percentage of 'List Rateable' Cases Charged	Percentage of Cases Charged
			%		%	%
2006	14,194	8,389	59	8,162	97	58
2007	10,998	6,669	61	6,242	94	57
2008	13,187	8,152	62	7,182	88	54

Notes:

- a This includes valuation revision requests processed and additional records for new properties generated. Work on global and special project valuations is not included.
- b A fee is not raised in instances where a shop or workshop may be 'list rateable' but has 'no value' giving rise to a zero valuation. In addition, a premises may be temporarily closed giving rise to a zero rateability but the property is still categorised as 'list rateable'. Furthermore, a fee is not charged for 'list rateable' properties which are not revised (i.e. parent lots listed for identification only).

⁴⁴ 'List rateable' properties are those that are occupied for profit and should generate rates income.

Audit Concern – Work Measurement

As well as employing the most appropriate business processes in the achievement of its objectives the Office needs to account transparently for its outputs. Without a reasonably clear linkage between the resources it consumes in terms of voted appropriations and the output achieved using those resources it would be difficult for it to demonstrate the value for money delivered.

14.17 In regard to why outputs over and above those which were ‘list rateable’ were counted on equal terms, the Accounting Officer informed me that properties classified as ‘not rateable’ on revision required some level of input and that this input could be substantial in some cases. He stated that insofar as such cases involve some level of input it was considered reasonable that they be reckoned as output of the Office for performance reporting purposes. However, he acknowledged the merit of a review of the Office’s performance measurement methodologies and informed me that an initiative to examine and refine, as necessary, its measurement system had been included in its Statement of Strategy for 2009 – 2011. He stated that the issue of which properties should be reckonable for performance reporting purposes would form part of that examination.

Cost Recovery

14.18 Currently due to the combination of fee rates and non-charging for certain output approximately 22% of the Office’s costs are recovered by way of receipts. Figure 50 indicates that in 2008 only 88% of ‘list rateable’ properties were charged fees which represented 54% of valuation revision output.

Basis of Fees

Under Section 4 of the Valuation Act, 2001 (the Act) the Minister for Finance may make regulations enabling the Commissioner to charge fees on such basis or bases as is or are specified in the regulations in respect of proceedings brought before the Commissioner. Statutory Instrument — S.I. No. 381 of 2004 (Valuation (Revisions and New Valuations) (Fees) Regulations), enables the Commissioner to charge fees on the basis of an application to him pursuant to Section 27 of the Act and for each additional entry on the valuation list resulting from such an application. It provides that a separate fee of €250 is payable for each application and for each additional entry on the valuation list as aforementioned.

This instrument came into effect in May 2004. The practical effect of the instrument is to charge a fee on each output rather than for each application received from rating authorities. Ratepayers continue to pay fees at the time of application.

14.19 In regard to the non recovery of fees for all output, the Accounting Officer stated that the Office had jurisdiction to revise a property valuation only on foot of a specific request from a rating authority and when drafting the fee proposals it was the clear intention that fees would not be charged for outputs with a classification other than ‘list rateable’. He informed me that it was reasonable to assume, given budgetary constraints on rating authorities that properties whose status had changed from ‘list rateable’ to a non rate-collecting classification would not be listed by rating authorities for review if those applications attracted a fee. He stated that this would lead to a progressive undermining of the accuracy of the valuation lists across rating authorities and could jeopardise the rates income of local authorities.

Conclusions – Performance Measurement

The move to output reporting by Government Departments and Offices is a positive development which will help inform the debate about the appropriate level of allocation for the services provided and the value being achieved for the State's outlay. However, as the experience of the Valuation Office demonstrates, it is apparent that the quest for more refined measures of output will need to continue over the next few years if the process is to be fully useful.

In the case of the Office, the relatively low level of input required for certain classes of output, including cases involving the removal of entries from the register and no material change of circumstances cases, should cause them to be weighted lower in terms of output than normal revision cases.

The fact that fees can only be justified for, less than 60% of output reported in the Office's Output Statement also emphasises the need to address how output is measured at the level of both the organisation and the individual valuer.

The proposed review of the Office's performance measurement system should encompass all valuation activities carried out by the Office and attribute an appropriate weighting value to each activity to facilitate better costing and reporting on outputs. Overall, while the output of some Departments and Offices is difficult to quantify, the foregoing case demonstrates that the existence of countable outputs should not necessarily lead to all outputs being counted equal.

Chapter 15 Garda Síochána

Garda Civilianisation

Garda Civilianisation

15.1 Civilian staff were first introduced into An Garda Síochána in the 1970s. Between 1970 and 1998, 15 individual reports into different areas of Garda activity and reform recommended additional civilianisation.

The civilianisation programme in An Garda Síochána can take a number of forms

- The replacement of sworn members currently performing exclusively clerical, administrative or technical duties, with civilian staff
- The use of civilian support, which allows sworn members who would otherwise have to perform some administrative duties, to focus exclusively on front-line policing duties
- The recruitment of civilians to perform new or expanded administrative, managerial and professional roles in An Garda Síochána.

15.2 The ratio of civilians to police officers in An Garda Síochána is approximately 1:7 compared with international norms of 1:3 in the UK and 1:4 in Australia, Sweden and The Netherlands (OECD, 2008).

15.3 While the number of civilian staff in An Garda Síochána is low by international standards, an exact comparison is not possible since in Ireland the organisation has outsourced a number of functions to external services providers which would be part of the support services of other police forces

- The Financial Shared Services Centre for payroll and the payment for goods and services for the entire organisation located in Killarney
- The Public Appointments Service for recruitment
- The Chief State Solicitors Office for legal advice and representation
- The Office of Public Works for housing and completion of works
- Consultants for specialist work in information technology, telecommunications, etc.
- Civilians on interview boards, delivering the Garda Executive Leadership programme, correcting promotion examination papers, etc.

However, the recent OECD Report suggests that there is need to address this issue in an evidence-based way.

OECD Report 2008

In its recent report, Ireland: Towards an Integrated Public Service, the OECD noted that Ireland has a relatively low percentage of civilian staff in its police force relative to other OECD countries and that increased civilianisation is generally supported in principle by stakeholders. According to the OECD report the current approach has met with resistance within An Garda Síochána, in part because the current policy of civilianisation has not been based on a clear and shared assessment of needs linking the scale of civilianisation needed with the problem at hand. The report says that An Garda Síochána should develop the human resource management capacity to assess its functional resource requirements and skills needs, in light of its workload and an analysis of future challenges. It also recommended that it should develop capacity for workforce planning and for linking inputs to the delivery of outputs and the achievement of outcomes.

15.4 A report in 2001⁴⁵ recommended the civilianisation of 496 existing posts in a twenty-year programme. The report concluded that there was a significant additional cost in employing a Garda to do work that did not require Garda skills and that where this work could be done by civilians it would free up Gardaí to do police work.

15.5 Figure 51 shows the savings (at 2008 rates of pay) that would be achieved by replacing Garda grades with their civilian equivalents.

Figure 51 Cost Saving arising from Employing Civilian Staff (September 2008 Rates)

Garda Rank	Civilian Grade	Average annual saving	Average annual saving (incl. Imputed Pension Contribution ^a)
		€	€
Garda	Clerical Officer	7,519	13,516
Sergeant	Executive Officer	13,356	22,335
Inspector	Higher Executive Officer	7,217	15,719
Superintendent	Assistant Principal	10,512	22,595
Chief Superintendent	Principal Officer	7,356	20,956

Note:

- a As per the last Benchmarking Report dated 21 December 2007, the Imputed Pension Contributions for sworn members of An Garda Síochána and civil servants are 32.9% and 21.3% respectively.

15.6 The most significant achievement of the 2001 programme was the civilianisation of 115 District Finance Officer posts. However, the programme was soon overtaken by events, including the enactment of the Garda Síochána Act, 2005. At the same time there was significant increased pressure to enhance the visibility of policing on the streets as a result of rising crime, including gangland crime. A new civilianisation programme commenced with the approval by Government for the re-assignment to An Garda Síochána of 300 posts which were surplus to requirements in other Government Departments.

Audit Focus

The audit sought to establish

- The progress in increasing civilianisation on foot of Government Decisions
- The extent of redeployment of Gardaí to policing duties on foot of the increases in civilian numbers.

Civilian Support in Policing

15.7 The principal focus of civilianisation since 2005 has been on engaging civilians to carry out new or expanded roles within the service. Many of the civilian staff recruited in recent years have been deployed to carry out rising volumes of administrative work arising from the establishment or expansion of various specialised units and offices. The support provided by these staff has reduced the time which Gardaí would otherwise have had to spend on non-core duties. Consequently the number of civilian staff (WTEs) working in An Garda Síochána has increased

⁴⁵ SMI Report to Steering Group on Civilianisation 28 February 2001.

from 1,166 to 2,135 over the period 31 December 2005 to 31 May 2009. These civilian staff provide a wide range of services ranging from clerical duties in Garda stations and offices, to providing support services in administrative, professional, technical and industrial areas, including

- Human Resources
- Training and Development
- IT and Telecommunications
- Finance and Procurement
- Internal Audit
- Communications
- Research and Analysis
- Accommodation and Fleet Management
- Scene-of-crime Support
- Occupational Health Service
- District Finance Officers.

15.8 In addition, the civilianisation programme has enabled the establishment or expansion of a number of operational support functions which are either wholly or largely staffed by civilian staff including

- the Fixed Charge Processing Office (FCPO) in Thurles
- the Garda Central Vetting Unit (GCVU) also in Thurles and
- the Garda Information Services Centre (GISC) in Castlebar.

The functions, contributions and outputs of these units are outlined at annexes A to C of this Chapter.

15.9 Civilian support is also used in

- a Garda Síochána Analysis Service, which is staffed by 26 analysts led by three senior managers. Its function is to enhance the strategic crime and policing analysis capacity of An Garda Síochána.
- the National Digital Radio Service which is staffed by 25 telecommunications technicians
- the Garda National Immigration Bureau (GNIB).

Redeployment of Gardaí

15.10 A number of Government decisions from 2005 onwards envisaged replacing Gardaí with civilian staff. The key decisions⁴⁶ bearing on civilianisation since 2005 are outlined in Figure 52.

⁴⁶ On 31 July 2006, the Government authorised an increase in the strength of the civilian support staff up to 300 to be achieved to the maximum possible extent through redeployment from Government Departments, including surplus staff arising from the decentralisation programme.

Figure 52 Key Decisions bearing on Civilianisation since 2005

Decision	Civilian Recruitment	Impact
Decision of 22 February 2005		
Approved the re-assignment of up to 300 surplus posts from Government Departments to An Garda Síochána to assist with the civilianisation programme.	To date, 215 posts have been specifically identified under this decision. 209 of these posts – comprising 148 posts in GISC in Castlebar; 36 in the Civilian HR Directorate in Navan and 25 Telecommunications Technician posts had been filled by 31 May 2009.	While the stated objective was to free up desk-bound Gardaí for operational duties — no target was specified for Gardaí to be replaced.
Decision of 19 December 2006		
Approved the creation of 300 new clerical officer posts to be filled by open competition. At least the same number of Gardaí would be immediately re-assigned to outdoor operational duties. Approved the creation of seven senior civilian management posts.	300 staff recruited by end 2007 5 posts filled.	74 Gardaí released to operational duties.
Decision of 2 May 2007		
Approved a further increase of civilian staff by 300 to support the redeployment of uniformed Gardaí to outdoor operational duties, outside the greater Dublin area.	307 posts filled.	91 Gardaí released to operational duties.

Numbers of Gardaí Released to Front-Line Duties 2005 - May 2009

15.11 As of 31 May 2009, the number of Garda personnel who had been released from administrative duties to operational duties as a result of the civilianisation programme was 144.

Reports on progress of Civilianisation in the Garda Síochána

15.12 A Civilian Verification Group was established to monitor progress in relation to the recruitment of these staff and the release of Gardaí to operational duties. It operates under the chairmanship of the Garda Inspectorate. While it reported on the number of civilians recruited in its first report in April 2008, it was apparent that the actual progress in replacement of Gardaí with civilians was of a much lower order than planned.

15.13 A further report of the group is being compiled at present for presentation to the Minister.

Accounting Officer Observations

15.14 The Accounting Officer stressed that the civilianisation programme in An Garda Síochána did not imply the direct replacement of Gardaí with civilian staff. Its success and future direction could not be determined solely by reference to the direct civilianisation of existing Garda posts.

However, he stated his commitment to reduce the current ratio of civilians to Gardaí which currently stands at 1:7. The long-term aim is to reduce the ratio to 1:4 or even 1:3 in line with similar ratios in neighbouring jurisdictions.

15.15 He noted that 240 vacant civilian posts existed. There was a risk that unsustainable resource pressures would build if the volume of staff departures increased significantly, as was likely if, for example, the Incentivised Early Retirement and Career Break Schemes were extended and made more attractive. Further civilian vacancies would, if not filled, lead to either an unsustainable diminution in essential Garda Síochána services or the forced substitution of sworn members – impacting on front-line service delivery and undermining the progress made in civilianisation in recent years.

15.16 In particular, in the case of the GISC, if the service was not maintained at a high standard, whether through lack of call-taking resources or the absence of duty managers to cover each shift, usage of the service would drop off and visibility on front line policing would be lost.

15.17 With regard to international comparison, he stated that An Garda Síochána could not be compared to UK Police Services as An Garda Síochána was a national police force that also had responsibility for national security.

15.18 With regard to reducing the number of Gardaí in receipt of Designated Post or Ex-Gratia Allowances, he stated that the 'Designated Post' allowance – being paid to 242 officers at 30 June 2009 – was for posts that have been agreed between Garda Management and the Staff Associations and could only be suppressed by natural wastage, retirements etc. The incumbents carried out a pivotal role in District and Divisional branches. The total number of Gardaí in receipt of 'Ex-Gratia' allowances at 30 June 2009 was 108. These posts were filled by Gardaí in the absence of civilian staff to do the work.

15.19 In regard to the operational support units, the Accounting Officer noted that

- an estimated 265 Gardaí have been freed up as a result of the establishment of the GISC in Castlebar. Had the GISC not been established, policing visibility would have been reduced and there would have been a deficit in the provision of a policing service to the public.
- GCVU which was decentralised to Thurles in November 2005 necessitated the prioritisation of extra resources to this critical unit. Similar to the GISC, had civilian staff not been made available to the GCVU, frontline Gardaí would have had to be redeployed from operational duties to administration duties to meet this extra commitment.

Conclusions

The ratio of civilians to Gardaí is low by international standards.

The recommendations of the OECD report need to be addressed and in particular

- there is need to determine the relative effect of outsourcing of certain administrative and support functions in Ireland in order to allow for comparison with other police forces
- the scope for replacement of Gardaí with clerical or administrative staff should be determined using modern analysis techniques. 900 civilian posts were approved by Government in three decisions since 2005. The expressed intention was to release Gardaí from administrative duties although specific targets were not set in all cases.

The number of Garda personnel released from administrative duties as a result of the civilianisation process since December 2005 is 144. This is considerably less than the number envisaged even discounting cases where a specific target was not set. At the same time, the number of Gardaí in designated posts or in receipt of ex gratia allowances while carrying out administrative duties has fallen by 16 from 366 to 350 in the period to end June 2009. There needs to be a greater emphasis on the establishment of targets for police replacement with civilians in order to allow for effective verification of the extent of replacement.

Annex A The Fixed Charge Processing Office

The Fixed Charge Processing Office (FCPO) issues fixed charge notices following the capture of information by notepad, electronic notepad and speed cameras. Over 390 traffic offences are subject to fixed charge notices. Since 2008 the system can also be used to process certain public order offences. The FCPO is located in Thurles, Co Tipperary and is staffed by 67 civilian personnel and one Garda Inspector.

The functions of the FCPO include

- transfer of information from pre-formatted Garda notepads to the Fixed Charge Penalty System (FCPS)
- processing a system of ‘nominations’ whereby registered owners not driving their vehicles at the time of an alleged offence can nominate the actual driver
- providing a telephone call centre and correspondence section to handle queries from recipients of fixed charge notices
- compilation and dissemination of court packs for prosecuting Gardaí and defendants who did not pay fixed charge notices within the allowed time period
- other back office functions.

The Accounting Officer has stated that the FCPO contributes to policing work by

- providing a support function to the Gardaí which leads to a reduction in Garda time spent on court appearances and on administration work
- enhancing the enforcement capability of the traffic corps
- providing an improved customer service with prompt responses to queries
- processing all queries, complaints and appeals to finality, where appropriate, obviating the need to refer back to the Gardaí for further investigation
- facilitating the expansion of the FCPS to include additional fixed charge offences and increased enforcement levels
- providing capacity to manage the impact of any developments such as the provision of fixed cameras without deploying additional resources
- acting as liaison between An Garda Síochána and outside agents such as An Post.

Key Outputs

Inbound correspondence is analysed since January 2008. An indication of the Office’s output in terms of notepads inputted, correspondence received and phone calls answered is set out in Figure 53.

Figure 53 FCPO Output

Year/Period Ended	Notepads Inputted	Correspondence Received	Telephone Calls Answered (Est.)
31 December 2007	108,952	91,138	40,000
31 December 2008	145,601	67,008	245,000
21 June 2009	73,056	34,195	110,000

Annex B The Garda Central Vetting Unit

The Garda Central Vetting Unit (GCVU) extends Garda vetting to all organisations that employ personnel in a full-time, part-time, student placement or voluntary basis who may have unsupervised access to children or vulnerable adults. The GCVU is located in Thurles, Co Tipperary and is staffed by 72 civilian personnel, one Garda Superintendent and five Garda Sergeants.

The functions of the GCVU include providing a telephone call centre and correspondence section to handle queries from organisations seeking vetting and criminal disclosures for their employees, which has increased from 130 in 2006 to approximately 17,000 organisations in 2009 and associated back office functions.

The GCVU contributes to policing work through

- processing queries, complaints and appeals to finality, where appropriate in relation to Garda vetting, criminal records and data protection issues
- providing liaison between agencies such as the Courts Service, the prison service, the probation service, PSNI and other police agencies and foreign criminal records authorities in relation to criminal records and related matters
- providing a dedicated central point in An Garda Síochána which means that this work and associated queries do not have to be handled by operational Gardaí
- providing support to Garda management
- reducing Garda time spent on administration
- providing an improved customer service with prompt responses to correspondence and queries
- providing capacity to manage the impact of future developments such as the forthcoming European criminal records information system and international aspects of vetting.

Key Outputs

The programme handles vetting queries from up to 17,000 organisations.

Annex C The Garda Information Services Centre

The Garda Information Services Centre (GISC) was initially set up on a pilot basis in 2005 to record crime and other incidents on the PULSE Garda computer system. The recording system operates through Gardaí ringing the GISC with details of incidents and those details being inputted to PULSE by trained civilian operators in an interactive process. The GISC is located in Castlebar, Co. Mayo and is staffed by 197 civilian personnel, one Garda Inspector and three Garda Sergeants.

The functions of the GISC include

- inputting details of incidents on the PULSE system
- processing driving licence and insurance production cases
- taking traffic watch calls from members of the public and contacting Gardaí in cases where it is deemed that immediate Garda action is necessary
- monitoring the transfer of information under the Criminal Justice Interoperability Pilot Project (CJIPP)
- investigating errors and mismatches preventing the transfer of data, acting as a single point of contact with the Courts Service and providing a business support desk for Gardaí who encounter problems with summons or other court related work.

The GISC contributes to policing work through

- increasing Garda visibility and reducing Garda administrative workload
- improving the quality of information on the PULSE system
- reviewing all manually created incident reports, whether input by GISC or Gardaí themselves
- relieving Gardaí of the necessity to take and record all traffic watch calls
- relieving Gardaí of the task of sorting out problems that arise with summonses and other court-related work.

Key Outputs

The quality of information on PULSE has improved through the inputting of information by a small number of trained operators who handle a large volume of calls on a daily basis. The GISC can be contacted by mobile phone and reports of incidents can be inputted on PULSE from the scenes of incidents. Every incident record is reviewed by trained supervisors in the GISC.

The throughput of cases in terms of calls handled per week is estimated as follows

- 13,000 – 14,000 incident reports
- 150 – 200 traffic watch
- 450 – 550 CJIPP.

Chapter 16 Prisons

Procurement in the Irish Prison Service

Procurement in the Irish Prison Service

16.1 In general, the principles underlying public procurement are that the process should be open, transparent and competitive. In order to ensure that any departures from these principles are reported, Accounting Officers complete and submit an annual return in respect of contracts exceeding €25,000 awarded without competition⁴⁷.

16.2 In the course of audit of the financial records of the Irish Prison Service (IPS) it was noted that there were major contracts in place with Glenbeigh Construction Ltd. (Glenbeigh) for various capital projects within the IPS.

16.3 The projects in question were initiated under a tender put to the market on 2 July 2004. The tender notice, published in the Official Journal of the EU (OJEU), designated the procurement as a framework agreement. The works tendered for were priced at €2.1 million by the successful bidder. In the period 2004 to 2007, projects with an estimated value of €97 million, excluding VAT, were commenced, using the initial procurement as a basis to set rates and prices to the extent that relevant elements had been specified and priced in the initial tender process. Ultimately, 73⁴⁸ projects took place at 15 prisons or IPS offices, with some of those projects being service wide. Figure 54 sets out the total outlay over the period 2004-2007. Annex A describes the works in more detail.

Figure 54 Works Completed 2004 to 2007

Facility	Total value of contracts €m	Number of contracts
Castlereagh Prison	42.07	13
Special Service Wide Projects	20.90	5
Loughan House	12.58	7
Shelton Abbey	5.71	2
Mountjoy Prison	4.43	12
Portlaoise Prison	3.78	6
Cloverhill Prison	1.61	5
Midlands Prison	1.48	1
St Patrick's Institution	1.31	5
Wheatfield Prison	0.85	3
Cork Prison	0.77	3
Beladd House, Prison Service Training Centre	0.74	2
Limerick Prison	0.52	4
Building Services Division	0.17	2
Small Works Training Unit, Arbour Hill, IPS HQ Longford	0.07	3
Total Costs Estimate	96.99	73

⁴⁷ Details are set out in Circular 40/02 – Public Procurement Guidelines. Accounting Officers submit annual returns to the Comptroller and Auditor General and the National Public Procurement Policy Unit of the Department of Finance.

⁴⁸ The list in Figure 54 contains a number of smaller works which are combined together. In total, the number of projects was 96.

General Background to the Procurements

16.4 In addition to the construction cost, payments totalling €3.69 million have been made to consultants to enable the IPS to administer the agreements. A total of €3.04 million was paid to KMCS, who acted as project managers and cost managers for 22 of the projects and a further €0.65 million was paid to DBFL Consulting Engineers, who provided project management and civil and structural engineering design services for the project to construct close supervision and safety observation cells at a number of prisons. The remainder of the projects were managed in-house by the Building Services Division within the IPS.

16.5 The Accounting Officer stated that, at the time, the largely outdated prison estate was under pressure from increasing numbers. During 2006 and 2007 it became apparent that IPS was seeing the beginnings of an upwards curve in the numbers in the prison system due to various factors including increased number of Gardaí and increased number of court sittings. Accordingly, given that the construction of Thornton Hall, which would be the long-term solution to the issue of overcrowding in the system, was at least 4-5 years away at that stage, it became obvious that some interim measures would be required to alleviate the problem. It also became clear that certain financial resources would be available to the IPS at this point in time, and if used to fund capital projects in the prison system, they would hopefully put the system in good shape to cover the interim period until the completion of the new prisons planned for Thornton Hall and Kilworth.

Previous Framework Agreement with Glenbeigh

16.6 In the course of the audit it was noted that a previous framework agreement with Glenbeigh had been put in place with KMCS acting as project managers for some of the projects. That framework agreement, established in 2002, began with a contract for a new education and gymnasium facility in Cloverhill Prison and made provision for a drawdown facility for similar requirements over an 18-month period. In total, eleven projects were completed under that framework and project costs totalled €15 million. KMCS managed ten of the projects and received €0.8 million in fees. In March 2002, the Minister for Finance conveyed sanction to award the initial contract for Cloverhill education facility and for a drawdown on the tender from Glenbeigh Construction Ltd to proceed with the replacement or upgrading of army accommodation at Portlaoise.

16.7 The Accounting Officer stated that the Department of Finance sanction for the 2002 drawdown gave the IPS comfort that this method of procurement was in order and that under the Capital Investment Framework 2004-2008 it was not necessary from 2004 onward to seek sanction for individual capital projects.

Audit Focus

The audit sought to establish

- whether the initial 2004 agreement was sufficient to ground the issue of subsequent contracts without seeking tenders
- how the tender process and contracting were handled
- how subsequent projects were costed
- how the diverse elements within subsequent projects were costed and managed
- how advisors were selected and how much was paid to them.

Nature of Agreement

16.8 Prior to the adoption of revised EU procurement directives covering utilities and public works⁴⁹ there was some uncertainty as to how framework arrangements complied with legal provisions governing public sector procurement.

16.9 The agreement entered into by the IPS predated the coming into force of the public works directive⁵⁰. However, the following general criteria have been used in the course of this audit review to assess the arrangement

In order to provide for openness and transparency

- tenderers should know the value of the estimated purchases and the scale of the intended procurement
- the nature of the work should be clearly and comprehensively stated.

16.10 The arrangement did not satisfy those criteria in the following respects

- The EU notice did not set out any estimate of purchases expected to be made over the course of the contract.
- The OJEU advertisement was for an initial contract for additional accommodation at Loughan House⁵¹. However, the advertisement went on to state that it was a framework agreement and that *“the Irish Prison Service reserves the right to enter negotiations with the successful contractor to extend the scope of the agreed contract to a number of other prison projects, within a duration of three years from award of the initial contract”*. It did not, however, specify the location or extent of the works.
- The disparate nature of the projects ultimately undertaken and, in the case of one project - the Remand Wing in Castlerea - the scale and cost (€18.81 million excluding VAT) of the project, was out of proportion to the original works advertised. Some projects were of a scale or involved specialisation that should have caused them to be treated as separate procurements.
- Certain projects fell outside the profile of works envisaged, including special service wide projects for high security electronic locking and gates, close supervision and safety observation cells and the rollout of the national CCTV scheme.

16.11 Subsequently, Directive 2004/18/EC has removed much uncertainty surrounding framework agreements. The Directive provides that in establishing a framework agreement

- the value (in the Contract Notice) should be the maximum estimated value net of VAT of all contracts envisaged for the entire duration of the agreement
- the notice should also, insofar as possible, indicate the value and frequency of the contracts to be awarded and the planned duration of the agreement
- the term of a framework agreement may not exceed four years except in exceptional cases (duly justified)

⁴⁹ 2004/17/EC covering utilities sector (water, energy, transport and postal services) and 2004/18/EC covering public works contracts, public supply contracts and public service contracts.

⁵⁰ The Directive was brought into force by S.I. No. 329 of 2006, European Communities (Award of Public Authorities Contracts) Regulations 2006 on 22 June 2006.

⁵¹ The works tendered for at Loughan House were not carried out.

- when awarding contracts under a framework agreement, substantial amendments cannot be made to the terms laid down in the agreement
- contracting authorities cannot use framework agreements improperly or in such a way as to prevent, restrict or distort competition
- where a framework agreement is agreed with a single operator, contracts awarded under that agreement should be within the terms laid down in the agreement.

16.12 The general concept of framework agreements is outlined in Annex B.

Views of the Accounting Officer

16.13 The Accounting Officer said that at the time it was not possible to predict how much work was envisaged or the nature of the work. For example, under the previous framework agreement, established in 2002, €15 million of construction projects were procured over a two year timeframe. He cited the factors which affected decisions over the lifetime of the framework agreement due to the increases in prison population. He also noted that there was no requirement in legislation at the time to specify the location or extent of all future potential projects.

16.14 The Accounting Officer stated that since the 2006 legislation had been enacted, the IPS had complied with the new requirements for framework agreements. In this regard, he stated that a new framework agreement for Small Capital Works was advertised on eTenders and had been signed and brought into effect in 2009. The agreement runs to the end of 2010 and, to date, three mini-competitions had been initiated under this new framework agreement. The first of these mini-competitions is currently being assessed. He further stated that a Construction Consultancy Services Multi-Operator Framework tender was advertised on eTenders with a closing date in August 2009. This framework agreement would cover services over a number of disciplines, such as architectural design, draughtsmanship, civil and structural engineering, mechanical and electrical engineering, landscape design, quantity surveying and project management and design services.

Tender Process

16.15 The Notice in the OJEU indicated that the evaluation of preferred bidder for the framework would not be on lowest price, but would be on the basis of criteria as set out in the contract documents. It stated that, following a shortlisting process, a request for tender documents would be issued to between five and eight approved tenderers. The criteria listed in the tender documentation which would be used for evaluation of proposals included

- accordance with Development Brief and Specification documents
- suitability of design and construction proposals
- acceptability of the financial proposal (based on current and future developments)
- timescale.

16.16 Nine candidates applied for shortlisting at the pre-qualification stage and four of these were invited to tender. One tenderer declined to bid. The Notice in the OJEU had indicated the selection of a minimum of five candidates. In view of the very significant gap between the scores for the top four contractors and the rest, a decision was taken to include only the top four on the shortlist.

16.17 The outcome of the subsequent financial evaluation was as set out in Figure 55.

Figure 55 Financial Evaluation

Contractor	Tender Amount excl. VAT	Inflation over 24 Months	Tender Cost Inflation Applied
	€m		€m
Glenbeigh Construction Ltd.	2.12	12%	2.37
Tender 2	2.30	10%	2.53
Tender 3	2.64	10%	2.90
Tender 4	—	Declined to tender	—

16.18 The tender report concluded that Glenbeigh was the preferred bidder and that the differential in the base price quoted for future works more than compensated for the differential in the inflation rate. However, as the likely total cost and mix of elements of the framework was not estimated at any stage, no conclusions can be readily drawn on

- the impact of the bids when applied to different mixes of contract elements
- the likely effect of the lower inflation built into the next best offer.

16.19 The IPS technical advisors, KMCS, produced a tender report on the preferred bidder process in October 2004. That report only deals with the financial evaluation and health and safety, fire and building certification, development and insurance issues. In relation to the suitability of design and construction proposals, the report states “*we are currently reviewing the architectural and services designs submitted by Glenbeigh Construction Ltd. However, it is the responsibility of Glenbeigh Construction Ltd to conform to the requirements of the Irish Prison Service and comply with the Building Regulations. KMCS shall revert once the review of the submitted designs is complete*”.

16.20 The Glenbeigh tender was subsequently reviewed over a series of meetings and its satisfaction with the outcome was verbally passed on by KMCS to the IPS. The tender documentation clearly indicated that evaluation would include ‘*suitability of design and construction proposals*’. There was no evidence provided to indicate that this additional evaluation was done and no marking scheme existed to compare bids over all relevant criteria including design and construction proposals.

Views of the Accounting Officer

16.21 The Accounting Officer stated that the differential in the base price quoted for future works by the preferred bidder Glenbeigh, was 8.5% below Tender 2 and 25% below Tender 3, and more than compensated for the differential in the inflation rate.

16.22 He stated that the work envisaged in the framework agreement as evaluated at that time, was considered to be representative of the Prison Service's anticipated capital works needs over its duration and was therefore considered an appropriate basis for evaluating tenders.

16.23 He informed me that Glenbeigh was the only tenderer to submit a comprehensive design package including detailed architectural, structural and mechanical and electrical drawings. Other tenderers only submitted outline schemes. He indicated that the design proposals were reviewed as part of the evaluation process.

Contract Arrangements

16.24 A project on the scale of that tendered was not completed at Loughan House. However, in 2006 a different project was activated there, when the IPS awarded Glenbeigh a contract for the construction of a 60-cell accommodation block with enhanced systems and facilities at a revised contract price of €4.7 million including VAT. The Accounting Officer explained that the 2006 contract was designed in light of requirements at the time in order to meet a rapidly expanding prison population. The 2004 rates, adjusted for inflation and quantities, were applied.

16.25 No contract was signed in relation to the original framework tender in 2004. The IPS stated that, in fact, it was not intended to proceed with the advertised project at the time. However, this was not indicated in the OJEU notice. The first drawdowns awarded to Glenbeigh were in late 2004 in respect of buildings in the Portlaoise/Midlands prison complex at a cost of €1.7 million (including VAT) and for refurbishment of existing offices in Castlerea at a cost of €120,000 (including VAT).

16.26 The drawdown for the initial project to extend the Maintenance Building at the Portlaoise/Midlands Prison was awarded in November 2004. Glenbeigh commenced work on site on 10 January 2005, but did not provide budgets for the work until 4 February 2005, following up with firm costings on 15 February 2005. Errors were found in the costings and the final agreed contract price was settled on 18 February 2005 at €1.39 million excluding VAT.⁵² In the meantime, a contract had actually been signed for the project on 13 January 2005 for the contract sum of €1.4 million *“or such other sum as shall become payable by virtue of additions to or deductions from the said contract sum”*.

Views of the Accounting Officer

16.27 The Accounting Officer stated that on completion of the evaluation process, there was a binding framework agreement in place through a verbal acceptance of the rates and prices, and subsequent projects undertaken under the drawdown framework arrangement were all subject to this contract. He explained that the tender was undertaken on a design and build basis and this required considerable preparatory work, which was undertaken in advance of the tender notice and tender documentation issuing. He further stated that, following receipt of tenders, a full evaluation process (taking account of financial and technical considerations) was completed in a professional

⁵² The final construction cost was €1.41 million and the project also involved design and planning work costs of €70,000.

manner and that the evaluation process was comprehensive. The first drawdown was not awarded until after the completion of the tender evaluation process.

16.28 He also stated that the Maintenance Building project was undertaken on a design and build basis and therefore the design had to evolve to a point where quantities could be ascertained to facilitate evaluation and sign-off on costs. The initial contract was awarded in November 2004 and a period of time was required to design the prefabricated units and facilitate the design works to a point where a bill of quantities could be prepared for examination to ensure accuracy of costs based upon the call-off rates. As this was very much a construction project, there was a clear and significant link to the works tendered for in the framework and it was not necessary, in his view, to await full design and costs before proceeding.

16.29 The Accounting Officer has further stated that KMCS identified the financial commitment of the IPS on all projects prior to their commencement, by giving budgetary information pending the availability of the final construction cost.

Cost and Measurement of Work

16.30 Each subsequent project was reviewed by the IPS and/or its advisors to confirm accordance with unit costs and inflation factors established in the 2004 tender.

16.31 However, some projects, because of size and complexity, including specialist security elements, called for elements of work that were not covered by the generic specifications in the initial tender. As an example, the Castlerea Remand Building included cost estimates of €4 million for enabling works and €16 million for the 64 cell remand building. The tender report indicated that the Bill of Quantities was broken down into call-off tender work (benchmarked against the 2004 tender) and non call-off tender work (work not in line with 2004 tender). In this instance, in the case of the Castlerea Remand Building, Glenbeigh was required to tender those non call-off works to sub contractors and provide quotations to KMCS for review prior to expenditure of any money.

16.32 The tenderers for the original Loughan House contract in 2004 were asked to provide a price and breakdown of constituent elements for the current project and also to provide a detailed priced breakdown for future work, including inflation. Glenbeigh tendered for a maximum of 12% inflation to the prices specified for the elements in the 2004 project, over a 24 months period. The inflation applied at an ascending 3% for each 6-month period of the framework, rising to 12% for the period 19-24 months. Inflation was capped at 12% and any projects commencing after the 24 month period had a 12% uplift applied to the call-off prices.

Views of the Accounting Officer

16.33 The Accounting Officer stated that all non call-off tender rates were compared with prevailing market rates which were available to KMCS. This enabled them to take a view as to the best market rate at the time. On a case-by-case basis, the Accounting Officer stated that KMCS reviewed non call-off rates against prevailing market rates and agreed them with the IPS. Specialist items were procured by way of separate tenders.

16.34 In regard to whether the levels of non call-off expenditure involved were in excess of EU limits and whether in those cases regulations with regard to competitive advertising and tendering were complied with, the Accounting Officer stated that the IPS was satisfied that it had not breached procurement law in its dealings with Glenbeigh. He noted that KMCS had advised that it would not deem the percentage of non call-off rates to be excessive on any of the projects they managed. He supported that view by supplying the information set out in Figure 56 which

compares the value of work carried out at call-off rates and non call-off rates for a sample of projects.

Figure 56 Ratio between Value of Framework Agreement Rates and Non Call-Off Rates

Project	Value of Call-Off Rates		Value of Non Call-Off Rates		Total Value
	€m	%	€m	%	€m
Shelton Abbey	3.56	71	1.49	29	5.05
Loughan House	3.25	77	0.97	23	4.22
Midlands Trade	1.27	91	0.13	9	1.40
Castlerea Remand Wing	13.84	75	4.56	25	18.40

16.35 The Accounting Officer stated that the applicable inflation arrangement for the framework agreement covered a period where tender prices rose substantially. The Society of Chartered Surveyors noted a rise of 14.2% during the period in question, and 18.7% in the period October 2004 to October 2008. In addition, the Central Statistics Office indices showed a rise of 17% and 22% for the same periods. He further stated that the inflation factor was a maximum figure and, in many cases, IPS negotiated that no inflation would apply. He added that the total value of discounts negotiated by KMCS on behalf of the IPS was approximately €1.79 million.

Project Pricing

16.36 A sample of contracts procured under the framework agreements was examined in the course of audit. The projects reviewed were as follows

- The new remand wing and segregation unit at Castlerea which cost €19 million excluding VAT. This was the largest project in the framework procurement.
- The 60-bed accommodation unit at Loughan House which cost €4.2 million excluding VAT. This was a large project and the original generic model was based on a smaller version of it.
- The 44-bed prisoner accommodation building at Shelton Abbey which cost €5.3 million excluding VAT. This was a large project, which should have been similar to the Loughan House 2004 generic model.
- The maintenance building at the Midlands Prison which cost €1.48 million excluding VAT. This was the initial project under the framework agreement.
- The electronic locking installation project across prisons which cost €3.9 million excluding VAT. The IPS has stated that €3.2 million was paid to Glenbeigh under the project and the remaining €0.7 million comprised payments to other companies in respect of such items as high security keys and locks.

16.37 The Accounting Officer informed me that, as Shelton Abbey was a protected structure, different site and planning circumstances which could not have been anticipated presented themselves on commencement of the project. The IPS was required to replicate the original courtyard design and to include features such as lime render external wall finishes, natural slate roof and cast iron rain water goods.

Contract Management

16.38 The review sought to establish

- whether a contract existed for each project and how it was managed
- whether project elements envisaged in the original tender were priced in accordance with the framework pricing structure where they were subsequently procured
- how items which did not fall within the call-off structure were priced.

Contractual Arrangements

16.39 Formal contracts were in place with Glenbeigh for projects managed by KMCS (22 projects) and DBFL (one project). No formal contracts existed for the 73 projects managed in-house. IPS estimates that the value of projects which were subject to formal contracts represented around 67% of total payments to Glenbeigh. It stated that where no formal agreement was signed, there would be other agreed project documentation (cost report, bill of quantities, schedule of rates).

16.40 For the cases selected, the review looked at consistency of pricing at the various stages of the process. Figure 57 summarises the exercise.

Figure 57 Review of Costs

Project	Bill of Quantities €	Contract Amount €	Final Account before Variations €	Final Account after Variations €
Loughan House	4,217,630	4,217,630	4,217,630	4,238,834
Shelton Abbey	5,050,770	5,050,770	5,050,770	5,270,000
Midlands Maintenance Building ^a	1,449,772	—	1,397,625	1,412,252
Castlerea Remand Wing	18,652,847	18,400,801	18,962,928 ^b	19,208,257 ^b
Electronic Locking	4,006,357	No formal contract ^c		3,913,564

Notes:

- a The IPS stated that the original contract had been mislaid.
- b At the time of this report, the final account for Castlerea Remand Wing had yet to be completed.
- c The IPS stated that there were reductions in scale from the estimated contract cost of €4,932,094 in respect of Mountjoy (€0.7 million) and Cork Prison (€0.4 million).

16.41 The Castlerea contract was signed on 30 March 2007, but according to the documentation supplied, the contract commenced on 29 June 2006. The IPS informed me that the initial discussions regarding design commenced in May 2006, and Glenbeigh was asked to review outline schemes to ensure the proposed building could be accommodated on site. During the initial studies, site visits and cell mock-ups were prepared by Glenbeigh. Following completion of the design and consultation phase, Glenbeigh produced a bill of quantities which was reviewed by KMCS in conjunction with the signed off design drawings in March 2007.

Pricing of Contract Elements

16.42 The review found that for elements of subsequent projects priced in the original framework, the call-off rates and inflation were correctly applied. The only exception noted was that in all cases, preliminaries were charged at €27.12 per square foot, whereas the generic model indicates

that the rate should be slightly higher at €27.17 per square foot. The difference is insignificant and in favour of the IPS.

16.43 The assessment of element pricing in the tendered bill of quantities for an indicative framework construction contract requires a layer of review additional to that generally applicable to a one-off construction contract. This is necessary because differences in element pricing in the indicative tenders can give rise to a different result when applied to projects other than the original. This would arise where later projects required a different mix or relative volume of elements than that which applied in the indicative contract, and where that change in weighting is sufficient to reverse the original overall price advantage on which the framework contract was awarded.

Non Call-Off Items

16.44 In regard to the generic nature of the agreement and its capacity to govern the charge rates for the subsequent projects, the audit review noted the ratio between the agreement based rates and non call-off rates as shown in Figure 58.

Figure 58 Ratio between Agreement Based Rates and Non Call-Off Rates

Project	Number of Agreement Determined Rates Used	Number of Non Call-Off Rates Used	Percentage of Non Call-Off Rates
Shelton Abbey – 44 Bed Prisoner Accommodation Unit	260	440	59%
Loughan House – 60 Bed Accommodation Unit	168	16	9%

16.45 The electronic locking system which cost €3.9 million introduced across a number of prisons had features that made it unsuitable for completion under the framework. Nevertheless it was included in the work awarded. Much of the equipment including doors, gates and locks were sourced from specialist companies without tender. The project management in this case was handled in-house but KMCS were used to evaluate a pricing methodology. In addition to the specialist security equipment which fell outside the call-off generic model, some builders' work could not be broken down under the generic model to suit this project. Accordingly, pricing was based on a tender won by Glenbeigh in 2002 without uplift for inflation. Also the electrical work could not be managed under the call-off generic model and KMCS recommended that original vouchers be submitted with each valuation claim and these invoices checked against the work completed.

Overall Price Impacts

16.46 An alternative way of viewing the suitability of the model for determining the costs of projects is to examine the cost experienced compared with that in the framework agreement on a square footage basis. The generic model envisaged that 10,000 square foot would be constructed costing €2.1 million or €210.39 per square foot. The final cost reports and bills of quantity for the three prisoner accommodation projects reviewed were compared with the prices quoted in the initial framework agreement. Figure 59 analyses the relative costs of these projects against the estimated costs in the framework agreement.

Figure 59 Cost Comparison for Three Projects

Project	Generic Cost per Sq. Ft €	Project Cost per Sq. Ft €	Variation %
Loughan House 60 bed accommodation unit	210.39	280.27	33
Shelton Abbey 44 bed prisoner accommodation unit	210.39	371.72	77
Castlerea Remand Wing and Segregation Unit	210.39	322.33	53
Total	631.17	974.32	54

16.47 Overall the three projects showed an upward variation ranging from 33% to 77% which, after taking account of the impact of inflation on call-off items (to a maximum of 12%), is likely to be accounted for by the extent of non call-off items used in subsequent pricing or the effect of a different mix of elements resulting in higher costs for the call-off elements.

Views of the Accounting Officer

16.48 The Accounting Officer stated that the call-off tender (and pricing document) was designed in such a manner as to facilitate the pricing of options for use in a variety of building designs. Such future options were clearly identified in the tender documentation and the tendered costs for these options were factored into the call-off evaluation. The design options included were considered appropriate at the time of the tender for anticipated IPS needs over the term of the framework agreement.

16.49 He stated that where specialist items arose in contracts, Glenbeigh would have arranged tenders and these would have been reviewed by KMCS, as instructed by the IPS. KMCS negotiated a 5% mark up on non call-off tender items, which the IPS considered good value for money when benchmarked against an industry norm of around 15%. In other instances, a measured rate per metre was used depending on the type of specialist item and the urgency in completing works.

16.50 The Accounting Officer said that in many cases on the electronic locking project, there was only one approved supplier who was capable of meeting the timescale and security requirements. While some building work could not be broken down on this project, KMCS provided confirmation on the basis of their extensive procurement experience and professional knowledge that it was appropriate to use pricing rates from a non-State 2002 Glenbeigh tender.

16.51 In comparing final cost outturns with estimated costs, the Accounting Officer stated that only a 2% uplift occurred when the inflation adjusted generic rates were set against the actual cost of the call-off element. He further noted that, in all cases, certain cost increasing factors affected the actual construction cost but would not have been accounted for in the original Loughan House generic model. These included the need to provide enhanced security systems and the need to comply with IPS building sustainability and fire safety policies. In the case of Loughan House, increased costs were associated with the provision of additional prisoner recreation facilities and the discovery of asbestos pipes during the site works. In the case of Shelton Abbey, increased costs were associated with the building's status as a protected structure and the requirement at the planning stage for conservation design features. In the case of Castlerea Remand Wing, enabling works of over €3 million were required due to site specific conditions which were not envisaged in the pricing of the original Loughan House generic model.

16.52 The Accounting Officer stated that while aspects of the close supervision and safety observation cells project were specialised, it was considered that the nature of the construction work itself was sufficiently comparable to the construction rates provided under the framework agreement to warrant its use.

Reviews commissioned by IPS

16.53 In February and March 2009, the IPS employed consultants – chartered quantity surveyors and consulting engineers as required – to carry out comparisons of the cost for three of the framework projects against similar projects that had been individually tendered for, and also with general unit costs for the type of work at the particular time. The projects chosen for evaluation were

- The Medical Facilities Building Mountjoy Prison
- The Remand and Segregation Unit Castlereagh Prison
- Safety Observation and Close Supervision Cells at various institutions.

16.54 The consultants reported as outlined in Figure 60.

Figure 60 Results of Review by IPS

Framework Project	Comparison Made	Result of IPS Comparison	Review Comments
Medical Facilities Building	Superstructure compared to 2002 Special School Building in St Patrick's Institution (allowing for inflation). Demolition, sub-structures, siteworks and enabling works were excluded to facilitate the analysis.	The Medical Facilities Building compares favourably at €165.28 per sq foot compared to €170.46 per sq foot ^a .	Bill of quantities rates competitive and consistent with average industry rates in 2006. A fixed price premium of 9% added to the overall tendered costs was unreasonable, but a negotiated 9.64% discount had reduced its effect.
Castlerea Remand and Segregation Unit	Compared with an Accommodation Block in Wheatfield Prison. Enabling works at Castlerea totalling €4.4 million were excluded to facilitate the cost comparison.	Cost per sq foot for Castlerea was €255.94 compared to €290.75 for work at Wheatfield.	Compared to an updated Mountjoy rebuild cost of €350.94 per sq foot, both Castlerea and Wheatfield were economical, with Castlerea the more economical of the two.
Safety Observation and Close Supervision Cells	The review was carried out in this instance by the company who project managed the work. Comparison was with the bill of quantities for safety upgrading works at Wheatfield.	The project involved extensive use of specialist materials and fixtures installed by specialist suppliers. Comparison was limited to a relatively small number of items, which were repeated in each institution. Comparison was drawn with rates used by another company in a project for fire safety upgrading works at Wheatfield Prison.	The Glenbeigh rate for infill blockwork was 50% higher than Wheatfield cost. There was mitigation in that it applied to very small areas over 13 different locations requiring extensive management of many specialist sub-contractors. Overall, the costs applied by Glenbeigh compared favourably.

Note:

- a The superstructure comprised just 66% of the bill of quantities for the Medical Facilities Building and the cost per square foot for the entire bill of quantities was €250.65.

Project Advisors

16.55 KMCS were engaged to advise the IPS in relation to the 2004 construction tender process. Subsequently, KMCS were appointed as project managers and quantity surveyors for 22 of the 96 work projects undertaken under the framework agreement. KMCS did not tender for each of the individual projects assigned to them and payments to the firm were disclosed in the IPS return of non-competitive procurement in both 2007 and 2008. The returns disclosed €1.4 million in 2007 and €1.1 million in 2008 for services rendered without competitive process.

16.56 An amount of €91,000 was included in the non-competitive procurement annual return in relation to 2007 services procured from DBFL Consulting Engineers in respect to the construction of safety observation and close supervision cells.

16.57 Given the specialist nature of this project, and the fact that notwithstanding KMCS's knowledge of the drawdown contract it was found necessary to employ specialist project

managers. It would seem that it was inappropriate to include the project in the drawdown framework.

Views of the Accounting Officer

16.58 The decision to engage KMCS on certain projects was made on the basis of

- their detailed knowledge of the construction drawdown contract
- their experience of modular build projects and
- their understanding of the operational and security considerations of working in a prison environment.

16.59 The fees paid to KMCS (then known as Keogh McConnell) for the initial project under the 2002 framework constituted 5.75% of total construction cost. This reduced to 5% for subsequent work under the initial framework and for many works in the following 2004 framework agreement. In September 2006, the IPS negotiated a reduction of fees to 3.95% for projects of value less than €7 million and 3.5% for projects of value greater than €7 million.

16.60 The IPS Building Services Division provided in-house project management for most of the projects under the drawdown contract. In the case, however, of the project to construct close supervision and safety observation cells at a number of prisons, at a cost of €6 million excluding VAT, DBFL Consulting Engineers were engaged without competitive process to provide project management and civil and structural engineering design services, receiving fees of €0.7 million. The fee was based on 6% of the overall contract price for project management and a further 3% of contract price for professional services in relation to the civil, structural and mechanical and electrical elements. The reasons for the selection of DBFL Consulting Engineers were

- they had previous direct experience of relevant prison contracts
- the complexity of the work involved and their previous expertise in relation to the construction and refurbishment of cells and
- the urgency of the project.

16.61 The Accounting Officer explained that payments to DBFL were not included in the relevant 2006 return as the IPS had prepared the return on the basis of reporting new contracts entered into during 2006 only. The DBFL contract had commenced in 2005 and so was not included.

Conclusions

Use of Framework Arrangements

The original Notice in the OJEU indicated the intent to give rise to a framework agreement. While this may have been sufficient to meet the formal requirements it was not in itself adequate to underpin openness, transparency and competition in that the value of the estimated purchases was not indicated nor was the scale of the intended procurement.

The process was inadequate to signal the nature of the work and, given that the initial tender was framed on the basis of a relatively routine accommodation unit in a low-security prison, the inclusion ultimately of mainstream prisons and service-wide high security projects in the framework was a diversification entailing challenges for a generic pricing model.

Tender Process

Tender documentation provided that bids should be evaluated based on both technical and financial considerations. The documentary evidence suggests that the preferred bidder was identified taking account of financial considerations only. While the tender report prepared by KMCS did not refer to the other elements, the Accounting Officer has stated that design proposals were also reviewed. In addition, the impact when different mixes of elements were priced was not discussed, nor was the impact of lower inflators bid by underbidders considered.

Contract Arrangements

While fundamental terms were set out in the framework agreement, it would have been desirable, in order to determine the IPS's financial commitment, that the scope of each project be covered by a contract completed in advance of work commencement.

In the case of the initial drawdown under the project, work was commenced, and the final agreed costing only occurred five weeks after commencement of work. 76% of the projects managed under the framework agreement did not have a formal contract governing the work carried out. This exposed the IPS to considerable risk in the event of contract disputes.

Measurement and Project Pricing

In instances where the project elements were priced in the framework agreement the audit testing found that rates were properly applied with correct adjustments for inflation for a sample examined.

However in one project - the Shelton Abbey 44 bed accommodation unit - a very large part of the project comprised elements not priced in the framework agreement thus reducing the IPS control over its financial commitments and project costs.

While a methodology existed to check that the cost of subsequent work on elements of the type envisaged in the original tender was in accord with the prices originally tendered, the process of procuring other elements passed outside the public procurement process.

Works such as the service-wide Electronic Locking Project which cost €3.2 million were unsuitable for completion within the framework mechanism. Certain electrical and building enabling works were also provided outside the call-off model.

Overall, there was an upward cost drift of around 54% on three construction projects reviewed.

Retrospective Cost Comparison

It is not possible to definitively conclude on the extent of value achieved based on the retrospective comparisons done by the IPS.

- Only one element of the Medical Facilities Building was reviewed. Overall, that building cost €250.65 per square foot which compared with the framework cost of €210.39 per square foot.
- The Castlerea Remand and Segregation Unit cost €255.94 per square foot, excluding enabling works, which compared favourably with the cost of work at Wheatfield and Mountjoy but again showed an upward drift from framework levels. When the totality of works at Castlerea is taken, the cost per square foot is €322.33, which is considerably higher than the framework levels.
- The review of the safety observation and close supervision cells was limited to a relatively small number of items as the project involved extensive use of specialist material and fixtures.

Project Advisors

Most projects in the framework were managed in-house by the IPS, but a number, not all, of the bigger projects were project managed by KMCS, who also project managed the initial framework agreement. On a case-by-case basis, the Accounting Officer states that KMCS reviewed non call-off rates against prevailing market rates at the time and agreed them with the IPS. Specialist items were procured by way of separate tenders.

It is acknowledged that over time the IPS negotiated lower rates with its main project advisor. However, given the volume of work it may have been more beneficial to have tendered for the services from the beginning.

Opportunities to Achieve Better Value

Framework agreements potentially offer the opportunity to streamline procurement so that commercial relationships are better coordinated, while at the same time achieving value for money. However, in order to lever the full benefits in their application, public bodies should

- take account of the desirability of ensuring that competition is not undermined through limiting access of potential contractors to public works for too long a period
- only use them when work procured is of like kind and quality to that envisaged in the initial tender round and that any non call-off items are limited to a reasonably low proportion of the total project
- ensure that comprehensive value reviews are built into the contract management process
- provide for interim market testing to ensure that the agreement continues to represent value for money especially where the contract term exceeds three years
- consider moving to multiple operator agreements so that a form of internal benchmarking can be used and distinctive competencies of firms exploited.

General Views of the Accounting Officer

16.62 In his overall summary response to the report, the Accounting Officer reiterated that the IPS was satisfied that it had obtained value for money and had not breached procurement law in its dealings with Glenbeigh Construction Limited.

16.63 He further stated that

- The IPS was satisfied that it had complied with the legislation in respect of framework agreements in place during 2004 when it tendered and awarded the framework contract. In that regard, the IPS had acted in an open and transparent manner.
- The Loughan House building used for framework tender evaluation purposes was a generic building which enabled a schedule of rates to be bid, which the IPS could then use for a three year period, subject to the tendered inflation increase, and across the IPS prison estate.
- The evaluation process had not been limited to an assessment of the financial criteria but was a comprehensive process which also included a full appraisal of the technical criteria.
- Where non call-off rates were used for elements of works not covered by the framework agreement, the IPS's cost consultants and project manager ensured that those rates reflected the current market rates and represented value for money.

Annex A List of Major projects within Glenbeigh Framework Agreement

Facility	Total Value €m	Number of Contracts	Major Contracts Included
Castlerea Prison	42.07	13	New remand wing and segregation unit - €19m New control room and security systems - €5m New major site-wide service duct - €5m New prisoner recreation building - €4.5m Realignment of exercise yard and provision of all-weather football pitch - €3m
Special Service-Wide Projects	20.90	5	High security electronic locking and gates - €3.2m Close supervision and safety observation cells - €6m Rollout of national CCTV scheme - €4m Programme to refurbish kitchens and workshops - €2.1m Security search buildings - €5.5m
Loughan House	12.58	7	New work training/education unit - €5.5m 60-bed accommodation unit - €4.2m New security fence - €1m
Shelton Abbey	5.71	2	New 44-place residential block - €5.3m
Mountjoy Prison	4.43	12	New medical facility - €1.4m CCTV perimeter wall - €0.9m "B" basement refurbishment and development - €0.7m Enhancement of CCTV systems - €0.4m Security works "C" yard - €0.3m
Portlaoise Prison	3.78	6	New security room and gatelock - €1.9m New secure visits facility - €1.2m
Cloverhill Prison	1.61	5	Accommodation for Prison Service Escorts - €1m Secure segregation/isolation unit - €0.5m
Midlands Prison	1.48	1	Maintenance building
St. Patrick's Institution	1.31	5	Secure visits facility - €0.8m Refurbishment of prison training shops - €0.3m
Wheatfield Prison	0.85	3	New security perimeter lighting - €0.7m
Cork Prison	0.77	3	Accommodation for Prison Service Escorts - €0.5m
Beladd House, Prison Service Training	0.74	2	New kitchen and dining hall area - €0.7m
Limerick Prison	0.52	4	Refurbishment of trades/maintenance building - €0.2m Refurbishment of security windows - €0.2m
Building Services Division	0.17	2	
Small Works Training Unit, IPS HQ	0.07	3	
Total Cost Est	96.99		

Annex B Framework Agreements

The concept of a framework agreement was clarified by an EU Directive in 2004. The Directive defined a framework agreement as an agreement with suppliers, the purpose of which is to establish the terms governing contracts to be awarded during a given period, in particular with regard to price and quality. They set out terms and conditions under which specific purchases (call-offs) can be made throughout the term of the agreement.

The framework agreement may, itself, be a contract to which the EU procurement rules apply if it creates an obligation to purchase. However, the term is normally used to cover agreements which are not, themselves, covered by the definition of a contract to which the EU rules apply (though they may create certain contractually binding obligations).

Such agreements set out the terms and conditions for subsequent call-offs but place no obligations in themselves, on the procurers to buy anything. With this approach, contracts are formed, in EU Directive terms, only when goods, works and services are called off under the agreement. A benefit of this type of agreement is that, because authorities are not tied to them, they are free to use the frameworks when they provide value for money, but to go elsewhere if they do not.

However, in order to avoid conflict with EU rules it is more practical to treat framework agreements as if they are contracts in their own right for the purposes of the application of the EU rules. Therefore, the practice has been to advertise the framework itself in the Official Journal of the EU (OJEU).

This provides transparency for the whole requirement across the EU and it removes the need to advertise and apply the award procedures for each call-off under the agreement, on the basis that the framework establishes the fundamental terms on which subsequent contracts are awarded.

Framework agreements can be with one or more participants.

In a one party agreement, terms for the provision of works, supplies or services will be settled with one supplier based on a competitive tendering process. Requirements will be drawn down on the agreed terms as they arise over the period of the agreement. Most of the terms will be established, price, delivery times, etc., but some, for example total quantities, may not.

A multi-party framework can be established by inviting and selecting suitable parties to participate. The criteria for the award of subsequent contracts will have been set out. Precise specifications or prices may not be established. As requirements arise, an authority will contact the participants in the framework and invite them to submit competitive bids in “mini-competitions”. The bids received are evaluated and contracts awarded on the basis of the criteria specified in the rules of the framework.

Chapter 17 Courts Service

The Criminal Courts of Justice Building

The Criminal Courts of Justice Building

17.1 The Courts Service was established in 1999 with responsibility for managing court administration, supporting the judiciary and providing court buildings and accommodation. It took over a portfolio of court accommodation much of which was of a poor standard. Consequently, in 2002, the Service commenced a seven-year capital building programme to upgrade and modernise court facilities.

17.2 In April 2007, the Courts Service entered into a Public Private Partnership (PPP) contract with a private sector consortium led by Babcock & Brown to build a new central Criminal Courts of Justice complex on a State-owned site and to operate the complex for a period of 25 years.

17.3 The Courts of Justice complex is being built on a green field site provided by the Office of Public Works, on the corner of Parkgate Street and Infirmary Road, and beside the entrance to the Phoenix Park. This development is expected to cater for all criminal court business currently undertaken in and around central Dublin. The new complex will increase the number of courtrooms available for criminal court business from the current 16 to 22. The space currently used for criminal court business will be available to be used by other courts or will be disposed of⁵³. It is expected that the Criminal Courts of Justice will become available for use by the Courts Service by the end of 2009.

17.4 The scope of the contract includes the development of the new court building, including accommodation for judges, staff and other court users as well as maintenance of the building, waste management and traffic management and some elements of security and IT support services. Payment under the contract is based on an annual unitary charge, which will commence when the complex becomes available for use, and continue for 25 years thereafter. The Courts Service estimates that for the first full year of operation (2010), the payment will be just under €20 million.

17.5 In addition, the contract provides for certain other services to be delivered by the PPP company and paid for by the Courts Service on a usage basis. These include jury minding, utilities such as water, sewerage, electricity and gas, and costs relating to catering for juries, judges and prisoners. The Courts Service expects to reach final agreement with Babcock & Brown on the charge structure for these services by September 2009. The cost to the Courts Service will depend on the prices charged and the volumes of service used, and is expected to amount to about €2 million a year.

Developing a PPP Project

17.6 In order to ensure that good value is achieved in PPP projects, the public body sponsoring a project has to address a series of decisions in sequence. The key decisions are

- Is the proposed project worthwhile?
- How should the State procure the project — by PPP or by conventional means?
- How much should the State be prepared to spend on the project?
- Among the interested tenderers, whose is the best offer?
- Is the final deal with the PPP company a good one from the State's perspective?

⁵³ The buildings not required as a result of the new development are Smithfield Children's Court, Bow Street, Riverbank Courts, Green Street, Kilmainham, Kings Inns and Conynham Road.

17.7 Assessments of a PPP deal typically rely on detailed financial models that are based on assumptions about uncertain future events over long time periods. The Department of Finance has developed and published a number of guidance documents designed to help project sponsors work through the decision making process to arrive at good decisions.

17.8 Due to the size and complexity of the Courts of Justice project, it was important that expert advice was available at all stages of the process leading to the signing of the main contract. Advice was provided by the National Development Finance Agency (NDFA) in relation to finance, risk and insurance matters⁵⁴. The Office of Public Works (OPW) assisted the Courts Service in relation to technical aspects of the project.

Audit Focus

This examination looked at how the Courts Service evaluated the Courts of Justice project in the course of its development and at the negotiation of the PPP deal. The examination considered whether the Department of Finance guidelines were complied with and whether, having complied with the relevant guidance, sound conclusions were reached about the project and about the PPP deal. The examination also sought to identify lessons learned for application in future projects where procurement by PPP is proposed.

Establishing the Business Case

17.9 The Department of Finance guidelines require the preparation of a comprehensive business case prior to initiating a capital project. The aim is to ensure that where a public sector agency is proposing to commit resources to a project, it is clear about the costs involved and the benefits the project is expected to deliver in return. The business case should therefore analyse the nature of the problem the project is designed to tackle, set out the feasible options to address the problem and, for each option, identify the expected business benefits and the expected costs.

17.10 Ideally, the project sponsor should undertake cost benefit analysis of the options, which is designed to assess whether the likely economic and social benefits of a project are greater than the projected costs. This is not always possible. Where the benefits of a project cannot be fully quantified or their value cannot be identified, cost effectiveness analysis is undertaken to determine the least-cost way of achieving the project objectives.

Identification of Options

17.11 A business case analysis for the Courts of Justice project was completed in May 2004. This identified a number of critical concerns with the current operation of the criminal courts. The main concerns centred around too few courtrooms, insufficient facilities for court users, insufficient space for ancillary services and inadequate segregation, circulation and prisoner holding areas. In response to these problems, it identified three options for the future accommodation of criminal court business.

⁵⁴ The NDFA was established in 2003 to help public sector agencies to evaluate capital investment proposals. Under Department of Finance rules, public agencies sponsoring investment projects with a capital value of €30 million or more are required to seek the advice of the NDFA.

- **Option 1: do nothing** — This option entailed the continuation of the current arrangements, whereby criminal court business continued to be accommodated in the Four Courts complex, and in other sites and buildings in the vicinity. While this would entail no upfront capital costs and would not disrupt current court business, it would not address the operational problems identified.
- **Option 2: refurbish existing accommodation** — This option would involve the refurbishment of a section of the Four Courts complex to provide a consolidated facility for criminal court business. It was estimated that, although this would provide approximately 13,800 square metres of floor space, the usable area, given layout and other constraints, would be substantially less than this and it would not provide all the required courtroom and ancillary requirements. As a result, the Special Criminal Court would continue to sit at Green Street and criminal cases from the Dublin District Court would be held at three separate buildings (Chancery Street, and the Richmond and Riverbank Courts).
- **Option 3: new court complex** — This option entailed building a new criminal courts complex of around 17,000 square metres on a green field site, but within reasonable distance of the Four Courts site, to deal only with criminal court business.

17.12 The Courts Service evaluated the expected benefits and projected costs of the options (see summary in Figure 61) and concluded that option 3 — developing a new Courts of Justice complex — was the preferred option.

Figure 61 Summary of Business Case Analysis of Options for Criminal Courts Accommodation in Dublin

	Benefits score ^a	Projected cost (NPV) ^b
	%	€m
Option 1: do nothing	33%	na
Option 2: refurbish existing accommodation	54%	€229
Option 3: new court complex	90%	€253

Source: Report on Development of a Criminal Courts Complex in Dublin, Courts Service, May 2004.

Notes:

- a The benefits of each option were ranked using 35 separate criteria with a total of 1,380 marks available. This percentage reflects the proportion of the total marks achieved by each option.
- b Net Present Value (NPV) estimates are used to aggregate and compare cash flow amounts that arise at different points in time. In this case, the projected payments by the Court Service over 25 years are discounted at a rate of 4.64%.

Expected Project Benefits

17.13 Each of the identified options was assessed under a total of 35 criteria, grouped under five main headings i.e.

- the provision of facilities for court users, including judges, members of the legal profession and members of the public involved in criminal cases e.g. jury members, witnesses and victims (36% of the total marks)
- the number and quality of courtroom space required (35%)
- the impact of the option on the efficient management of court business (including non-criminal cases) during the development and in the longer term (22%)
- the provision of support services for judges (6%)

- the provision of information to the public (1%).

17.14 The option of building a new Courts of Justice complex scored significantly higher than either the option of refurbishment of existing accommodation or the ‘do nothing’ option. This was mainly because it was expected to provide more courtrooms and facilities of better quality, as well as better segregation of victims, jurors, persons in custody, judiciary and witnesses.

17.15 The expected business benefits of the options were not quantified. While the business case report identified the benefits in qualitative terms, more quantification of expected business benefits in relation to criminal cases would have been possible such as the expected increases in the numbers of cases processed, reductions in waiting time for criminal cases and changes in the unit costs. It might also have considered the effects on non-criminal court business arising from the freeing up of additional space.

17.16 The Courts Service have pointed out the difficulty in attributing financial values to significant features of the administration of justice (beyond the provision of courthouse accommodation) that have societal but not direct economic benefits. It was of the opinion that this would have been a highly subjective assessment and in its view would not have resulted in the selection of a different option.

Projected Costs

17.17 Based on the relative benefits analysis, the Courts Service eliminated the ‘do nothing’ option from further consideration, and did not examine the likely future costs to be incurred by the Courts Service in delivering criminal court business in the current accommodation structure.

17.18 The Courts Service estimated that carrying out the required refurbishment under option 2, and of subsequent operation of the court complex over a 25 year period would cost a projected €229 million in NPV terms. It estimated that construction and operation of a new courts complex over a similar period would cost a projected €253 million in NPV terms — a difference of €24 million or 10% between the options. The Courts Service concluded that the difference in cost was far outweighed by the additional advantages of developing the complex on a greenfield site.

Projected Savings

17.19 The Courts Service projected savings of about €22 million in NPV terms that were expected to accrue if the greenfield site option was pursued. These were expected to arise from the sale of surplus property and the surrender of leases, and reduced maintenance and operational costs. The comparable savings under the refurbishment option were projected at €2 million in NPV terms. These potential savings were considered to narrow the gap in the cost of the options.

17.20 The Courts Service also speculated in its business case analysis on the possibility of achieving substantial savings for the Exchequer under option 3 if the new Courts of Justice complex was built on a site physically connected to a prison facility, thereby reducing the cost to the Prison Service of transporting prisoners. The projected saving for the Prison Service was around €100 million in NPV terms. The Prison Service was of the opinion that little if any of this saving could be achieved if the Courts of Justice complex was not physically attached to a prison. Notwithstanding this, the Courts Service are satisfied that significant savings will be achieved from the centralisation in one facility of criminal business and the increasing use over time of prison video links negating the need for significant numbers of defendants in custody to be physically transported to court.

Assessment of Business Case Analysis

The Courts Service carried out a business case analysis that conformed with the requirements set out in the Department of Finance's guidelines. This focused on the relative merits of the options, rather than the absolute costs and benefits of a preferred option. It carried out cost effectiveness analysis that allowed it to conclude that a greenfield development was likely to deliver better value than refurbishment of the existing accommodation.

Selecting the Best Procurement Method

17.21 Having decided to go ahead with a long-term project, the next requirement is to decide the best procurement mechanism. Traditionally, long-term public sector projects have been procured by sponsoring agencies through significant up-front capital investment funded by the Exchequer with the running costs of the project funded from annual budgets. The advent of PPP contracts introduced the option of having a private sector partner provide some or all of the project elements for a defined period, in return for a series of regular payments.

17.22 In practice, the option of procuring the Courts of Justice project by traditional means does not appear to have been available. The Courts Service did not have a capital budget that could accommodate the up-front costs involved in developing a new complex on the scale proposed. Consequently, analysis of the project was always approached on the basis that, if it were to proceed, it would have to do so as a PPP project⁵⁵.

Suitability for PPP Procurement

17.23 The guidance issued by the Department of Finance stipulates that where a PPP approach is being considered, a PPP procurement assessment should be conducted. The assessment should address a number of key issues including whether the project is of sufficient scale and has the right risk and operational profile to justify a PPP approach, and whether the project has the potential to deliver value for money if procured as a PPP. The guidance sets out the questions that should be answered and the typical characteristics of a PPP project. The required PPP assessment is based on qualitative as opposed to quantitative criteria.

17.24 In its business cases analysis, the Courts Service concluded that the Courts of Justice project had a number of characteristics that made it suitable for procurement as a PPP.

- The project would be a large strategic infrastructural investment of a scale likely to attract private sector interest and involvement.
- The project required a high level of design, architectural and ICT skills and inputs, not all of which could be provided by the public sector.
- Key elements of the project (e.g. design and construction) were non-core functions of the Courts Service.
- The proposed project included a significant operational component.
- There was scope for the cost-effective transfer of risk to the private sector.

⁵⁵ For example, the costings in the business case analysis (Figure 62) were prepared on the basis of a twenty-five year project life — the normal life of a PPP — as opposed to the 50/60 year timescale that would be expected for a major building project of this type. In the context of choosing between similar options, this is unlikely to have made much difference.

Form of PPP

17.25 The Courts Service proposed a design, build, finance and operate (DBFO) structure for the PPP project. This was the same kind of structure as that in the project for the Laganside Courts in Belfast, which opened in 2002. In deciding on the structure for the Courts of Justice project, the Courts Service also took account of developments and improvements in more recent PPP projects including the UK Department of Constitutional Affairs Courts PPP project.

Transfer of Project Risks

17.26 Risk is an inherent aspect of any large project. In PPP projects, considerable effort has to be invested by the sponsoring authority to identify who should manage which project risks. The aim is to allocate the risks between the public and private partners based on who is best placed to manage them.

17.27 A workshop to evaluate the project risks, involving Courts Service staff and the financial and technical advisors, was held in March 2004. The purpose of the exercise was to identify major risks attached to the project to assess the potential likelihood of those risks occurring and assess their impact on costs. The workshop then allocated the risks between the private sector partner and the Courts Service.

17.28 The Courts Service concluded that the main risks to be carried by the PPP company should be design, construction, operational and financial risk. The Courts Service retained the risk in relation to planning, and the risk that the project would be on the wrong scale (demand risk). This allocation of risk is relatively standard for projects of this type.

17.29 The value of the risks to be transferred was factored into the projected cost of the project. In quantifying the risk, a range of values was identified under each risk heading and a weighted adjustment was applied to arrive at a projected value. Effectively, this treatment aims to ensure that the full amount the State would expect to pay for the project over its lifetime is identified.

17.30 The business case analysis estimated that if the Courts Service had to manage the risks that it was proposed to transfer to the PPP company, this would add €61 million to the estimated public sector reference cost, bringing the risk-adjusted cost to €314 million (in NPV terms). The projected value of risks transferred was based on a 90% confidence level.

Assessment of the Procurement Approach Analysis

The Courts Service's analysis of the suitability of the Courts of Justice project for procurement by means of PPP was consistent with the Department of Finance guidelines.

The suitability of the Courts of Justice project for procurement as a PPP was assessed in a qualitative rather than a quantitative way. The form of PPP selected – DBFO – was in line with structures that had been used elsewhere.

Since there was insufficient budget to procure the project by conventional means, conventional procurement was not formally considered.

Project Approval

17.31 Based on the business case and PPP suitability analysis, the Courts Service sought the approval of the Department of Justice, Equality and Law Reform for the Courts of Justice project to proceed to procurement as a PPP, to include acquisition of a site and a building of

approximately 17,000 square metres, the ongoing maintenance and operation of the building including waste and traffic management, security, ICT services and the provision of catering services for juries, judges and prisoners. Approval for the proposal was granted by the Department of Justice, Equality and Law Reform in November 2004.

The Public Sector Benchmark

17.32 Before a PPP project is offered on the market, the sponsoring authority is required to develop a Public Sector Benchmark (PSB). This aims to assist the sponsoring authority to identify what it would cost to deliver the required facilities and services by conventional (i.e. non-PPP) procurement means. This provides a reference cost for assessing the deals being offered by potential private sector partners.

17.33 The cost projections for option 3 developed at outline business case stage were used as the basis for the PSB. The Courts Service finalised its PSB analysis in November 2005. Based on this, it projected that it would cost €436 million in NPV terms⁵⁶ to develop and operate the Courts of Justice complex over 25 years using a conventional procurement approach.

17.34 The projected cost that emerged from the PSB analysis was significantly greater than the cost projected in the original business case analysis i.e. €314 million (in NPV terms). The increase in the projected cost was partly due to inflation and changes in interest rates between May 2004 and November 2005 but most of the increase was related to changes in the scope of the project relative to that presented in the outline business case. (See Figure 62.)

Figure 62 Comparison of business case and PSB cost projections (NPV terms)

	Business Case	PSB	Change
	€m	€m	€m
Capital Costs			
Site Costs	16	—	(16)
Design, Construction and Professional Fees	101	128	27
Recurrent Costs			
Furniture Replacement over Project Life	14	23	9
IT Replacement	23	8	(15)
Security Costs	16	89	73
Other Operating Costs (cleaning, IT running costs, etc)	43	58	15
Annual Maintenance	40	54	14
Total Cost excluding Risk	253	360	107
Risk Costs	61	76	15
Risk-adjusted Cost of Project	314	436	122

Note: Business case (May 2004) discount rate 4.64%, PSB (November 2005) discount rate 3.6%.

⁵⁶ Cashflows over the life of the contract, discounted to a November 2005 base using a discount rate of 3.6%.

Scope of the Project

17.35 The main changes in the scope of the proposed Courts of Justice project between May 2004 and November 2005 were

- The site near the entrance to the Phoenix Park that was judged to be suitable for the project was already in State ownership. The business case analysis had included an amount of €16 million for site acquisition. This element of cost was correctly excluded from the PSB because the private sector partner was not required to provide a site.
- The proposed size of the building was increased from 17,000 square metres to 20,000 square metres. This had implications for the projected construction costs and for area-based recurrent costs. A key reason for the increase in the size of the building was a decision by the Courts Service to provide and fit out 1,750 square metres of accommodation for Bar Council facilities in the Courts of Justice complex. The agreement is to provide library and working space for up to 150 barristers, and includes utilities and services. The Bar Council will pay an annual licence fee to the Courts Service for the facilities. The initial fee amount is €450,000 a year (subject to periodic review). The rest of the increase in the size of the building was intended to provide spare capacity for future expansion.
- The proposed scope of the IT provision in the project was reduced, with the Courts Service separately taking on responsibility for most IT equipment replacement after the fifth year of operation. This kind of arrangement is relatively standard in PPP projects, because potential private sector partners are usually reluctant to take on significant technological risks associated with long-term IT provision. Where required to do so, the price charged by the private sector partner is likely to be high.
- There was a significant increase in the security elements of the project, the projected cost of which increased from €16 million to €89 million in NPV terms. The Courts Service decided that responsibility for jury-minding should be brought within the scope of the project. In addition, the Courts Service's view was that in the period after the business case had been completed (in May 2004), domestic and international security risks had increased and that there was a consequential requirement for increased security levels for courts that was likely to continue for the foreseeable future. It was considered that airport-style security was required, leading to increased capital and life-cycle costs.

Construction Costs

17.36 The Courts Service projected that the total public sector cost of constructing and fitting out the Courts of Justice complex would be €128 million in NPV terms (excluding construction risk). This projection was based on the expected average construction and fit out costs for four other major projects, including two public sector projects being planned at the time.

17.37 The estimated construction cost per square metre was €5,117. The PSB report noted that, based on a comparison of the unit construction cost with their construction cost norms, and the construction cost estimates for another similar project, the Office of Public Works was of the opinion that this level of expenditure should result in a building of landmark quality.

Operating Costs

17.38 The recurrent costs involved in running the Courts of Justice complex over 25 years were projected in the PSB at €232 million (NPV). This included the costs of building security and jury minding, maintenance of the building and its services, replacement of furniture, IT running costs, cleaning, and utilities.

17.39 Cost estimates for most of the recurring cost elements were provided by the technical advisors, based on Irish market prices. The Courts Service provided estimates of the likely recurrent IT costs and of security costs. The security cost estimates were derived from an assumed staffing level for the Courts of Justice complex, with prices based on those being paid under a recently awarded contract for the provision of security services in the Four Courts campus.

17.40 The recurrent costs of projects are subject to price changes over time. This is normally dealt with in financial modelling by building assumptions relating to price changes into the model.

17.41 In developing the PSB, the Courts Service assumed that most of the recurrent cost elements would increase in price by 4% a year, on the basis that services inflation in the economy would continue at the current levels over the life of the project. Other rates of increase were applied to some recurrent cost elements, as indicated in Figure 63.

Figure 63 Assumed rate of increase in recurrent costs over life of project

Recurrent cost element	Projected NPV	Assumed Annual Cost Increase
	€m	%
Security	89	4
Annual maintenance	54	4
Furniture replacement	23	5
Energy, utilities	7	4
Cleaning	15	4
IT hardware replacement	8	3.5
IT running costs	20	5
Other recurrent costs	16	4
All recurrent costs	232	4

17.42 The PSB model also included an assumption that the long-term rate of general price inflation as calculated by the Consumer Price Index (CPI) would be 2% a year over the life of the project, based on the long-term target for consumer price inflation set by the ECB. The 4% projected increase, therefore, effectively assumed that the Courts Service's recurrent costs would increase at a margin of 2% over CPI.

17.43 Central Statistics Office time series data indicate that for a long period prior to the compilation of the PSB, the cost of services in the economy had increased faster than the CPI generally. Between 1994 and 2004, the overall CPI increased at a rate of just over 3% a year on average, while the services element of the CPI increased by an average 4% a year. This implies that the long-term differential was around 1%. The historical differential was similar over 20 years (from 1984 to 2004).

17.44 In light of the long-term movement in relative prices, it would seem to have been reasonable to assume that services inflation would continue at 1% above the CPI over the long term. In the context of the PSB model for the Courts of Justice project, this suggests that a 3% annual increase assumption for recurrent costs would have been consistent with the assumed average CPI increase of 2% a year. Using a 3% assumption would have resulted in a projected benchmark cost for the project of around €403 million in NPV terms, rather than the projected €436 million based on the 4% assumption.

17.45 In its review of the PSB model, the NDFA examined the sensitivity of the projected benchmark cost to the assumptions made in relation to recurrent costs. It found that if the recurrent costs were assumed to increase at the same rate as CPI (i.e. 2% a year), the projected cost

of conventional procurement of the Courts of Justice project would be €377 million in NPV terms i.e. about €59 million (14%) below the benchmark figure of €436 million based on a 4% assumption.

17.46 Both the Courts Service and the NDFA have stated that they considered the assumed average 4% a year increase in recurrent costs used in the PSB model was appropriate. In support of their view, they pointed out that

- Services inflation in the year to September 2005 was 3.9%.
- The OPW had advised in April 2003 that building and maintenance costs increased by 4.2% in 2002, and was expected to be 4% in 2003.
- Recurrent cost elements have a high public sector employment component. Average public sector wages increased by 8.5% between 2003 and 2004, and by an average of 5.35% a year over the period 1988 to 2004.
- Actual CPI was historically above the 2% long term target. Adding the 1% differential to the long term trend rate for CPI results in a rate at or above the 4% utilised in the PSB analysis.
- Under conventional procurement as represented in the PSB analysis, the Courts Service bears full inflation risk including any differential between CPI and actual inflation.

Assessment of the Public Sector Benchmark Analysis

The Courts Service developed a reference cost by way of a public sector benchmark (PSB) for the Courts of Justice project. The underlying model included all the required elements, and reflected the scope of the project for which potential private sector partners were asked to tender.

The PSB is inevitably developed based on a set of assumptions about uncertain future events. Some assumptions are more critical than others because they significantly affect the projected reference cost. To take account of this, sensitivity analysis is required in order to identify the most significant assumptions and to take their financial effects into account in the final decision.

The public sector reference cost of the Courts of Justice project was very sensitive to the assumption made about the rate at which recurrent costs would increase. The sensitivity of the cost projection to this assumption was noted by the NDFA in its report on the PSB.

Ultimately, the public sector reference cost for the Courts of Justice project assumed that there would be an increase of an average 4% a year for most recurrent cost elements.

In response to my query on whether an inflation increase assumption of 3% a year might be more appropriate — representing the 2% assumed CPI increase plus a margin of 1% for the long-term difference between CPI and services inflation — the Courts Service pointed to the fact that a number of short term trends suggested a higher rate and that, historically, the CPI increase had exceeded 2%.

Subsequent to the evaluation of the Courts of Justice project, the Department of Finance issued additional guidance in relation to the compilation of a PSB for a PPP project. This guidance emphasised the importance of conducting sensitivity analysis and recommended that the ten most sensitive values in the PSB should be identified and recorded in the PSB documentation.

Selecting the Best Offer

17.47 The proposal to develop the Courts of Justice project through a PPP procurement was advertised in the Official Journal of the European Union in April 2005. The Courts Service received 11 submissions from possible private sector partners. A pre-qualification process was used to establish which candidates met the minimum requirements and to evaluate and rank their technical capability and financial standing. At the end of that process, three consortiums were short-listed. An invitation to tender was issued to the three consortiums in September 2005.

Selection and Weighting of Evaluation Criteria

17.48 The three tenders were received in February 2006. These were assessed on the basis of standard criteria used to evaluate PPP projects i.e.

- design and technical aspects of the project, which accounted for 60% of the total evaluation score
- financial aspects of the proposed deal, which accounted for 30% of the score and
- legal aspects, which accounted for 10% of the score.

17.49 The guidance issued by the Department of Finance is not prescriptive in relation to the criteria to be adopted or the relative weights to be assigned to the evaluation criteria. For the Courts of Justice project, 30% of the total marks available in the evaluation were awarded on the basis of the financial aspects of the deal. As a result, small differences in the design and technical proposals would potentially outweigh larger differences in cost. The Courts Service noted that courthouses of this scale are technically complex and a suitable balance between the technical and financial/legal criteria had to be achieved in this context. The Courts Service considered the issue in detail and asserts that, in its view, an appropriate balance was struck.

17.50 The Babcock & Brown consortium was selected as the preferred bidder on the basis of a combined score of 75% (out of a maximum of 100%) as compared with 70.8% and 63.1% for the other bidders. Babcock & Brown achieved the best scores on both the technical proposal and (marginally) on the cost proposal.

17.51 The Babcock & Brown tender proposal was for payment of a 'unitary' payment amount of €17.9 million a year (at end 2005 prices), with 44% of that amount liable to change in line with the CPI.

Treatment of Volume-Related Items

17.52 In its September 2005 invitation to tender, the Courts Service asked bidders to submit tenders with a proposed unitary charge to cover the provision and maintenance of the building and a range of operational services including buildings security. It asked tenderers to indicate separately their cost proposals for certain volume-related items. The main items to be treated in this way were security costs in relation to jury minding, utilities and catering for juries, judges and prisoners.

17.53 Some of the volume-related items (e.g. utility costs) will be provided on the basis of costs incurred being passed on a cost recovery basis to the Courts Service. In other cases, the tenderers were asked to provide unit cost proposals. Each of the tenderers proposed differing charging structures. For example, in relation to security costs for jury minding, Babcock & Brown proposed an hourly rate of between €35 and €65; another proposed a rate of €27.50 per hour and the remaining bidder proposed a flat monthly rate of €23,500. Unlike the other bidders, Babcock

& Brown proposed to charge an administrative and handling fee as well as the pass-through and unit charges.

17.54 No account was taken of the potential cost implications of the volume-related items in the evaluation of the tenders, which focused only on the proposals in relation to the unitary charge element of the contract.

17.55 Notwithstanding the different price structures proposed, the Courts Service and the NDFA has stated that it was standard practice to assess bids without taking account of the effect of volume-related items. The Courts Service added that it could elect prior to the start of each contract year to assume responsibility for one or more of the volume-related items, with effect from the beginning of that contract year.

Evaluation of Procurement Approach

17.56 Selection of the best of the PPP tender offers does not necessarily mean that the offer represents a good value way to procure the project. Under the Department of Finance guidelines for PPP projects, a further test of the winning tender is required before a preferred PPP bidder is nominated. This test compares the projections of cost derived from the PSB (i.e. the conventional procurement cost) with the preferred bidder's cost proposal, on a like-for-like basis. Adjustments are made to take account of taxation differences, so that the full Exchequer impacts of choosing between conventional and PPP procurement are taken into account.

17.57 The Courts Service, assisted by the NDFA, carried out an assessment of the Babcock & Brown consortium's proposal for the PPP contract. The PSB model results were adjusted to exclude the costs associated with the volume-related items, and to take account of taxation impacts. The resulting analysis indicated that the Babcock & Brown tender proposal would cost a projected €302 million (in NPV terms), compared to a projected cost of €328 million (NPV) for conventional procurement — a difference of around 8%. On that basis, the Courts Service and the NDFA concluded that the Babcock & Brown proposal would represent better value than procuring the project by conventional means.

Assessment of the Evaluation of the Tender Offers

The Courts Service evaluated the tenders received in line with the evaluation criteria it had set out, and concluded that the Babcock & Brown proposal was the best of the offers received. The evaluation of the tender proposals did not take account of the likely costs associated with volume-related items.

The Courts Service, assisted by the NDFA, compared the projected cost of the Babcock & Brown PPP proposal to the projected cost of procuring the project by conventional means, as is required by the Department of Finance guidelines for PPP projects.

The foregoing section on the evaluation of the PSB noted that a lower inflator for recurrent costs may have been appropriate but this is something the Courts Service and NDFA contest. However, the financial effect of any adjustment would not have impacted on the validity of the decision to appoint the preferred bidder.

The Courts Service and the NDFA have stated that it is standard practice to assess bids without taking account of the effect of volume-related items. Where unit prices for significant demand-led services vary between the proposals, there is a risk that the result could be financially significant. It would be preferable to take the financial impact of the cost of volume related items into account in choosing between the offers. The results of this analysis should also be tested for sensitivity to variation in the assumptions about volumes of service required.

Negotiating the Final Deal

17.58 Following the nomination of a preferred bidder, the PPP contract must be agreed between the project sponsor and the private sector partner.

17.59 When Babcock & Brown were selected as the preferred bidder in May 2006, it was envisaged that the contract would be awarded by July 2006. Final closure on the deal was achieved in April 2007. The Courts Service stated that this was a tough and protracted commercial negotiation and additional time was required to work through and agree the complex legal, technical and financial issues outstanding.

17.60 The Courts Service agreed to certain cost increases in the negotiation phase. The combined effect of the changes was that the unitary charge payable to Babcock & Brown increased from €17.9 million a year (at end 2005 prices) to €19.1 million at April 2007 prices — an increase of 6.7% in the cost of the proposal.

17.61 More than half of the agreed increase in the unitary charge was due to the passage of time giving rise to increased cost in the following areas.

- An increase of €600,000 a year in the unitary charge was agreed to reflect changes in interest rates between the tender date and the date the contract was agreed.
- An increase of around €240,000 (1.35%) was agreed to take account of inflation from the time the tender price validity period ran out until April 2007.

17.62 Cost increases of this type are normal in PPP projects. The State typically bears the risk of increases in interest until financial close is achieved, and inflation risk is usually shared.⁵⁷ Additional costs due to the passage of time would have affected all tenders and would have necessitated increases in the proposed unitary charge irrespective of the bid accepted.

17.63 The remainder of the increase in the unitary charge related to changes in construction, design and operational costs. There were also some smaller, offsetting cost reductions.

- Increases in construction cost worth €4.3 million in NPV terms were agreed with Babcock & Brown to take account of increasing the floor area by 422 square metres and of changes in building regulations in May 2006. The unitary charge increased by approximately €280,000 per annum to take account of this.
- Increases in operational cost of €250,000 a year were also agreed primarily for increased security staffing numbers and hours of operation deemed necessary by Babcock & Brown to deliver the required service. This resulted in an increase in the cost of the Babcock & Brown proposal equivalent to €5.2 million in NPV terms.

17.64 The Courts Service is of the opinion that the increased construction, design and operational costs resulted in additional value being added to the original proposal. The Courts Service stated that there was a requirement to optimise the offer to ensure the State got what it required. None of the three bids received met 100% of what was a very complex specification. The preferred bid came closest but still required optimisation through the negotiation process.

17.65 In relation to the agreed increases for security costs, the Courts Service has stated that the Babcock & Brown consortium had underestimated the resource input needed to meet the security

⁵⁷ Tenderers are usually required to hold their offer price for a set period (e.g. three months) to allow time for the tenders to be evaluated. Once that set period expires, the State party carries the risk associated with price increases up to the financial close.

requirements for the Courts of Justice complex. In the negotiations on the deal, the Courts Service agreed on an increased payment as a contribution to meet the cost of providing the necessary resources. It was aware that while it was seeking to outsource the service, it could not outsource the reputational risk that would arise from a significant security failure early in the operational phase. While it negotiated an outcome that provides an additional modest increase in the State's payment, Babcock & Brown retained responsibility for providing sufficient resources to meet the contract security specification.

17.66 In the course of evaluation of the tenders, the evaluation team had noted that the resources for security proposed by Babcock & Brown appeared low, but no cost adjustment was made at that stage to allow for increased resources. While such an adjustment would have changed some of the scores in the evaluation, it was unlikely that it would have resulted in another tenderer being nominated as preferred bidder.

17.67 Agreement had not been reached with Babcock & Brown in relation to the volume-related items at the time that the contract was signed on the unitary payment elements. At end July 2009, agreement had not been reached on the charging structure. The Courts Service informed me that detailed discussions had taken place in relation to specification and price and it indicated that agreement would be reached by September 2009.

Assessment of the Contract Negotiation

The negotiation of the contract with the preferred bidder took longer than was expected. At the end of the process, the Courts Service had agreed to increases in the unitary charge amount related to inflation and interest rate increases, and some project changes. Most of the increases would probably also have been required if the Courts Service had been negotiating with either of the other underbidders.

Final Evaluation of the PPP Deal

17.68 The Department of Finance guidelines require a final evaluation of a proposed PPP deal following the completion of negotiation of the contract details, and before the contract is signed. The Courts Service, together with its advisors, produced a substantial report on a range of aspects of the deal prior to the signing of the contract in April 2007. This report included a further evaluation by the NDFA of the deal in its final negotiated form.

17.69 The NDFA evaluation was based on an updating of the evaluation that was undertaken at the time the preferred bidder was selected, when the Babcock & Brown tender offer was compared to the projected cost of procuring the project by conventional means. The results of the NDFA's analysis indicated that the projected cost of the final PPP deal would be around 6% less than the cost of conventional procurement. The reduction in the estimated differential (from 8% to 6%) reflects the impact of the cost increases agreed in the course of the negotiation period.

17.70 The NDFA's summation of the deal was that '*... based on an evaluation of monetary costs and benefits associated with each option, the PPP option represents better value to the public sector. Furthermore, a qualitative assessment of general benefits to be derived from the new Courts of Justice indicates that the PPP option is best capable of optimally delivering these benefits*'.

Assessment of Final Evaluation of the Deal

The final evaluation of the deal on offer from Babcock & Brown was done by adjusting the earlier test calculations to take account of adjustments agreed during the negotiating process. The conclusion was that the PPP deal would represent better value than procurement by conventional means. The analysis did not explore the sensitivity of the results to the assumptions made.

Overall Conclusions

Courts Service

Overall, the evaluation process followed by the Courts Service in procuring the Courts of Justice PPP project complied with relevant Department of Finance guidelines.

The decision to opt for PPP procurement for the Courts of Justice project took place against a background where conventional procurement was not a viable option due to the lack of an upfront budget.

The extent to which value for money is achieved in the future operation of the Courts of Justice project depends on

- the extent of efficiencies achieved in the running of criminal court business through the new infrastructure
- active management of the cost of volume related items through periodic market testing and control of related demand.

In addition, the realisation of the projected savings of €22 million will also have to occur.

It would be appropriate for the Courts Service to review these after a reasonable interval.

System Wide Considerations

The procedures for evaluating PPP proposals have evolved in recent years with the issue of detailed guidance by the Department of Finance and the provision for technical input from the NDFA. It may be worth considering some additional guidance in a number of areas.

Evaluation of the Business Case for a Proposed Project

In choosing between alternatives it is desirable that benefits be quantified to the greatest extent possible. In general, it would improve assessment if any efficiency gains relating to revised business processes facilitated by each option were calculated.

Overall, any business case should

- identify and quantify to the maximum extent possible the realisable efficiencies under the various project options, including expected increases in output, reductions in the unit cost of outputs, improved quality of service or reduced waiting time
- set out other expected benefits in a qualitative manner
- select the preferred option based on a comparison of the net business benefits of each option.

Evaluation of the Procurement Approach

The key to positioning a service to determine whether a PPP approach will yield best value is the construction, for comparison purposes, of a reliable and accurate public sector reference cost.

Increasingly, services such as building maintenance, security and cleaning are being procured under contract from private sector providers rather than through direct employment. Also, fixed-price contracts, which transfer construction risks to the provider, are increasingly used in procuring buildings and infrastructure. These trends may impact on the construction of a realistic reference cost and the extent to which that cost will inflate over time. It may be opportune to consider the impact of these changes for PSB modelling.

While recognising the value of the certainty provided by a single benchmark figure it may be worth exploring whether it would be preferable to present a projected benchmark cost range, rather than a single reference cost value in order to properly reflect the inherent uncertainty implicit in the process. The extent to which alterations occur in the PSB as a result of varying the assumed values associated with likely scenarios should help establish the range.

A benefit of this approach would be to make explicit when a particular procurement option is clearly preferable on cost grounds as against situations where additional scrutiny should be applied before deciding on the procurement approach in more marginal cases. In these instances, qualitative factors should be carefully weighed in making the ultimate decision.

It is recognised that, in order to implement any such change, additional guidance would be necessary on how comparison of the proposed cost of a PPP deal might be made against such a projected cost range, including how the range might be established.

Chapter 18 Property Registration Authority

Digital Mapping in the Property Registration Authority

Digital Mapping

18.1 The Property Registration Authority (PRA) is responsible for the management and control of the register of land in the State. Its headquarters are in Dublin and it has decentralised offices in Waterford and Roscommon. Internal processing of casework is conducted directly onto an electronic register. Customers of the PRA can avail of a number of services electronically. In 2008 some 42% of all applications for registration were lodged electronically.

Electronic Registration

Electronic Registration is where the lodgement of documents occurs in electronic format only and all registrations are made on an electronic register. The documents can be digitally signed electronic documents, instructions or applications received in a secure messaging environment or scanned versions of paper documents.

18.2 Applications for registration in the Land Registry gave rise to a fee income of €57 million in 2008. In addition, almost 100% of all document inspection and requests for copies of Land Registry Records are now carried out through an electronic portal⁵⁸. These latter services, which generated fee income of €4.2 million in 2008, include online applications for certified copy folios, filed plans⁵⁹, certified copy instruments, folio inspections and index searches. Currently these are low fee transactions, but their volume is high.

18.3 A programme of computerisation delivering online services to bring about ‘electronic registration of title’ is the PRA’s contribution to a national eConveyancing project. As part of this the PRA is now engaged in the roll out of a digital mapping system. The mapping programme will replace paper maps (some 32,000 map sheets containing approximately 2.5 million land parcels). On the completion of that project, all aspects of the land register will be held in electronic format. The full completion of the electronic map is a necessary prerequisite to electronic registration. In July 1999, the first phase of the computerisation drive began with the objective of bringing land registration information into line with international best practice. The programme entailed the conversion of almost 110 years of historical paper records into electronic format. Ultimately, over 6.4 million pages of official records were systematically scanned, indexed and published over the Internet.

18.4 The Digital Mapping project is the final stage of transition from a paper based register to a fully electronic national register of property ownership providing textual, geographic and index information. This process will facilitate further developments in the areas of electronic registration and electronic conveyancing that will support the further integration of property related services in the future.

18.5 The status of online access to the PRA’s information and services has been enhanced over the past decade through the initiatives outlined in Figure 64.

⁵⁸ www.landdirect.ie

⁵⁹ A filed plan is an official extract from the Land Registry Map, showing one or more parcels which are the subject of a particular title.

Figure 64 Service Developments

Year	System Developed	Function of Systems
1999	Integrated Title Registration Information System (ITRIS)	Electronic register of titles
1999	Electronic Access Service (EAS)	Customer access to database of computerised folios
2002	Imaging Project	Scanning, indexing and publishing of over 6 million official paper records for access online
2002	Electronic application for registration of title online	Customers can apply for registration of title online
2006	www.landdirect.ie	EAS enhanced by additional functions based on PRA's new digital map
2009	e-Discharges	Allows electronic discharge of registered burdens

Electronic Conveyancing

In 2006, the consultancy firm, Bearing Point, published a report on the state of readiness of the various parties such as estate agents, solicitors, financial institutions, property developers, law search agents, surveyors, Revenue Commissioners, Land Registry, Registry of Deeds, local authorities and the Courts Service for the introduction of a system of electronic conveyancing in Ireland. That report was commissioned jointly by the Department of Justice, Equality and Law Reform and the Law Reform Commission and, since then, the introduction of such a system has been official Government policy. Any such system will, of necessity, be developed incrementally and all of the projects undertaken to date by the PRA were acknowledged in the report as being key building blocks.

Business Case and Budget

18.6 In preparation for the digitised mapping project, the PRA engaged an international company which provides geospatial products and services to assist in the preparation of a business case for the digital mapping programme. It completed its work in 2005. A business case was presented to the Department of Finance who approved the project.

18.7 The original budget for the project was €28.1 million. Expenditure to 31 May 2009 has amounted to €19.5 million. The PRA is projecting the overall cost at €26.25 million. The breakdown of project expenditure is set out in Figure 65.

Figure 65 Project Expenditure

Project Element		Expenditure to Date	Projected Expenditure to Completion	Projected Total Expenditure on Completion
		€m	€m	€m
Current	OSi Copyright	6.68	2.34	9.02
	An Post Geodirectory	0.25	0.14	0.39
	Maintenance	0.76	0.48	1.24
Capital	DMAPS System Development and Data Capture	7.33	1.47	8.80
	OSi Licences	4.50	2.30	6.80
Total		19.52	6.73	26.25

Project Risks

18.8 There are considerable risks associated with the development and implementation of major eGovernment projects. The Digital Mapping project is a major initiative which changes the way the PRA does its business and requires a high level of project management both to guarantee successful delivery and mesh the new system with other elements of the service.

Audit Focus

The audit sought to review the project and seek the assurance of the Accounting Officer that

- the contracting arrangements were adequate
- the project is on time and budget
- the digital maps produced to date are of high standard
- the envisaged productivity gains are being achieved
- the project is on line to contribute to the PRA's overall move towards electronic conveyancing
- the security arrangements are adequate to protect the integrity of the database of electronic maps.

In addition, the observations of the Accounting Officer were sought on how major risks associated with eGovernment projects were being addressed in the development of the Digital Mapping project including

- the risk of the development not addressing identified needs
- the risk of lack of user involvement and acceptance
- the risk of the technical solution being overtaken by more cost effective offerings
- over reliance on external sources in the development and delivery phases and a corresponding lack of internal capacity.

Procurement and Contracting

18.9 The Digital Mapping project involved contracting for the different services required including

- development, implementation, integration and support services for a digital mapping system (Contract 1)
- digitisation, data capture and conversion services (Contract 2)
- provision and licencing of digital maps (Contract 3)
- access to a geodirectory⁶⁰ database with addresses and geocodes⁶¹ (Contract 4)

18.10 The audit reviewed the procurement process in relation to the four contracts in order to ascertain whether they complied with government and EU procurement procedures. The findings were as follows

- Contracts 1 and 2 were completed by way of a restricted tendering process with a pre-qualification stage. Each contract was awarded on the basis of the most economically advantageous tender. The Official Journal of the European Union and the etenders website were used to obtain expressions of interest.
- Contract 1 was awarded to a company in Cambridge, UK, with some elements subcontracted to companies in Dublin, Cork and Scotland. Contract 2 was awarded to Landmark – a company in Exeter, UK, with some elements subcontracted to companies in India and Cork.
- Contract 3 was agreed with OSi and Contract 4 with An Post (the sole providers) by way of negotiated procedure without prior publication of a contract notice. Advice was obtained from the Attorney General in respect of the OSi contract that this was regarded as an acceptable procedure.

18.11 Overall, the four contracts complied with government and EU procurement procedures and the records maintained to evidence decision making were transparent.

Project Delivery and Management

18.12 The Digital Mapping project involved completing the digitisation process in stages at different locations both within the PRA and at contractor premises. It entailed

- scanning and geo-positioning of the entire original Land Registry paper map record
- creation of a seed-point for each registered land parcel
- quality assurance and making available of seed point information internally to staff and externally to customers
- temporary suspension of registrations on a county-by-county basis as a prelude to digitising that county
- re-scanning and geo-positioning of paper maps for each county (to cater for new registrations since the scanning of the original)
- digitisation of boundaries of each land parcel using rules defined in a Digitisation Protocol

⁶⁰ The geodirectory, jointly produced by An Post and OSi provides a complete database of every building in Ireland for which there is a postal address. The PRA is deploying the geodirectory database as a gazetteer to its new digital map record.

⁶¹ The geocode is a unique eight digit identifier which distinguishes each address in the Geodirectory database.

- quality assurance and making available of digitised boundaries for each county.

18.13 The conduct of the project was reviewed in the light of Department of Finance guidance on ICT development. It was concluded that the project management approach complied with that guidance.

Project Status

18.14 The project is undertaken in two stages

- the loading of seedpoint information – Phase I
- the digitisation of mapped land parcels – Phase II.

18.15 Phase I involved placing seedpoints on approximately 2.5 million parcels of registered land across the country. This delivery was on time and in line with the overall project plan. The progress in completing digitisation of mapped land parcels is set out in Figure 66.

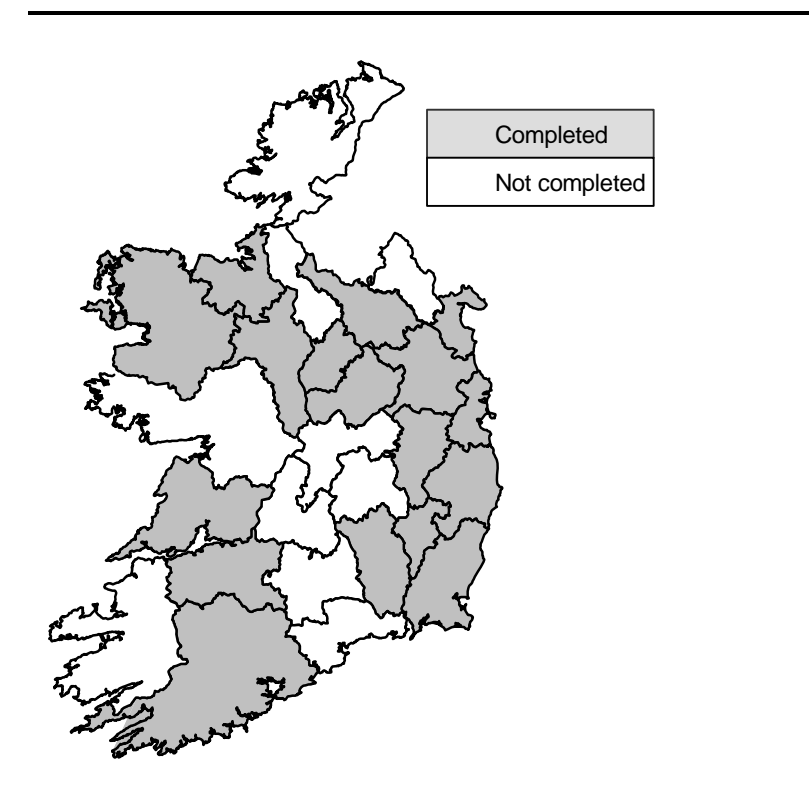
Figure 66 Project Status – Phase II

Year	Planned Digitisation Number of Counties	Digitisation Completed Number of Counties
2006	1	1
2007	8	7
2008	6	7
2009	7	2 ^a
2010	4	—

Note:

a Completed to 30 May 2009.

18.16 Implementation of Phase II commenced in December 2006. Figure 67 shows the counties where digitisation had been completed by end of May 2009.

Figure 67 Digitisation Completed at May 2009

Quality of Electronic Mapping

18.17 Because the PRA operates a guarantee on behalf of the State, the reliability of its recorded data is of paramount importance. The Accounting Officer informed me that the PRA, together with its implementation partners has put in place an extensive quality assurance mechanism. There are three separate quality assurance processes. These are performed by a subcontractor of Landmark Solutions, the prime contractor for the digitisation process (Contract 2) located in Noida India, while the prime contractor is based in Exeter (UK). Final quality assurance processes are conducted in the PRA offices.

18.18 The quality assurance system in place in India involves both a visual check and an automated system-performed check of 100% of all records converted. This is complemented by targeted manual checks. Approximately 20% of all records undergoes a further stage of testing in the Noida facility before the data is transferred for further testing to Exeter. The quality assurance process uses a comprehensive statistical sampling technique that results in a sample dataset that is representative of an entire shipment batch. The 20% sample of each batch of mapping data is determined using random number theory. Every record of the sample chosen is checked for the parameters as set out in the Digitisation Protocol⁶².

⁶² The Digitisation Protocol was developed by the PRA technical staff and outlines the procedures and protocols for creation of PRA vector boundary data during the conversion process.

18.19 A further set of quality assurance processes is performed against the data by the Exeter company to check for logical consistency within the data. When all data is verified in a batch, that batch is then loaded on to a secure site for downloading by the PRA.

18.20 The PRA's own quality assurance process uses a purpose-built computerised Data Acceptance System (DAS) which enables the sampling of digitised boundary data based on predefined parameters.

18.21 In the event that the mapping boundary data does not achieve the required standard, that batch concerned is rejected and returned to the prime contractor in Exeter for rework. When all batches for a county have been accepted, the boundary data for that county is then loaded on to the live internal production system and subsequently made live to customers through the website.

18.22 The Accounting Officer stated that, to date, only one batch of data, out of a current total of 159 delivered batches, had failed the extensive quality assurance regime. She ascribed this to

- good project governance and project management arrangements
- the expertise and experience of the project team
- clear guidelines set out in the Digitisation Protocol augmented by the high-quality training programme conducted by PRA expert staff on-site in Noida and
- the high degree of input provided by the PRA at all stages of the project.

18.23 She stated that there was constant and very close contact between the PRA and the implementation partners in India and the UK. One member of the implementation partner's staff from India had been based in the PRA's offices in Dublin throughout the assignment and this had proved invaluable. The liaison work was also supported by an online Query Resolution System. As a result of these measures, most issues could be resolved quickly and with expert input before the data was delivered to the PRA offices.

18.24 In regard to the extent of claims of mapping errors by service users she explained that all titles registered on the Land Register were guaranteed by the State which was bound to indemnify any person who suffered loss through reliance on the register⁶³. However, it was not sufficient to claim that an error in registration had arisen, actual loss must be specifically detailed and must be proved. In the usual course the question which arose was whether or not the error could be rectified. If it could and such was usually the case then the loss involved is usually no more than solicitor's costs. Consequently, most errors did not result in any compensation payment.

18.25 The Accounting Officer informed me that three claims had been received in respect of Digital Mapping cases, of which two had been received in June 2009. No compensation payments had arisen to date in any of these cases.

Productivity

18.26 There are two elements to the productivity gains to be achieved from digital mapping – those deriving from the automation of the copy filed plans production and the efficiencies in mapping casework output.

18.27 The Accounting Officer noted that while considerable efficiencies had been achieved to date, it would only be possible to assess the full productivity gains as part of a post-project implementation review of digital mapping, which is likely to be undertaken towards the beginning

⁶³ In accordance with Section 120 of the Registration of Title Act, 1964.

of 2011. Figure 68 outlines the level of reported staffing and output associated with filed plan production.

Figure 68 Mapping Staff Levels and Outputs 2005-2010

Year	2005	2006	2007	2008	2009	2010
Mapping Staff	50	40	37	25	12	10
Output of Filed Plans	222,000	217,000	201,000	224,000	—	—

18.28 The Accounting Officer reported that the actual productivity gains achieved in the first counties to be digitised were well beyond those set out in the business case for the project which had targeted a 40% efficiency improvement. Productivity gains ranging from 56% to 83% in different functional areas⁶⁴ have been achieved to-date, depending upon the length of time since the implementation and embedding of the new system.

18.29 The Accounting Officer anticipates that further productivity will be achieved as the project is fully rolled out over the next 18 months. It is also anticipated that gains will be achieved as the backlog of applications for registration based on manual mapping is cleared over the next 12 to 18 months. Manual mapping is a feature prevalent in the Dublin and Roscommon offices, where casework for those counties where maps have not yet been digitised, is carried out. In those offices, arrears of casework had accumulated due to insufficient resources available to address the high volume of transactions resulting from the large growth in the property market.

18.30 In response to inquiries in relation to the impact on staffing, the Accounting Officer informed me that the productivity gains had contributed to an overall decrease in staffing levels at the PRA. The PRA had 702 staff at end June 2008 but by June 2009 this had decreased to 647 as a result of posts being vacated and not subsequently filled.

Data Security

18.31 The Accounting Officer informed me that all changes to the register were performed by PRA staff only and that customers had no facility to alter the register. Additionally, changes to the register could only be brought about through the processing of a formal application for registration. This provided the initial layer of an extensive audit trail which recorded all modifications to the register. The PRA had a hierarchy of access rights based on the roles performed by staff members who process casework. The system conducted a series of automated rule-based validations. All changes to the register were, in the first instance, retained in a separate provisional layer which was only available and visible to PRA staff. Changes appeared on the live system only on completion of the associated application which involved both a legal and mapping assessment by a 'settling' officer. Additionally, post-registration 'spot checks' were conducted by an internal technical assurance group to ensure consistent application of PRA operating procedures.

18.32 In regard to business continuity, the PRA informed me that processes and plans were in place to enable recovery of data and continuity of business functions following a disaster. A formal written disaster recovery plan was already in place, but would need to be revised following the commissioning of a new disaster recovery site at the PRA's Waterford office which was due for completion by the end of 2009.

⁶⁴ Different functional areas in the PRA process different categories of cases e.g. First Registrations, Transfers of Part, Leases, etc.

Demand and Development Risks

18.33 To counter the risk of development not addressing identified needs, the Accounting Officer pointed out that prior to undertaking this project, the PRA prepared a business case which established the business needs and objectives underpinning the project. These were translated into a set of specific system requirements and functions using a structured requirements analysis and systems development process, governed by a formal project management methodology.

18.34 The PRA took specific steps to tackle the risk of lack of user involvement and acceptance. As part of its development of the business case, the PRA engaged extensively with key stakeholders to understand their expectations. A series of prototypes was subsequently developed and presented to those stakeholders resulting in a clear understanding of user requirements. The Accounting Officer has also stated that the needs and expectations of the PRA's customers are monitored through customer focus groups, surveys and briefing sessions. Digital mapping permits much better response to business trends and service level demands and offers considerable advantages over paper-based mapping systems in this respect. Figure 69 outlines the increasing usage by customers of the PRA's online services. The Accounting Officer added that recorded levels of use is clear evidence of the relevance of the facility to the PRA's customer base.

Figure 69 Usage of PRA's Online Services^a

Year	2000	2004	2005	2006	2007	2008
Number of professional users	1,700	7,500	9,200	10,900	13,000	14,000
Number of online transactions	€0.2m	€1.2m	€1.7m	€2.5m	€2.9m	€3.0m

Note:

a Digital Mapping began to impact on transaction levels from 2007.

18.35 In response to the risk of the technical solution being overtaken by more cost effective offerings, the Accounting Officer stated that the Digital Mapping system was based upon industry standard specifications developed on 'open' systems architectures. The system was accessible through popular web browsers and took account of compliance requirements emanating from EU initiatives. The system was based upon common, cost-effective 'off the shelf' software combined with specialised bespoke functionality. The Digital Mapping system did not place any additional technical or financial burdens upon customers.

18.36 To counter the risk of over reliance on external sources in the development and delivery phases and a corresponding lack of internal capacity, the PRA in the early stages of the project placed a strong emphasis on the development of internal digital mapping expertise. The project was managed on an overall basis by PRA staff and there has been an ongoing emphasis on the transfer of skills. While there would be some need for technical maintenance arrangements after the completion of implementation, the PRA did not envisage a requirement for external resources in the managing of the system on an ongoing basis. The digitisation of the paper maps was a finite task scheduled for completion in 2010 and the PRA would have no ongoing dependence on external resources for this process thereafter.

Conclusions

The PRA has been engaged in a project to digitise its maps as part of a wider programme designed to facilitate electronic conveyancing. By the end of 2008 maps had been digitised in 15 counties.

The audit sought assurance from the PRA that risks associated with large-scale eGovernment projects were being managed. It concluded that reasonable steps had been taken to manage the process.

However, it will be necessary for the PRA to keep the quality of the mapping under review as dealings are processed so as to ensure that the electronic plans for each land parcel accurately represent previously registered holdings.

Chapter 19 Department of the Environment, Heritage and Local Government

Investment in Carbon Credits

Investment in Carbon Credits

19.1 The Kyoto Protocol has set mandatory limits on greenhouse gas (GHG) emissions for those states that have adopted it. The overall objective is to reduce emissions in the period 2008-2012 to a level that is on average 5% less than the 1990 level. On foot of these commitments, the EU 15⁶⁵, including Ireland, agreed to reduce emissions by 8%, and under a burden sharing agreement each member state was allocated a specific emissions limit decided by the EU Environment Council on 16 June 1998. Ireland's target is to achieve emissions that are no more than 13% above 1990 levels by 31 December 2012.

19.2 For the purposes of this report, a Kyoto Unit is used to quantify emissions. A Kyoto Unit is defined in the Carbon Fund Act, 2007 as a unit, equivalent to one metric tonne of carbon dioxide.

19.3 Units of measurement for the purpose of emission monitoring and trading are variously described in EU and UN documents. However, they are all equivalent to Kyoto Units as defined in the 2007 Act. The various units are outlined in Annex A to this Chapter.

National Allocation Plan

19.4 Ireland's emissions limit in relation to the Kyoto Protocol has been set at 314.18 million units for the entire five-year period 2008 – 2012. This equates to an average of 62.8 million units per annum over the period (i.e. 13% above the baseline⁶⁶). Responsibility for achieving this target has been divided between the trading sector and government.

19.5 The basis on which responsibility is shared is set out in a National Allocation Plan (NAP). Ireland's NAP was prepared by the Environmental Protection Agency (EPA) on foot of directions from Government and determined how the emissions permits would be allocated for the period 2008–2012.

19.6 The estimated credits acquired or to be acquired by the State in the 2008-2012 period is 8.3 million.

19.7 The allocation in Ireland took account of the fact that approximately 33% of emissions were generated by the sectors of industry that would engage in the emissions trading scheme while 67% of emissions came from the 'non-trading' sectors of the economy. The obligation fell on the State to make purchases on behalf of those in the non-trading sector to address any potential shortfall in achievement of targets. In particular, it assumed responsibility for the purchase of units to cover emissions from transport, agriculture and the residential sector.

19.8 The allocation to the trading sector in the period 2008-2012 was determined by Government and was set at 22.3 million units per annum. Hence, in respect of the sectors for which the State is responsible, the effective Kyoto limit on emissions for each year in the commitment period is 40.5 million units. Figure 70 sets out how the target is shared between the State and the trading sector over the period to 31 December 2012.

⁶⁵ The EU 15 were the states that comprised the EU in 1998.

⁶⁶ The baseline was fixed at 55.6 million units following review by the United Nations Framework Convention on Climate Change in 2006.

Figure 70 Target Shares – Total Emissions 2008–2012

Sector	Annual Kyoto Units (Millions)	Cumulative Kyoto Units (Millions)
Trading	22.3	111.6
State	40.5	202.6
National Kyoto Protocol Ceiling	62.8	314.2

19.9 In October 2003, the EU approved a Directive (2003/87/EC) establishing a GHG emissions trading scheme. Under the scheme member states would allocate units to the trading sector. The holder of each unit had the right to emit the equivalent of one metric tonne of carbon dioxide. The amount of units allocated to each emitter in the scheme is set out in NAPs prepared by the Member States and approved by the European Commission. Unused allocations may be traded by entities in that sector.

State Purchases of Carbon Credits

19.10 Because Ireland's output of GHGs was projected to exceed the Kyoto Protocol limits, the State commenced purchasing carbon credits⁶⁷ to cover the projected excess after taking account of the projected contribution of abatement measures. A Carbon Fund was established to record the transactions.

Department Investments

19.11 Prior to the establishment of the Carbon Fund in April 2007, the Department of Environment, Heritage and Local Government (the Department) had already entered into commitments with the European Bank for Reconstruction and Development (EBRD) and the World Bank. Under these arrangements the Department initially paid €20 million into an escrow account with the EBRD in December 2006, and subsequently invested in a Multilateral Carbon Credit Fund. Later, it committed to further investments in two other funds. Based on projections at the time, the Government allocated a budget of €90 million over five years to acquire units, including the €20 million that had been invested, up to that point, by the Department in the EBRD Multilateral Carbon Credit Fund. Figure 71 outlines the 2006 investments by the Department.

Figure 71 Carbon Credits Purchased by Department

Vendor	Cost	Paid to 31 December 2008	Outstanding Obligation at 31 December 2008
	€m	€m	€m
EBRD Multilateral Carbon Credit Fund	20	20	0
World Bank Carbon Fund for Europe	10	2.2	7.8
World Bank Bio Carbon Fund	9.3	1.5	7.8
Total	39.3	23.7	15.6

19.12 While the Department retains responsibility for general management of these investments, the NTMA administer the payments on its behalf.

⁶⁷ A carbon credit is equivalent to a Kyoto Unit.

19.13 At this stage, no value can be attributed to the investment by the Department in 2006 as the actual number of units that the funds will deliver and their final unit price are not yet known. However, based on risk-adjusted projections from the fund managers in the World Bank and the EBRD, the Department expects that these funds taken together will yield some three million units at an estimated cost of €9.30 per unit.

NTMA Investments

19.14 From 2007 onwards, all transactions and associated fund management was handled by the NTMA and processed through the Carbon Fund. The NTMA is reimbursed by the Department out of voted funds. The NTMA policy is to purchase units where feasible at no more than an average unit purchase price of €16.07 before VAT between 2008 and 2012⁶⁸.

19.15 The NTMA has discretion as to what type of unit to invest in and the timing of investment once it stays within its annual budget.

19.16 The NTMA could use the following mechanisms to purchase Kyoto Units

- Direct purchase of Kyoto Units from other Kyoto Protocol parties
- Direct investment in Joint Implementation and Clean Development Mechanism projects⁶⁹
- Investment in managed funds
- Direct market purchases of carbon credits.

19.17 The Fund made its first investments in 2008. To manage the risks identified in purchasing Kyoto Units, the NTMA adopted the following procedures

- Units would be purchased from a limited number of counterparties, typically large banks and specialist firms dealing in carbon credits.
- The interim between transaction and settlement dates would, in general, be minimised to manage any risks related to settlement and counterparty failure.

19.18 Up to end February 2009⁷⁰ the NTMA had contracted to pay €73.7 million (exclusive of VAT) for 5.255 million Kyoto Units at an average price of €14.03 per unit. The price per unit at 31 December 2008 on the European Climate Exchange CER Future Market was €13.64, which values Ireland's Kyoto Units at €71.7 million at that date.

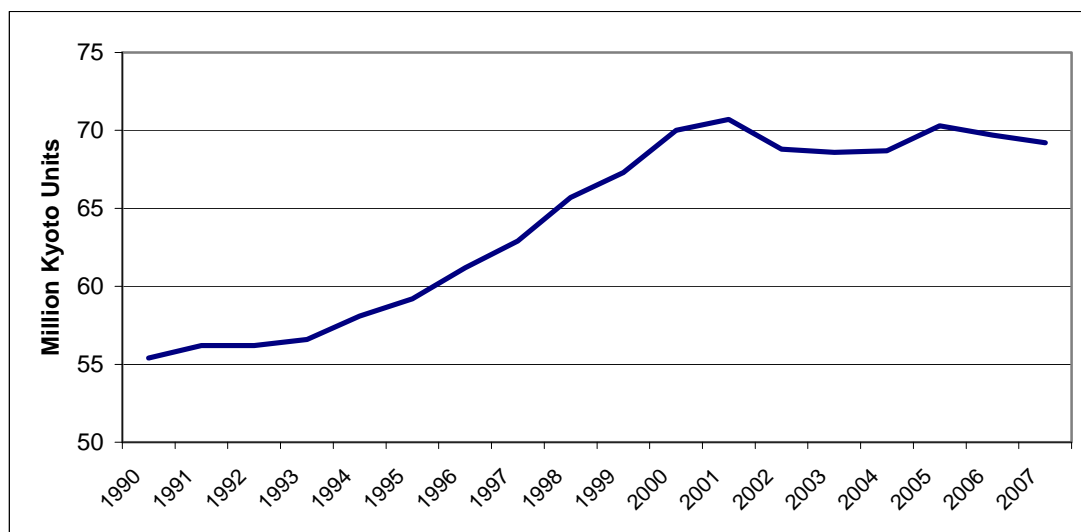
Matching Excess Emissions with Purchase of Credits

19.19 For 2007 Ireland has reported total GHG emissions of 69.2 million units. This exceeded the annual target to be achieved in the 2008-2012 period by 6.4 million units. The trend since 1990 is set out in Figure 72.

⁶⁸ The unit target price is the €290 million allocated to the Fund divided by the 18.035 million units that were originally calculated as the States' additional requirement for the period 2008-2012 (see Figure 73).

⁶⁹ See Annex A for definition.

⁷⁰ The point where a direction to cease purchases was given by the Minister.

Figure 72 GHG Emissions 1990-2007

Source: EPA Report, Ireland's GHG Emissions in 2007

19.20 Overall national planning in 2006/7 was based on a projected overshoot of the Kyoto obligations by 7.2 million units per annum or 36 million units over the five year period. It was planned to address this through a combination of abatement measures and purchases of units.

19.21 Figure 73 sets out how the projected excess emissions of 36 million tonnes of carbon dioxide equivalent as foreseen in 2006/7 was to be managed over the commitment period 2008–2012.

Figure 73 Cumulative Measures 2008-2012

	Abatement Kyoto Units (Millions)	Purchase Kyoto Units (Millions)
Trading Sector	5.0	10.5
Other Sectors (State ^a)	2.5	18.0
Total	7.5	28.5

Note:

a The State assumed the national obligation for all other sectors.

Revised Projections

19.22 Following the economic downturn being experienced since the second half of 2008, the EPA revised these projections in March 2009. It set out three scenarios and projected potential emissions under each in the period 2008–2012. Under all scenarios, the trading sector would meet its target. The three scenarios are outlined in Figure 74.

Figure 74 Three Scenarios and Projected Potential Emissions under each 2008-2012

Scenario One	Takes account of anticipated impacts of measures that were in place (and legislatively provided for) by end 2007.
Scenario Two	Factors in existing and future measures, assumes all measures will be adopted and fully implemented on time, and all relevant measures will achieve the full emissions reductions anticipated (includes measures outlined in the Energy White Paper and the National Energy Efficiency Action Plan).
Scenario Three^a	Took account of the impact of the economic downturn.

Note:

- a Scenario 3 is considered to be the most likely outcome because it takes account of the impact of the economic downturn.

19.23 Figure 75 sets out the extent to which emissions will exceed or fall short of the Kyoto limits under each scenario.

Figure 75 Summary of EPA Scenarios (million Kyoto units per annum)

	Scenario 1		Scenario 2		Scenario 3 ^a	
	Kyoto Units		Kyoto Units		Kyoto Units	
Kyoto Target	62.8		62.8		62.8	
Revised Projections:						
Trading Sector ^b	19.6		17.6		16.6	
Non-Trading Sector ^c	45.8	65.4	44.2	61.8	41.8-42.3	58.4-58.9
National Excess (Reduction)	2.6		(1)		(4.4)-(3.9)	

Notes:

- a EPA provided a range for Scenario 3 to account for some degree of uncertainty in the impact of the economic downturn over the entire Kyoto period (2008-2012).
- b As set out in Figure 70 the trading sector ceiling was 22.3 million Kyoto Units per annum.
- c Includes impact of *forest sinks* as permitted under Article 3 of the Kyoto Protocol.

19.24 While nationally only a small excess or, under the most likely scenario, a reduction is being projected the benefit of this may not be available to the State since reductions do not accrue proportionately to the State and trading sectors. Excess Kyoto units, as a result of reductions in the trading sector, are available for sale under the EU Emissions Trading Scheme.

19.25 The revised projections have implications for the level of investment which it may be necessary for the State to make in fulfilment of its Kyoto obligations. Figure 76 sets out the implications of the projected excess or reduction for national funding related to the non-trading sector (the sector for which the State is responsible).

Figure 76 Implications for Carbon Credit Investment (million Kyoto units per annum)

	Scenario 1	Scenario 2	Scenario 3
	Kyoto Units	Kyoto Units	Kyoto Units
Non-Trading Sector Projected Emissions	45.8	44.2	41.8-42.3
National Target (Non-Trading Sector)	<u>40.5</u>	<u>40.5</u>	<u>40.5</u>
Annual Exchequer Requirement	5.3	3.7	1.3-1.8
Exchequer Requirement 2008-2012	26.5	18.5	6.5-9.0

Audit Focus

The State had purchased or contracted to purchase 8.3 million units by end February 2009.

- Under the most likely scenario outlined by the EPA excess units may be acquired in the 2008-2012 period.
- Because of the balance of allocations in the NAP between the State and the trading sector the State was exposed to relatively greater obligations in the event of an economic downturn than the trading sector.
- The exact credit value of investments costing €39.3 million made by the Department is not capable of being quantified at this time.

I sought the views of the Accounting Officer on these matters.

Views of the Accounting Officer

19.26 The Accounting Officer stated that the share of the burden to be borne by the trading sector and the non-trading sector for the 2008-2012 period was determined by the Government and conveyed to the EPA on behalf of the Minister for Environment, Heritage and Local Government (the Minister) following an extensive process involving

- appointing consultants to report to the Minister on the appropriate cap
- engaging in consultation with participants and the public
- taking the views of all relevant Government Departments into account
- forwarding the proposed limit to the European Commission for their approval
- reducing the limit as requested by the European Commission as part of their approval.

19.27 The Accounting Officer informed me that the carbon purchasing programme to date had been based on a Government Decision of March 2006 to purchase up to 18 million units over the 2008-2012 period, or 3.6 million units per year.

19.28 The economic downturn had had implications for this purchasing programme and the EPA was asked to apply a sensitivity analysis that might better reflect the changed economic situation. This analysis, based on the ESRI's Economic Shock scenario, was published in March 2009. The updated figures indicated a need to purchase around 1.3-1.8 million Kyoto units per annum, a reduction of around 3 million units from the projections of Autumn 2008. In the circumstances, the NTMA had been asked to put its purchasing programme on hold for the foreseeable future.

19.29 Overall, the NTMA had purchased 5.3 million units and investments completed by the Department in the World Bank and the EBRD managed carbon funds were expected to yield some

3 million units in the period 2008-2012. Based on current projections, this amount could be more than enough to meet Ireland's Kyoto requirements.

19.30 In regard to the split between the trading sector and the State, the Accounting Officer informed me that the total limit for the trading sector was set at around 87% of expected emissions in that sector in order to encourage emissions reductions. In addition, approximately half a million units were retained in reserve by the EPA on behalf of the State for sale to defray the operating costs of the scheme in Ireland. Any unused allocations resulting from business closures were also retained and routed to a new entrant set aside, and to the extent that they remained in the set-aside after 2012 they could be used by the State to help Ireland meet its Kyoto obligations on behalf of the non-trading sector.

19.31 The most recent information available for verified emissions in the trading sector showed that in 2008 (the first year of the Kyoto period) the total emissions were 20.38 million units compared to an actual free allocation to those same companies of 19.97 million units i.e. an under allocation of 0.41 million units.

19.32 The Accounting Officer stated that the apportionment of burden between trading and non-trading was carried out in good faith having regard to the economic circumstances prevailing at that time and could not have anticipated the possible depth of the current economic crisis. The most recent emission projections attempt to take the economic recession into account and to anticipate the likely outturn to the end of 2012. Any failure by new entrants to the trading sector to fully utilise the available pool of allowances (supplemented by allowances saved as a result of closures) resulted in the amount unused reverting to the State and was effectively a feedback loop to reduce the total allocation to the trading sector in the event of a severe economic downturn.

19.33 The Accounting Officer stated that the investments made with the World Bank and the EBRD, which were made on foot of Dáil resolutions, would deliver carbon units in a cost effective manner. Based on the most up-to-date information available from the managers of these individual funds, they were expected to yield some 3 million units in the period 2008-2012 at a cost of some €27.6 million. The overall inclusive cost per unit was expected to average out at some €9.30. This cost was significantly below the spot prices on the secondary market. Even allowing for the economic downturn, units on the secondary market were currently trading above €2 per unit. The prices for the majority of purchases entered into, to date, by Ireland through the Funds had ranged between €9.50 and €10.50 per unit.

19.34 The Accounting Officer stated that the ongoing management of the carbon purchasing programme was based on the best professional advice available to the Department.

Conclusions

At end February 2009, the State has paid or contracted to pay €113.7 million for carbon credits^a.

Ireland has contracted to acquire an estimated 8.3 million Kyoto units to meet its obligations arising out of any excess emissions over and above the limit set at the EU Environmental Council implementing the Kyoto commitments.

Action has been taken to estimate the future emissions following the economic downturn and further purchase of carbon credits has ceased. However, the degree of certainty that can be achieved in forecasting the need for future investment in carbon credits is limited and the situation will need to be kept under ongoing review.

Currently, based on the latest ESRI and EPA projections, investments to date would be adequate to meet the State's obligations and any excess could be carried forward to the post-2012 period.

Overall, the emissions of the trading sector are projected to be lower than the allowances allocated to them. However, any excess allowances in that sector can be sold by the bodies to which they were allocated and are not available to reduce the State's commitment in respect of the non-trading sector either in the period 2008-2012 or thereafter⁷¹.

The Department has assured me that Ireland's purchasing requirements are being kept under review and will be revised as necessary in the light of future economic projections. If it transpires that units which have already been secured are not needed to meet obligations in the Kyoto period the benefit can be carried forward for use in the next commitment period after 2012.

a The foregoing is a correction of the printed version which referred only to NTMA investment.

⁷¹ The State retained a reserve for new entrants at the allocation stage which may not now be fully allocated and together with reversions following closures can be used to satisfy some non-trading sector obligations.

Annex A Kyoto Unit Equivalents

Emission Reduction Unit

Emission Reduction Units (ERUs) are emissions certificates issued by bodies of the UN Framework Convention on Climate Change and the Kyoto Protocol for the successful completion of climate protection projects part-financed by one country but located in another country (Joint Implementation Measures).

Certified Emission Reductions

Certified Emission Reductions (CERs) are emissions certificates issued by bodies of the UN Framework Convention on Climate Change and the Kyoto Protocol to developed countries for the successful completion of climate protection projects designed to reduce emissions in developing countries as an alternative to more expensive emission reduction measures in their own countries (Clean Development Mechanisms).

Assigned Amount Units

An Assigned Amount Unit (AAU) is an emission certificate as defined by the Kyoto Protocol. Participating countries, of which Ireland is one, can use AAUs to fulfil their obligations as stipulated in the Kyoto Protocol.

Removal Units

Removal Units (RMUs) are credits arising from emissions reductions created by means of projects that reduce emissions (land-use change and forestry) according to Article 3 of the Kyoto Protocol. RMUs are only traded at country level, and can be used towards fulfilling national obligations from 2008 onwards.

EU Allowances

EU Allowances (EUAs) are emissions certificates as defined for purposes of emissions trading in an EU Emissions Trading Scheme. Operators of designated installations can use EUAs to fulfil their obligations.

Carbon Credits

Purchases by the Department and the NTMA are referred to, generally, as carbon credits. Each such credit is equivalent to a Kyoto Unit.

Chapter 20 Department of the Environment, Heritage and Local Government

Central Government Funding of Local Authorities

Central Government Funding of Local Authorities

20.1 Local authorities receive substantial direct annual funding from a number of central government sources including the votes of a number of departments, the Local Government Fund and the Environment Fund. These moneys form part of the income of local authorities and expenditure sourced from them is included in their financial statements which are audited by the Local Government Audit Service.

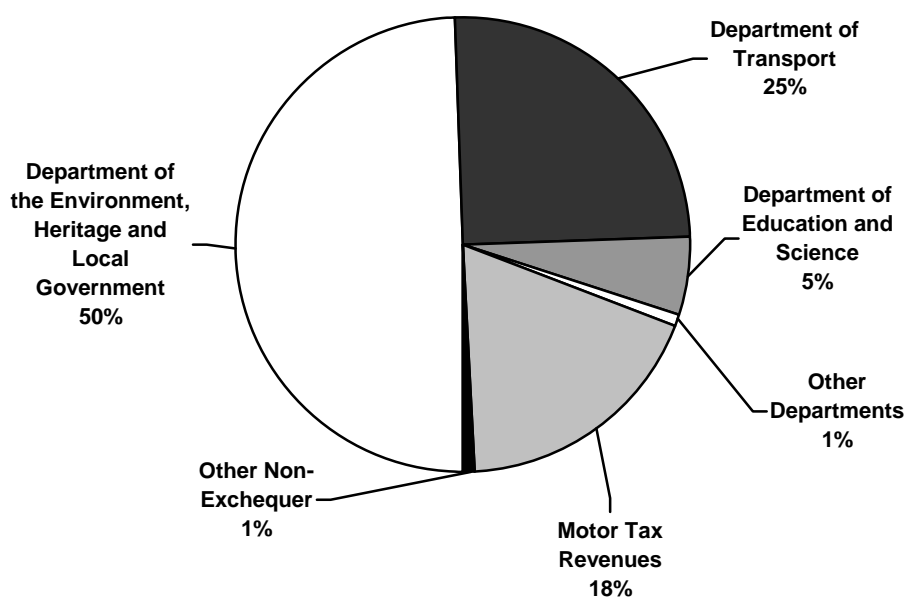
Audit Focus

The objective of this Chapter is to provide an overview of funds flowing from and through central Government sources to local authorities, and of the purposes for which the funds have been provided.

Sources of Central Government Transfers

20.2 Transfers of funding from central Government sources to local authorities in 2008 totalled around €5.7 billion. Around 80% of this originated as Exchequer funding provided through government departments. Most of the remainder was raised through motor taxation (18% of the total) and other levies and charges. See Figure 77.

Figure 77 Sources of Central Government Financing for Local Authorities, 2008



20.3 Motor tax revenues are initially collected by local authorities and paid into the Local Government Fund. They are then redistributed, along with Exchequer-sourced funds, as part of the allocations from the Fund to local authorities.

20.4 Non-Exchequer revenues received into the Environment Fund are redistributed in a similar way. The Plastic Bag Levy is collected from retailers by the Revenue Commissioners and paid by

them into the Fund. Landfill operators pay landfill levies to local authorities that in turn pay these into the Environment Fund.

20.5 Figure 78 sets out the sources of funding for expenditures from central government sources to local authorities for 2007 and 2008.

Figure 78 Sources of Central Government Financing for Local Authorities, 2007 and 2008

Source of Funds	2007		2008	
	€m	€m	€m	€m
Voted Funds				
Vote 25 - Environment, Heritage and Local Government	2,584		2,804	
Vote 26 - Education and Science	272		301	
Vote 27 - Community, Rural and Gaeltacht Affairs	15		19	
Vote 32 - Transport	1,476		1,428	
Vote 35 - Arts, Sport and Tourism	32	4,379	26	4,578
Other Funds				
Motor Tax Revenue	957		1,041	
Plastic Bag Levy	16		15	
Landfill Levy	22		23	
Interest on Investments	6	1,001	8	1,087
Funding from all Sources		5,380		5,665

Application of Funding

20.6 Most of the funding provided to local authorities must be used by them for specific local authority services. These can be grouped into six broad programme categories.

▪ **Housing and Urban Regeneration**

The bulk of funding for housing and urban regeneration is provided directly to local authorities by the Department of the Environment, Heritage and Local Government. The funding is used by local authorities for the provision of local authority housing, regeneration and remedial work, traveller accommodation, voluntary and cooperative housing, the Rental Accommodation Scheme, housing adaptation grants, and accommodation for homeless people.

▪ **Environmental Services**

Around 90% of the central funding provided to local authorities in support of environmental services is directed towards investment in water services and is directly funded by the Department of the Environment, Heritage and Local Government. The remaining funding comes from the Environment Fund, which was established to support environmentally orientated initiatives, campaigns and programmes organised at local or regional level under the auspices of local authorities.

- ***Road Improvement and Maintenance***

Improvement and maintenance of the national roads is the responsibility of the National Roads Authority, which operates under the aegis of the Department of Transport. In carrying out its projects, the Authority normally uses local authorities as its agents, and channels its expenditure through them.

Responsibility for the improvement and maintenance of non-national roads passed from the Department of the Environment, Heritage and Local Government to the Department of Transport with effect from 1 January 2008. While the latter Department funds some road improvement and maintenance works from its own resources, most funding for the up-keep of non-national roads comes from the proceeds of motor taxation revenue through the Local Government Fund.

- ***Education Related Payments***

The Department of Education and Science reimburses the cost of higher education grants awarded by local authorities. The Department also reimburses local authorities the costs of providing superannuation benefits for retired staff of Vocational Education Committees and Institutes of Technology who are members of the Vocational Teachers' Superannuation Scheme or the Education Sector Superannuation Scheme respectively.

- ***Recreation and Other Local Services***

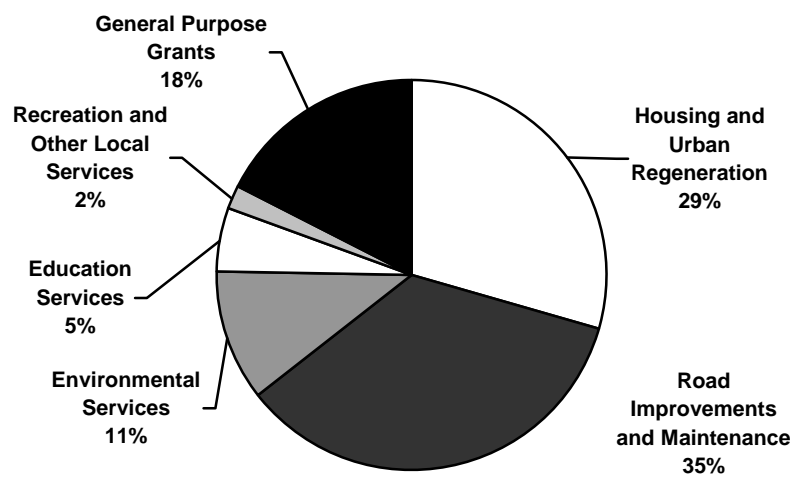
This comprises central government funding for local authority services such as library and archive services, swimming pool construction and maintenance and other public amenity and cultural projects, as well as fire and emergency services and services for the disabled.

- ***General Purposes Grants***

Through the Local Government Fund, the Department of the Environment, Heritage and Local Government provides top-up 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.

20.7 Figure 79 presents a breakdown of the central Government transfers to local authorities in 2008 by programme area. This indicates that just over one third of the total provision was in respect of road improvements and maintenance work. Just under one third was provided for housing and urban regeneration programmes. General purposes funding accounted for 18% of the total amount provided.

Figure 79 Application of Central Government Financing for Local Authorities, 2008



20.8 Figure 80 presents a more detailed breakdown of the fund transfers to local authorities for 2007 and 2008, showing the programmes and the schemes being supported.

Figure 80 Central Government Transfers to Local Authorities, by Expenditure Programme, 2007 and 2008

Expenditure Category	2007		2008	
	€m	€m	€m	€m
Housing and Urban Regeneration				
Social Housing Provision	1,382		1,571	
Affordable Housing, etc.	64		89	
Other Housing Supports	6		6	
Urban Regeneration	20	1,472	5	1,671
Environmental Services				
Water and Sanitary Services	529		544	
Waste Management	28		27	
Recycling	12		22	
Other Environmental Measures	11	580	14	607
Road Improvement and Maintenance				
National Roads	1,476		1,374	
Non-National Roads	526	2,002	610	1,984
Education Services				
Higher Education Grants	126		137	
Superannuation of Retired Teaching Staff	146	272	164	301
Recreation and Other Local Services				
Swimming Pools	25		20	
Library Service	17		15	
Sports Grants, Playgrounds and Cultural Projects	8		7	
Fire and Emergency Services	24		24	
Heritage Services (Architectural Heritage)	7		8	
Disability Services	15		15	
Miscellaneous Services	10	106	14	103
General Purpose Grants		948		999
Total Funding Provided to Local Authorities		5,380		5,665

Chapter 21 Department of Education and Science

Primary School Planning

Primary School Planning

21.1 The provision of accommodation for the education of primary school students has to be planned in the light of three main factors

- demographic changes and the emergence of developing areas can give rise to instances where there is inadequate or no educational infrastructure
- the existing infrastructure may need upgrading
- policy underpinned in the Education Act, 1998 provides for parental choice in the type of school children attend, thereby increasing the range and number of schools for which building projects are required.

21.2 Unless the Department has readily accessible information on emerging demands, the capacity of the school building stock and the state of infrastructure, including its composition in terms of permanent and temporary structures, it will lack the ability to proactively manage accommodation provision. There have been some instances of significant surges in demand for primary school places, resulting in deficiencies in provision, most recently in 2007 in the Lucan and Balbriggan areas of Dublin, that required school accommodation to be put in place rapidly.

Audit Focus

The audit reviewed

- the extent to which the Department has information and procedures that allows it to proactively plan for primary school provision
- the quality of its information on the condition of school accommodation
- how development projects are prioritised.

Planning Information

21.3 In order to plan accommodation provision, the Department would need information on the number of pupils likely to require places, the location of those pupils, and the extent and quality of the existing accommodation.

Demand for School Places

21.4 There has been a fundamental shift in requirements for accommodation in recent years.

- In 1998 it was projected (based on the prevailing demographics, migration and birth rate patterns at the time) that the number of pupils at primary level would fall to between 418,900 and 442,300 by the year 2016.
- Currently, primary enrolment is in the region of 499,000 and is expected to reach 597,000 by 2016 (based on the most recent predictions from Central Statistics Office (CSO) and the Department's Statistics Section using current demographic, migration and birth rate patterns).

Implication for Classroom Facilities

21.5 The Department estimates that meeting the demand for education services at primary level would entail the provision of up to 3,500 additional classrooms if all the pupils could not be accommodated in existing schools. However, it is more likely that whatever additional school capacity is required will be met through a combination of the use of any existing spare classroom capacity, by extensions and expansions of existing schools and by the provision of new schools where necessary. This will be due to the dispersed nature of the increased number of pupils across the country. In general terms, population growth leading to pressure on primary and post-primary school accommodation is likely to be strongest in the areas along the east coast commuter belt, the greater Dublin area and in the areas surrounding other major cities. However, many other areas will also experience pressure in terms of increased demand for pupil places, albeit at a lower level.

Identification of Emerging Requirements

21.6 During 2008 the Department introduced a Geographical Information System (GIS) to facilitate greater accuracy in the identification of school place needs. This system allows the Department to layer various pieces of information over a digital map of Ireland. The information is sourced from the CSO (age cohort by district electoral division), ordnance survey mapping, a geodirectory from An Post which maps each dwelling in the country (updated quarterly), child benefit data (updated quarterly) and the General Register Office data on live births (also updated quarterly). Historical and current information on school enrolments and staffing is also used.

21.7 The combination of this information allows indicative feeder areas to be established around existing schools and in greenfield locations. The system facilitates the modelling of a range of forecast scenarios for each area for the coming years and the likely changes to the school-going population in those areas in order to predict the level of school provision that will be required.

21.8 Utilising the GIS, the Department has carried out a study of the country to identify the areas where, due to demographic changes, there may be a requirement for significant additional school provision at both primary and post-primary levels over the coming years. The study indicates that the requirement for additional primary provision over the next four to five years is likely to be greatest in 42 locations across the country based on significant changes to the demographics of those areas. The process of carrying out detailed analysis and reports for each of these locations is underway in order to identify the school accommodation requirements for each area up to and including the school year 2014/2015. These detailed reports indicate the locations where new schools and/or extensions to existing schools may be required and thus informs the prioritisation and progression of capital projects for these areas.

21.9 This process while helping to identify need for additional provision in particular areas, which is its main function as a planning tool, does not address upgrade or refurbishment needs because the system does not have information on current school accommodation beyond basic enrolment figures for each school.

Existing School Accommodation

21.10 While historic investment in schools can be tracked using information from an overview system, the Department needs to have relevant and reliable information on the state of the existing schools in the system. Up to this point, there has been limited centrally maintained information on the condition of schools.

21.11 In 2001 the Department ran a pilot project to create an inventory of school accommodation in one county. The objective was to develop a system to aid the prioritisation of school building projects. The project assessed 90 primary schools and 25 post-primary schools in Kildare.

21.12 There were two main elements in the project

- The gathering of information through project surveys which included site surveys, building elevations, floor plans, and detailed data on the condition of up to 37 elements of each school together with digital photos and other general data.
- The customising of an existing software package in order to store the data collected and link this information to an appropriate GIS database.

The project cost just over €1 million, with 20% of the cost being incurred on computer systems and 80% on school surveys.

Pilot Project Outcome

21.13 In May 2003 an Evaluation Report on the operation of the pilot project was prepared for senior management of the Planning and Building Unit (PBU). Among the findings and options outlined in the report were that

- a targeted approach should be taken in determining the areas/schools that should be included in the next phase(s) of the inventory project
- the range of data collected should be reduced to a useful and manageable minimum in order to reduce costs
- the focus of the expansion of the inventory should also reflect the fact that lack of space rather than condition was the greatest need identified in schools in the pilot phase
- the data should be collected over time, as schools are assessed for building project prioritisation
- licences should be purchased from Ordnance Survey Ireland to enable the use of geographical mapping nationwide, immediately allowing the expansion of the GIS element of the system.

21.14 In 2009 when data from this inventory was sought for audit review, it was found that the database had not been accessed for some time and that there were software and licensing issues with accessing the information. However, some information previously extracted was made available by the Department.

21.15 The inventory project database contains drawings and condition report data on surveyed schools. The drawings, which were maintained outside the database, have been used over the years by the Department. Other information collected during the pilot survey project, including condition ratings, has not been accessed in recent years. While some condition information contained in tables downloaded from the database has been available throughout the intervening period, it has not been integrated into the new GIS currently used for forward planning of school places.

Improving Inventory Information

21.16 Work is currently underway on the development of a new inventory of school accommodation which will be available for completion online by schools as part of a school portal⁷². This should provide a detailed inventory of the entire school building stock with a facility for annual update by schools at minimum development costs. The new quantitative inventory of school accommodation, which is expected to go live towards the end of 2009, will be integrated into the GIS. The new inventory will capture quantitative data in respect of all accommodation at a school, both temporary and permanent.

21.17 In the interim, the Department has a standalone database of rented school accommodation, which records the date of installation, annual rent and supplier name and details. This database is updated on a continuous basis as new and relevant information is received by the Department.

21.18 Separately, the Department has a standalone database of prefabricated accommodation where grant-aid has been sanctioned for purchase of a unit or units. This database includes any prefabricated units sanctioned for purchase since January 2008 and is updated on a continuous basis as further prefabricated purchases are sanctioned and as new and relevant information is received.

21.19 It is envisaged that the full inventory of school building stock, when developed in late 2009, will form an important layer of data to be used within the GIS system for forward planning purposes. The GIS will then have the capacity to indicate the level of temporary accommodation in schools.

21.20 Audit work noted that while the Department's overview system contains information on temporary accommodation, including numbers of classrooms sanctioned, the new GIS system does not do so at this time. The cost of temporary accommodation is separately monitored and no data is collected on the condition of temporary accommodation.

21.21 Provision of temporary accommodation is usually a response to the approval of an extra teaching post in a school. Approval of teaching posts, on the basis of numbers at the beginning of each school year may be made in late Spring for the following September. This leaves a short period of time for provision of the requisite classroom. Since early 2008, PBU policy is that temporary accommodation is purchased where it is required for more than three years and rented if the need is more temporary. The Department sanctions an amount for either purchase or rental of temporary accommodation, along with installation costs, and the school proceeds on foot of that sanction. Where a prefab purchase is sanctioned, the sanction is open-ended and the school may retain the prefab for as long as it has use for it. For new rental agreements, the sanction is for the length of time the need is expected to last (which will be up to three years) and is then reviewed. For rental agreements that existed prior to the change in policy from 2008 (indicating purchase as the most value-for-money option for prefabs required for three years or more) the sanction is reviewed on a three-yearly basis then terminated or extended as appropriate.

Responding to Emergency Need

21.22 In instances where need emerges without previous identification, it is necessary for the Department to respond promptly. It instituted a Rapid Delivery Programme in 2008.

⁷² Esinet is an on-line portal which allows primary, voluntary, secondary and community and comprehensive schools to access systems such as the Online Claims System.

Rapid Development Response

The Developing Area Unit (DAU) commenced in September 2007 to

- liaise with local authorities
- identify where new schools are needed
- ensure that they are delivered in the fastest possible timeframe.

It delivered 7,000 additional pupil places in September 2008 in 26 new schools using off-site construction. Permanent schools were built where permanent sites were acquired and temporary solutions where only temporary sites were available. The Department itself acted as client for these projects. For September 2009 the DAU aims to deliver eight new primary schools (2,800 school places) and one new post-primary school (350 places in the first phase).

21.23 The Accounting Officer informed me that as a result of the 2008 programme, the Department did not receive indications from schools, as in previous years, that there were any major difficulties in securing accommodation and there was no area of the country where school places were not available for eligible primary school pupils for September 2008.

21.24 She added that, since the introduction of the GIS system, the Department is now in a position to forecast increases in demand for school places further in advance than was the case previously. The facility for earlier prediction of likely demands should increase the range of options for delivery of school accommodation.

Improving Information Processing

21.25 The Accounting Officer informed me that the Department was progressing work to improve its systems in order to facilitate access to accurate and up-to-date information on individual schools, both to ensure more efficient use of official time and to reduce the administrative burden on schools.

21.26 The Department is committed to improving its IT infrastructure and is upgrading IT systems in order to enhance the capacity for ready retrieval of information. A unified data model designed to rationalise, standardise and unify the Department's main data holdings, so as to provide a solid foundation on which to build new systems, is being implemented. The Department has indicated that the pace of progress will be dependent on available financial, human and IT resources.

Project Assessment and Approval

21.27 The progression of a school building project from application through to construction phase is a function of the priority attaching to it and the availability of the necessary financial and other resources.

21.28 There are three key decision points in the process. These are

- assessment and approval in principle of the project and assignment of a band rating
- the decision to allow the project to enter architectural planning
- the decision to approve the project to proceed to tender and construction.

Key Steps in Assessment and Planning Stages

- Assessment of applications by PBU including
 - enrolment policy, staffing, existing accommodation, housing developments in the area
 - school inspectors recommendations
 - consideration of accommodation condition and demand factors
 - consideration of long-term sustainability
- Approval and band rating against prioritisation criteria (see Figure 81)
- Site visit, plans, drawings
- Land acquisition (if necessary)
- Project brief
- Recommendation to Minister designed to match urgency and financial provision
- Ministerial decision
- Ministerial approval to proceed to tender and construction
- Architectural planning

Thereafter, it follows a normal public procurement cycle for public construction work.

Project Prioritisation

21.29 Each school project is assigned a band rating that takes account of

- individual school requirements
- an assessment of school condition (triggered by a capital grant application)
- the overall requirement for accommodation in the area
- the provision of special needs accommodation.

21.30 In response to my enquiries as to how the banding system determines or informs decisions, the Accounting Officer explained that the priority rating assigned to projects under the banding system broadly determines when a project is advanced to architectural planning and through the stages of architectural planning, tender and construction. While decisions relating to the inclusion of projects in the capital programme are made on the basis of a large range of factors, the priority band rating of the projects is a major consideration.

21.31 In general, a proposed project's band rating is not reviewed unless circumstances change or new demographic information becomes available, changing the requirements of the project. While these criteria are used to classify potential projects, the timing of their delivery is dependent on the availability of funding at specific decision points, local project readiness to proceed and the stage the project has reached in architectural design.

21.32 In the case of an existing school, the process normally begins with an application for a major capital grant, setting out the case for investment, including the forecast enrolment growth. The case for a development is assessed by the PBU which takes into account any shortfall in accommodation, demographic growth in the area, the size of the school site and the willingness or suitability of the school to enlarge, extend or refurbish, as well as curricular improvements. In

addition, existing schools may be approached directly by the Department with regard to possible expansion where the Department is aware of the need for additional school places in an area.

Planning up to 2008

An independent New Schools Advisory Committee (NSAC) provided advice to the Minister on recognition of new primary schools from 2002 until September 2008 when its term of office expired and the Minister announced a review of the criteria and procedures for the recognition of new schools. The NSAC was established following a report of the Commission on School Accommodation which is an independent body comprised of representatives of all the education partners and the Department. The Commission also has responsibility for agreeing Area Development Plans with education stakeholders. These Area Development Plans were the main forward planning approach used by the Department before they were largely replaced by new consultation procedures.

21.33 Greenfield sites, where no patron has yet emerged, necessitate proactive planning by the Department. Where the Department has identified need in an area, it notifies patrons of its intention to establish a new school, invites applications to become patrons and commences site acquisition in concert with the local authority.

Figure 81 Summary of Prioritisation Criteria for School Building Programme^a

Band	Details
1.1	New school or extension in developing area
1.2	Accommodation for special needs students
1.3	School that is structurally unsound
1.4	Rationalisation project
2.1	Major extension of existing school and extensive refurbishment
2.2	Major extension of existing school
2.3	Extensive refurbishment
2.4	Extension of existing school and moderate refurbishment
2.5	Extension of existing school
2.6	Moderate refurbishment
3.1	Ancillary accommodation for special education and some improvements only
3.2	Ancillary for special education only
3.3	Deficit or ancillary (other than special education) and some improvements
3.4	Deficit or ancillary (other than special education)
3.5	Improvement works
4	All other requests

Note:

a These have been used since 2003, and were revised in 2004.

21.34 The Accounting Officer stated that the prioritisation system attached particular priority to the need for new or additional accommodation in those areas of the country which were experiencing rapid population growth. This was on the basis that classroom accommodation has to be provided for school-going children in these areas.

21.35 Schools that were structurally unsound also receive a high band rating. Within Band 2, schools requiring extensions to provide additional accommodation for mainstream classrooms and extensive refurbishment received a higher priority than those which required a major extension only or a refurbishment only.

21.36 The system also differentiates between extensions which were required to meet a deficit of mainstream classroom accommodation and those which were required to meet a deficit of ancillary accommodation.

21.37 There is a balance required between the ongoing needs to ensure sufficient accommodation for all children and accommodation of a requisite standard within the existing building stock.

Factors Impacting on Programme Cost

21.38 The Accounting Officer informed me that the economic environment now pertaining in the construction industry presented both an opportunity and a challenge for the delivery of the Department's primary school building programme.

21.39 In 2009, tenders for school building projects were significantly lower than in the last number of years. However, due to the new circumstances being experienced throughout the construction industry, challenges were arising for the PBU and external design consultants in terms of the operation and management of large public tender competitions and the management of projects on-site.

21.40 The introduction of the new form of contract⁷³ for major capital projects in the public sector was a welcome development and should lead to improved certainty for the Department and schools on school building projects, including the risk factors arising from the changed operating environment within the construction industry.

21.41 However, the Department's experience had been that the industry was taking longer than anticipated to adjust to the requirements of the new form of contract. This had led to delays in the preparation of tender documents by design teams and had also resulted in submissions of poor quality being received by the Department. The quality of these submissions was such that they required extensive revisions. These revisions added to delays in bringing projects to site.

21.42 In response to this, the Department had organised a series of briefing workshops for design teams. Feedback from the industry has indicated that the cost overhead of the necessary training and development of expertise to prepare the new form of tenders was significant.

21.43 The Department had been required to provide a high level of interaction and support to external design teams in order to ensure that tender documents were completed correctly and in accordance with public procurement and other requirements arising from the revised procedures. This also had resource implications for the Department itself.

⁷³ Introduced in October 2006 as part of a wider process of construction procurement reform – the contract aims to address concerns about the extent of cost overruns in public works projects, in part by using fixed price lump sum tenders.

Conclusions

The Department has begun to address the need to consolidate its information on schools, including the demand for places. However, it needs to press ahead with its initiatives in order to ensure that a reasonably predictive planning model emerges, capable of ensuring that primary school accommodation demand is identified promptly and met.

Likewise, it has begun to address the need for an inventory of accommodation capable of being linked to its planning information. Again, it needs to bring this to a conclusion and integrate information on both permanent and temporary accommodation into its central planning system.

A detailed banding system informs decisions on the prioritisation of projects. Ultimately progression while informed by that system is a factor of available finance and perceived urgency. Decisions on project progression are taken by the Minister following recommendations by the Department.

Chapter 22 International Co-operation

Official Development Assistance

Official Development Assistance

22.1 Official development assistance (ODA) comprises transfers of resources by official agencies — either in cash or in the form of commodities or services — to developing countries or territories, or to multilateral development institutions. These transfers only qualify for inclusion in estimates of ODA if they are directed towards the promotion of the economic development and welfare of developing countries⁷⁴.

22.2 Irish Aid is the division within the Department of Foreign Affairs set up to administer the Government of Ireland's programme of ODA.

22.3 Most Irish ODA expenditure is accounted for under Vote 29: International Co-operation. In 2008, this represented 83.5% of the total contributed by Ireland. The rest of the expenditure is made up mainly of Ireland's contribution to the EU development co-operation budget, some payments to international bodies by the Department of Finance and the Department of Agriculture, Fisheries and Food (and accounted for in their respective votes) and payments by the Revenue Commissioners in respect of the Tax Deductibility Scheme for donations to relevant charities.

Report Focus

This Chapter has been compiled to present the full expenditure on ODA in one statement.

Overall Expenditure

22.4 Irish ODA totalled €921 million in 2008, up from €871 million in 2007. This represented an increase of 5.7%.

22.5 A breakdown of how Irish ODA funding was applied is presented in Figure 82. This distinguishes between

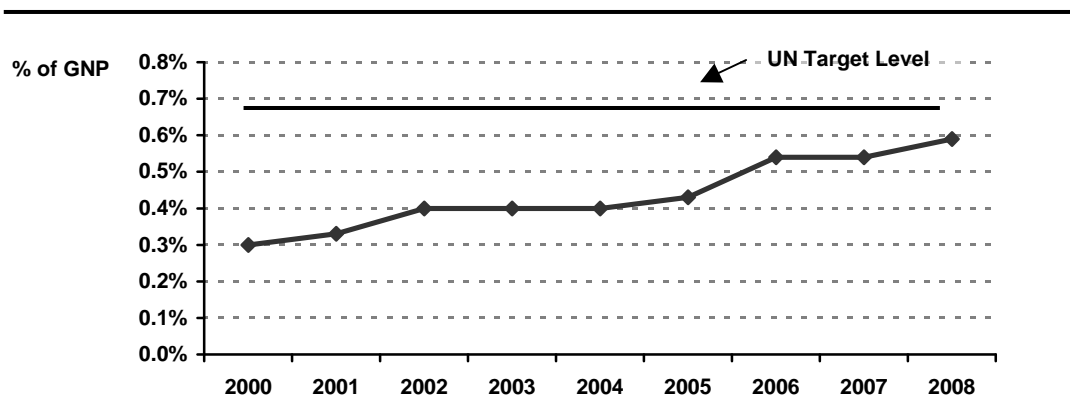
- **Bilateral assistance** — undertaken by a donor country directly with a developing country, and delivered through the developing country's government or through non-governmental organisations (NGOs), including missionary societies. Bilateral assistance also includes development transactions such as interest subsidies, spending on promotion of development awareness and debt reorganisation.
- **Multilateral assistance** — involving contributions to international agencies, institutions or organisations that pool contributions from member countries and apply them for development purposes.

⁷⁴ See OECD Development Assistance Committee factsheet, *Is it ODA?* (May 2007) for an explanation of the criteria that are applied in estimation and recording of ODA. Loans may be included in estimates of ODA if they involve interest rates below market levels, and involve a grant element worth at least 25%.

Figure 82 Official Development Assistance, by Type, 2007 and 2008

	2007	2008
	€m	€m
Bilateral Assistance	576.0	614.8
Multilateral Assistance	264.8	270.7
Administration Costs (Vote 29)	30.1	35.1
Total Gross Expenditure	870.9	920.6

22.6 The United Nations has set a target for developed countries to contribute official development assistance equivalent to 0.7% of their Gross National Product (GNP) each year. As Figure 83 indicates, Ireland's ODA increased from 0.3% of GNP in 2000 to 0.59% in 2008. The Government's stated objective is to reach the 0.7% target level by 2012.

Figure 83 Irish Official Development Aid as a Percentage of GNP, 2000 to 2008

Source: Department of Foreign Affairs

22.7 Only five donor countries exceeded the UN target in 2008: Sweden (0.98%), Luxembourg (0.92%), Norway (0.88%), Denmark (0.82%) and the Netherlands (0.8%). Ireland's ODA contribution was the next highest among the OECD countries⁷⁵.

Bilateral Development Assistance

22.8 Two-thirds of Irish ODA is provided through bilateral cooperation programmes. Figure 84 presents a breakdown of bilateral transfers by programme.

⁷⁵ OECD, Net Official Development Assistance in 2008, March 2009.

Figure 84 Bilateral Official Development Assistance, by Type, 2007 and 2008

	2007	2008
	€m	€m
Vote 29 International Co-operation Expenditure		
Assistance to Programme Countries	185.0	218.6
Assistance to other Countries	29.4	38.2
Civil Society Support, including co-financing with NGOs	117.6	134.2
Health and Education Initiatives	96.5	67.6
Emergency and Humanitarian Assistance	120.8	108.4
Other Programmes	17.8	39.5
Bilateral ODA by other Government Agencies	8.9	8.3
Total Bilateral ODA	576.0	614.8

Assistance to Target Countries

22.9 A total of €219 million was spent on formal country assistance programmes in 2008. These programmes are strategic partnerships with the governments of selected countries to support poverty reduction and development on a long-term basis. The countries supported by Ireland under those programmes are Ethiopia, Lesotho, Malawi, Mozambique, Tanzania, Timor Leste, Uganda, Vietnam and Zambia. Development assistance is managed by the Irish embassies in each country, and is provided through support to the partner governments' national development plans and budgets, as well as through civil society organisations and NGOs in these countries.

22.10 Assistance totalling €38 million was also provided in 2008 for selected other countries. A programme is supported in South Africa, supervised by the Irish embassy there. A recovery programme is in place in Sierra Leone and Liberia, delivered mainly through UN specialised agencies and NGOs, and supervised from an office in Sierra Leone. Support was also provided for a programme in the Palestinian administered areas, and for a HIV/AIDS programme in Zimbabwe that is delivered through NGOs. Assistance was also provided for a partnership programme for certain countries of Eastern Europe and Central Asia.

Civil Society Support

22.11 The Civil Society budget includes various schemes designed to provide NGOs, missionary groups and other civil society partners with funding for development interventions. The principal channels of expenditure are

- The **Multi-Annual Programme Scheme** — this provides multi-annual predictable funding to five NGOs based on their strategic plans. The five NGOs are Concern, Trócaire, Christian Aid, Goal and Self Help Africa. Funding through the Scheme is based on the recipient organisation having in place a strategic planning and monitoring framework and a commitment to continuous improvement in line with best international practice.
- The **Civil Society Fund** — this provides multi-annual project funding across a range of social and economic sectors. In 2008, some 130 NGOs were funded under this scheme.
- **Misean Cara** (formerly the Irish Missionary Resource Service) — this body is a management agent for missionaries, which sub-grants to 80 missionary organisations and provides additional capacity building and oversight of their development interventions.
- The **In-Country Micro Projects Scheme** — under this scheme, nine Irish embassies and one consulate have budgets to directly support small-scale development projects. The

scheme operates in developing countries where Ireland has diplomatic accreditation, but where there is no Irish Aid programme.

- **Information Centre and Volunteer-Related Programme** — The centre opened in O'Connell Street in Dublin in 2008. Its purpose is to provide information on the work of Irish Aid, and to provide an information service to individuals who wish to work as overseas development volunteers.

Health and Education Assistance

22.12 The bilateral assistance programme provides support for a number of global health and education initiatives. These are mainly targeted at HIV/AIDS prevention and care and the provision of basic education in less developed countries. Funds for the initiatives are provided via NGOs and missionaries.

Emergency and Humanitarian Assistance

22.13 Emergency and humanitarian assistance is provided during and in the aftermath of emergency situations that arise as a result of natural disasters or humanitarian crises, with the aim of saving lives, alleviating suffering and maintaining human dignity. The funding may be provided to governments dealing with humanitarian crises, through NGOs that are in position to respond quickly to such crises, or through international organisations such as the UN and the International Red Cross. The total expenditure on emergency and humanitarian assistance in 2008 was €108 million, as shown in Figure 85.

Figure 85 Emergency and Humanitarian Assistance, 2007 and 2008

	2007	2008
	€m	€m
Emergency Assistance	90.0	87.0
Rapid Response Initiative	5.0	4.5
Emergency Preparedness and Post Recovery ^a	25.8	16.9
Total Emergency and Humanitarian Assistance	120.8	108.4

Note:

- a In addition, funding was provided through the special programme for post-conflict recovery in Sierra Leone and Liberia referred to earlier.

22.14 In order to facilitate rapid response to emergencies, over €34 million was contributed in 2008 to pooled funding arrangements including the UN's Central Emergency Response Fund and special emergency humanitarian funds in both Sudan and the Democratic Republic of Congo. A further €15.5 million was channelled through the Red Cross. UN organisations received €29.9 million, of which the World Food Programme received the largest share (€12.9 million). The NGO sector was provided with €24.5 million, of which €19 million was provided to Irish-based organisations.

Multilateral Development Assistance

22.15 Around 30% of Irish ODA is provided through general contributions to the cost of development work undertaken by a range of international multilateral organisations. Figure 86 presents a breakdown of the organisations funded.

22.16 Multilateral co-operation funding is directed mainly to the following areas

- **UN Agencies** – The UN plays a role in addressing poverty globally and in helping deliver on agreed international objectives and the Millennium Development Goals. Ireland provides a proportion of its ODA to UN funds and programmes, mainly as core funding for their operations and activities, but also in support of reform measures and specific programmes including democracy building and electoral reform, education and training, assistance to refugees, protection of human rights, combating HIV and AIDS, developing health systems and environmental protection.
- **EU Development Cooperation** – The European Union (including the contributions of its member states) is the largest provider of development assistance at a global level and influences development agendas at international level.

Figure 86 Multilateral Official Development Assistance, by Organisation, 2007 and 2008

	2007 €m	2008 €m
United Nations, including Voluntary Contributions to UN Agencies	111.9	102.1
European Community Agencies and Initiatives		
EU Budget for Development Co-operation	82.0	85.3
European Development Fund	15.3	22.0
World Bank and other Multilateral Institutions	46.4	53.6
Co-financing with Multilateral Agencies	9.2	7.7
Total Multilateral ODA	264.8	270.7

- The **World Bank** and regional development banks are significant aid delivery channels and important agents in policy and reform issues at country level. Ireland, through the Department of Finance, is a significant contributor to the International Development Association and has recently joined the Asian Development Bank. It engages with the banks on debt, aid effectiveness and development financing policy, as well as on specific issues related to Irish Aid programme countries.
- **Co-financing with multilateral agencies** includes support for agricultural research to help the poor through the Consultative Group on International Agricultural Research and the Global Crop Diversity Fund. The development of entrepreneurship and small-scale business is supported through the International Labour Organisation.

Monitoring and Evaluation of ODA Expenditure

22.17 Irish Aid operates an Evaluation and Audit Unit, the main aim of which is to provide assurance that development co-operation funds are being used for the purposes intended and that value for money is achieved.

22.18 The Unit carries out some audit and evaluation work itself, and commissions internationally recognised audit firms to carry out work on its behalf. It also relies on work carried out within programme countries by the respective national audit institutions. Irish Aid is placing an increased emphasis on working closely with national audit institutions in partner countries with a view to improving financial management and accountability, as well as strengthening internal audit capacity at programme country level.

22.19 The major programme evaluations completed in 2008 related to the following

- The **Timor Leste Country Programme** evaluation found that the programme was well aligned with the priorities of the Government of Timor Leste and with the White Paper on Irish Aid. It also found that the results of Irish expenditure were balanced.

- The ***Evaluation of the International Partnership for Microbicides*** found that the Partnership plays a highly relevant role and has contributed significantly toward the goal of developing safe and effective microbicides (substances used to reduce infection). The evaluation team also found that the Partnership's expense allocations were reasonable and that it had appropriately assessed and managed risk. It found there was room for improvement in some of the Partnership's internal systems.
- The ***Evaluation of the Global e-Schools and Communities Initiative*** found that its mission was relevant, its modes of operation appropriate, its choice of focus countries was reasonable and its outputs were useful. However, it also concluded that the initiative needed more focus and that its international planning and monitoring procedures and administrative processes needed to be made more robust.
- The ***Review of the Strategic Partnership Environment Programme*** concluded that the work of the programme's partners is highly relevant and consistent with Irish Aid's objectives for poverty reduction policies, international best practice and current conditions and that the partners have been largely effective in achieving their objectives.

Conclusions

Irish official development assistance has increased substantially in recent years, reaching a level equivalent to 0.59% of GNP in 2008.

Around two thirds of the assistance is provided through a wide range of bilateral assistance programmes.

Irish Aid has in place a programme for systematic evaluation of the operation and effectiveness of Irish development assistance.

Chapter 23 Department of Communications, Energy and Natural Resources

Metropolitan Area Networks

Metropolitan Area Networks

23.1 Metropolitan Area Networks (MANs) are State owned, underground telecommunications infrastructure networks that are located in regional cities and towns. They are loops of fibre optic cable designed to link local access networks to national telecommunications networks. The networks are available to telecommunications wholesalers to enable them to offer high-speed broadband to their retail customers without having to build their own networks.

The MANs Concept

23.2 A Telecommunications Working Group was set up in September 2001 as a subgroup of the Cross-Departmental Team on Infrastructure and Public Private Partnerships. The Group, in a report issued in February 2002, highlighted the critical importance of broadband services and infrastructure to Ireland's competitiveness and to its attractiveness as a location for foreign direct investment. In addition, the working group report also stated that broadband was critical to the achievement of Government regional policy objectives.

23.3 The Working Group concluded that a strategic Government intervention was required to provide the appropriate infrastructure and that the involvement of local authorities as partners at local level was essential.

23.4 In March 2002, the Government decided that Phase I of a programme to address the broadband infrastructure deficit should commence immediately. This involved support for 19 local authority-led infrastructure projects and a national PPP-type process to create an operator-neutral entity to manage and operate these local networks. The Government also noted that Phase II and subsequent phases of the strategy would be contingent on successful implementation of Phase I. Subsequently, a further eight towns were added to Phase I bringing the total to 27.

23.5 A further Government decision in November 2003 approved a phased investment programme (Phase II) in broadband enabling infrastructure in towns with a population greater than 1,500 which had not been targeted by the market for rollout of broadband services. The Department identified 88 such towns. The cost of constructing networks in those towns was estimated at €80 million. The number of towns was subsequently increased to 94 at an estimated revised total cost of €115 million.

23.6 Phase I networks were built in 27 towns at a cost of €78 million and were completed in 2005. As of 31 December 2008, 60 Phase II networks were under construction in 66 towns. 59 of these have now been completed with the remaining one due for completion in 2010.

23.7 The MANs provide a basic infrastructure platform to attract service providers who would, using their own technologies, offer high speed broadband to end-users. The capacity of the MANs to provide broadband to end-users, while not limitless, is regarded as sufficient to meet any foreseeable local demand.

Audit Focus

The audit examination focused on

- the extent of the take up of the infrastructure provided
- the barriers to full exploitation by service providers
- the extent of revenue being generated and the arrangements to market the service
- the prospects for a payback on the investment taking account of technological developments since the inception of MANs.

Provision of the Infrastructure

23.8 The procurement of the networks is carried out by local authorities. They design the networks, tender for network builders and place the subsequent contracts. However, the Department approves all stages. Design and supervision consultants are engaged by the local authorities to oversee the projects at local level. The relationship between the local authorities and the Department is governed by a Grant Agreement under which the Department funds 90% of the costs incurred by the local authorities.

23.9 The Department has engaged a professional services consultancy to act as Programme Manager to advise on and oversee the procurement phase of the programme during the design, survey and construction stages, as well as the financial aspects of local authority claims processing, certification and reporting.

23.10 Under MANs Phase I, networks of varying sizes were completed at a cost of €78 million in the selected 27 towns by 2005. The networks vary in length from 63 and 58.7 kilometres respectively in Limerick and Cork to 4.5 kilometres in both Kingscourt and Carrickmacross. By 31 December 2008, networks were in place in 64 of the 94 towns covered by Phase II of the programme at a cost of €98 million. Expenditure in 2008 amounted to €25 million.

Management of the Infrastructure

23.11 The networks constructed under Phase I are being independently managed, maintained and operated for the State by a Managed Services Entity (MSE), a private company, which was granted a 15-year services concession contract in July 2004. The Concession Agreement provides that the company will, using the networks, act as electronic communications infrastructure provider to the wholesale market. The Department has granted to the company a licence to have access to and to occupy the infrastructure to maintain, operate and manage each network and to carry out all other actions to allow it meet its obligations under the agreement.

23.12 In return for the concession, the company makes an annual lease payment (a concession fee) to the Department. This comprises a revenue share representing a progressive percentage of the company's gross infrastructure rental revenues subject to annual minimum payments together with a further percentage of the prior year rental revenues, subject to a cap, which will be reinvested in infrastructure on behalf of the Department as agreed annually between the company and the Department. The total fee payments (excluding the minimum amounts and the extent of reinvestment) are therefore contingent on the levels of infrastructure rental income earned by the company. The amounts remitted to the Department are in turn shared on a 50/50 basis with the local authorities which part-financed the MANs. The amount remitted in 2008 was €233,517.

Take-up of Facilities

23.13 Departmental papers reviewed on audit indicate that at the end of October 2008 there were a total of 143 wholesale customers (representing 34 service providers) on the 27 Phase I MANs. 23 of these networks were generating income and 48% of this was accounted for by the three networks in Cork, Limerick and Galway.

23.14 In December 2007, construction of any further MANs was suspended pending a review report and completion of a policy paper on next generation broadband which was being prepared at that time.

23.15 The review which reported in June 2008⁷⁶ noted that five of the 27 networks built in Phase I at a cost of €5.2 million had no wholesale customers. A further five networks built at a cost of €9.1 million had only one wholesale customer. It reported that the lack of appropriate baseline data and the nature of the town selection procedures for Phase I meant that a number of inappropriate locations were selected. The review recommended that the Department should fulfil its contractual obligations with respect to construction in Phase II towns but not proceed with any towns for which there was yet no contract in place until such time as a full evaluation had been carried out.

23.16 It was concluded that further investment aimed solely at making use of existing MANs would not be wise. In fact, the review recommended that the cost incurred in constructing Phase I should be considered sunk in the context of future policy decisions in the sector. It also recommended that any future programme should have an open and transparent mechanism by which it can be closed with a minimum of legal and financial implications for the State.

Audit Concerns

The audit examination gave rise to concerns in the following areas

- the low level of take up of the infrastructure and the factors that are impacting on take up
- how Phase II projects will be handled following suspension of that phase
- the prospects of a payback for the State's investment.

Take-up of the Infrastructure

23.17 The Accounting Officer informed me that the Value for Money Study and Policy Review of the MANs Phase I Programme, commissioned and undertaken by the Department indicated that customer demand was slow in the initial stages, and was also skewed towards centres of higher population. The reasons he cited were

- The cost to end users of utilisation of the MANs was undoubtedly a factor
- Some end users may also not have required the speeds which the MANs provide and were satisfied to stay with existing service providers.
- There was also evidence that Eircom, the dominant service provider, upgraded the quality of its networks in MANs towns. Whilst this was welcome, it would have had an adverse impact on demand for their services.

⁷⁶ Value for Money and Policy Review on Metropolitan Area Networks Programme.

23.18 He added that the demand for MANs was stronger in areas of higher population but that in a number of Phase I MANs there had been little or no demand to date. Nonetheless, over the past five years the Phase I MANs had become an important feature of Ireland's telecommunications network. Thirty-five of Ireland's telecommunications providers, (with the exception of Eircom), utilised the networks to provide services to their customers. Analysis by the MSE showed that services were being provided by them to an estimated 570,000 end users. These service providers would be less active and in some cases inactive, had the networks not been constructed.

Barriers to Exploitation

23.19 As regards the barriers preventing full exploitation by wholesalers, the Accounting Officer stated that the most significant barriers were the lack of an alternative nationwide network for onward transmission of voice and data and the cost of connecting customers to the networks. Additionally, the service providers' lack of success in accessing unbundled local loops⁷⁷ had been a significant barrier although the situation had improved in this regard.

Handling of the Suspended Phase II Projects

23.20 Following a protracted competitive process the Department, in July 2009, signed a contract for their management by the Phase I MSE. Six MANs had been handed over to the MSE on that date and the remaining 54 (including the one not yet completed) would be handed over within the next 15 months. The Accounting Officer stated that four Phase II MANs currently had customers but stressed that the Phase II MANs had not been marketed pending agreement on the MSE contract.

Future Development

23.21 The Department had carried out an initial evaluation on a further 81 towns with a population in excess of 1,500 persons which had not yet received a network – this included 28 towns originally planned for inclusion in Phase II and 29 towns planned for inclusion in Phase III of the Programme. The main criteria used to evaluate these towns were population, propensity for foreign and indigenous investment and their importance in terms of local and national spatial planning. Account would also be taken of the availability of other broadband services in the appraisal.

23.22 Arising from this initial appraisal, the Government approved a more detailed appraisal of eleven towns using the Department of Finance's Capital Appraisal Guidelines to guide any decisions on the roll out of a network in each. The appraisal methodology was consistent with the conclusions of the Department's Value for Money and Policy Review of Phase I.

23.23 He added that Key Performance Indicators based on those used for the ongoing monitoring of the Phase I MANs would be developed for towns recommended for the construction of a network. A mechanism to halt the programme, if deemed necessary, would also be included.

Payback on State's Investment

23.24 In regard to the prospects of a realistic payback for the State's investment in the networks, taking account of technological developments since the inception of the programme, the

⁷⁷ Connection to local Eircom owned exchanges.

Accounting Officer stated that the primary rationale behind them was to provide rollout of high speed broadband and thereby promote economic and regional development. The IDA was of the view that the MANs had provided their client customers with greater choice, service and better prices when it came to broadband and telephone connectivity and had indicated that a number of its clients, currently located in towns with MANs, would not have located there in the absence of the networks. He noted the need for networks with resilience and spare capacity in order to attract foreign and indigenous investment and pointed to IDA figures which illustrated that MAN enabled towns had increased their share of Foreign Direct Investment from 24% before MANs became available to over 89% in 2007, thereby helping to fulfil the Government policy goal of more balanced regional development. These factors needed to be considered in the context of deciding whether or not a MAN is appropriate in any particular town.

23.25 With regard to payback on the State's investment in MANs he informed me that in accordance with the revenue sharing provisions of the agreements with the MSE for Phase I MANs, the minimum annual payment for 2008 was €245,000, €325,000 for 2009 and from 2010 onwards €845,000. He added that, in addition, the MSE must fund enhancements to the existing MANs from its own revenue, even though the infrastructure would remain in State ownership and that in 2008, the MSE had invested €60,000 in network enhancement. Taken together, during 2008, the State's investment in Phase I of the MANs resulted in a return of €805,000 through revenue sharing and network enhancement.

General Observations of Accounting Officer

23.26 The Accounting Officer summarised the current and future role of MANs as follows

- the networks have played an important role in incentivising the roll-out of broadband, both directly and indirectly, in Ireland since 2002
- the MANs facilitate competition in the MANs towns. Eircom, the dominant entity in the telecommunications market, had reacted to competitive threats but such competition has had positive impacts
- the MANs have had a positive impact in terms of driving foreign direct investment into regional cities and towns
- the rolling out of future proofed networks would always, in the early years of such networks, feature excess capacity, which could be viewed as under utilisation but was consistent with an approach of putting infrastructure investment in ahead of demand
- developments at international and EU level highlighted Ireland's vision with the early deployment of fibre under the programme. A variety of recently published documents were evidence that the MANs were a solid investment in the right technology whose time has come.

23.27 He stated that Government's policy objectives in the electronic communications market were not just broadband availability but also its quality and speed. Future interventions by the State in broadband would be governed by the consultation paper "Next Generation Broadband - Gateway to a Knowledge Ireland" which was published in June 2009. This paper underlined the importance of investment in high speed next generation broadband networks. There was a very clear trend in the demand for bandwidth which underpinned the need for optical fibre deeper in the service providers' networks. The MANs were well placed to meet that emerging demand.

23.28 The consultation paper indicated that this investment would primarily be undertaken by the private sector but that there were important roles for the State both in relation to appropriate regulation and for targeted investment.

23.29 The conclusions of the June 2008 review report had been brought to the attention of Government and the recommendation and evaluation criteria set out in it would be taken into account in any decision by Government to construct new networks.

23.30 The Department was satisfied that in relation to networks already constructed the two MSE agreements into which it had entered would promote the viability of the existing network.

Conclusions

The total State investment in Phases I and II of the MANs programme amount to almost €180 million.

The €78 million expended on the construction of Phase I MANs and the expenditure of approximately €98 million on Phase II prior to its suspension are considered to be sunk costs and further investment aimed solely at increasing the usage of existing MANs is considered unjustified. The Department has confirmed that the June 2008 review recommendations are being implemented for current and future projects.

Customer demand has been weaker than anticipated. While it is stronger in areas of higher population, in the case of approximately one third of Phase I networks, there has been little or no demand to date.

The lack of an alternative network infrastructure connecting MANs to wider networks prevents full exploitation of the MANs by the MSE and the contracting service providers.

The slow growth in customers and revenue sharing agreements in place with the MSE, suggest that there is little prospect of a significant monetary payback for the State's investment in the short to medium-term.

Chapter 24 Department of Agriculture, Fisheries and Food

Organisational Performance in the Department of Agriculture, Fisheries and Food

Organisational Performance in the Department of Agriculture, Fisheries and Food

24.1 State bodies, in order to perform to the highest standards need to have the capacity to respond to changes in their operating environment, base decisions and actions on evidence grounded in complete and accurate information and measure achievement openly and transparently so as to allow them to continuously adjust their delivery mechanisms.

Audit Focus

The Department of Agriculture, Fisheries and Food has been at the forefront of developments in these areas including volunteering to participate in a pilot organisational review initiative. It provides an example of the extent to which investment in financial systems and improvements generally are feeding into changed management practices and increased capacity on the ground. The audit, therefore, sought to review

- whether the Department's capacity as assessed under the pilot organisational review process was adequate to deliver on its mandate
- the extent to which investment under the Management Information Framework (MIF) has improved financial and performance management and reporting
- whether Output Statements produced by the Department give a reasonable view of its output and performance.

The Organisational Review Programme

24.2 A pilot Organisational Review Programme (ORP) has been carried out in three Departments to examine their capabilities to lead and deliver focused public services into the future. The intention of the ORP is to look at the operation of Departments as a whole, both to give assurance about their overall performance and to identify any scope for improvement. The Department of Agriculture, Fisheries and Food (the Department) was one of the Departments that engaged in the pilot.

24.3 The pilot review addressed the Department's capability in terms of

- how well it is positioned to set the strategic direction of the Department
- how well it delivers its existing services
- how well it addresses its effectiveness and uses feedback and results to guide its actions.

Organisational Strengths

24.4 The review found that the Department is well equipped to address its existing mandate and provide advice and coordination. It was rated as particularly strong in the following respects

- It was assessed as well placed to meet future challenges and develop strategy for the traditional agri-food sector and ensure that there is a shared understanding among its stakeholders within that area.
- It has developed a good knowledge and understanding of the sector.

- In managing delivery, it has a strong focus on customer service and approached some delivery areas with innovative use of ICT.
- It has good relationships with the bodies under its aegis.

24.5 Overall, the review found that the Department had excellent knowledge of its sector and of the EU policy process and that its knowledge was being used, together with the views of its main stakeholders, as an input into policy and strategy formulation.

Scope for Improvement

24.6 The report concluded that, in order to respond to future challenges the Department needs to develop its capacity in three main areas

- improve its skills in dealing with cross-cutting issues and with new stakeholder groups
- place a greater emphasis on efficiency in managing staff resources and on improving HR practices and on developing internal leadership
- develop and use metrics, in particular output and outcome measures to assist in addressing efficiency issues.

24.7 The Department was seen as being most comfortable when dealing with issues within its immediate remit. It was assessed as considerably less effective in the case of shared initiatives led by another department or agency. Climate change and food safety were identified as cross cutting issues needing attention by the Department.

24.8 In the area of human resource management, while the central location of MAC members promoted collegiality, the review found that it militated against direct contact with staff and local management reducing impacts upon communications, oversight of work within divisions and team building. It also found that consideration needed to be given to the physical planning of new buildings to maximise leadership.

24.9 The review noted that the primary focus was on measuring activity with little evidence of assessment of the cost effectiveness of outputs. The Single Payment System (SPS) for farmers has resulted in a reduction in the workload. A greater use of metrics would provide a sharper focus on staffing requirements as work changes, enabling a better workload balance to be developed.

24.10 Based on those findings the review identified the key areas where there is scope for the Department to build the capacity of the organisation further. These areas are outlined in Figure 87.

Figure 87 Scope for Capacity Building

Capacity Area	Scope to Build Capacity
Giving Leadership	Substantially strengthen internal leadership capacity, especially human resource management and internal communications.
Shared Understanding	Develop better ways of dealing with issues where responsibility is shared with another Department or body (cross-cutting issues).
Improvement and Innovation	Implement the structural change required to meet future challenges. The review noted that a number of reports had been completed that address structures and staffing which would involve major change for the Department.
Resource Management	Improve productivity in the deployment and use of resources.
Governance	Develop better structures and approaches to internal governance. A greater focus on broader external governance issues e.g. standardising performance dialogue with agencies would be helpful in meeting the challenges of a changing environment.
Performance Measurement	Develop effective output and outcome indicators so that, in addition to tracking activity, success in achieving its objectives can be measured.
Customer and Stakeholder Feedback	Further develop its engagement with new stakeholders and develop structures and a culture in which staff feedback is sought and acted upon.

The Management Information Framework

24.11 The aim of the MIF, introduced in 2000, was to provide Departments with a system of financial management built upon performance and output measurement with the objective of improving decisions on the allocation and use of resources through enhanced management information and reporting.

24.12 My Office reviewed the status of development of management information and reporting. A summarised indication of the findings is presented in Figure 88 which rates the Department's progress in generating and exploiting information relevant to output and performance measurement and management.

Figure 88 Generation and Use of Management Information

Area	Availability	Quality	Use
Financial Information	1	2	2
Performance Information	2	3	2

Rating Key

- 1 Good – Fully or Substantially meets the criterion.
- 2 Adequate – Addresses most aspects of the criterion with some limitations.
- 3 Limited – Partially or does not meet the criterion or significant limitations exist in a substantive area.

24.13 Overall, the review found that while the management information systems adequately support financial reporting there is considerable scope to exploit them to improve management

information and performance measurement. This also accords with the findings of the ORP review in the area of performance measurement.

Financial Information and its Use

24.14 The Department uses a proprietary financial accounting package to support day-to-day financial transaction processing and assist in the generation of management accounting information and the production of the year-end financial accounts. The system fully supports the production of the annual Appropriation Account.

24.15 Overall, the system is strong on meeting the statutory reporting requirements but needs to be exploited more for management accounting in a way that focuses on commitment management and accrued costs.

24.16 Monthly cash based reports are submitted to all Management Advisory Committee (MAC) meetings which take place roughly twice monthly. The material in the reports is used for general review of overall financial management in the Department.

24.17 The Accounting Officer has stated that enhanced accrual information is used in decision making and discussions at the MAC, with the Minister and at senior management fora. These meetings regularly and systematically focus not only on cash based reports, but also on trends, the level of commitments and liabilities arising from scheme and programme implementation and the financial implications for current and future years.

24.18 The Accounting Officer assured me that there was also an acute awareness of the capital and current elements in the Vote and during 2007 and 2008 the Department provided bi-monthly reports on the execution of its capital envelope to the Government.

24.19 By way of support to the MAC, the Department has a dedicated Finance Division whose core function is to monitor developments on an on-going basis and to actively manage the Vote in close consultation with line managers and senior management.

24.20 Overall, there is an interrelationship between the quality of the information that is available and its potential use in decision making. It is clear that the Department has good management structures to utilise the information generated. However, its capacity to use relevant information is somewhat hampered by the absence of structured reports on accruals and commitments.

Performance Information

24.21 Annual Business Plans are prepared by each division within the Department. Each Business Plan sets out three key targets for the division and a number of key related performance indicators by which progress and achievement against the targets are measured. However, at this stage in the development of the Department's performance management system, targets are usually described in the form of proposed actions rather than as specific quantified measures of what is to be achieved. The related performance indicators are, consequently, broad descriptions of what has been achieved.

24.22 The Accounting Officer noted that the Department had devoted some considerable effort to developing and improving the preparation of role profiles at the level of the individual, through to divisional business plans and the Department's Statement of Strategy. In many cases the indicators used at divisional level included specific and quantitative elements, though in other areas, for example those dealing with policy development, this was more difficult. Performance Indicators for the policy areas of the Department tend to be set as objectives or activities, for example, 'engage in EU negotiations'. He accepted that it was always possible to improve the

specificity and measurability of indicators. With this in mind, his Department had provided MIF training to Heads of Division in 2006 with a view to re-writing performance indicators at divisional level. It has been working on an ongoing basis to improve performance indicators and he believed that the Department had made considerable progress. He assured me that the Department would continue to review and improve its performance indicators.

24.23 More refined costing of services could aid decision making in regard to resource deployment and position the Department to evaluate the effectiveness of its operations. A practical example of this process is the way the Department has utilised the MIF system to participate in an exercise by Paying Agencies in EU member states and an evaluation by the EU Commission of the costs of control of EAGF Schemes generally.

24.24 In general, while recognising that the Department is constrained by EU and other legislative requirements to undertake minimum levels of inspection under the SPS and that these obligations narrow considerably the scope for cost reductions through staff deployment, better costing of the inspection services could allow it to determine the optimum level of testing consistent with EU requirements and the appropriate mix of checks and timing of that work.

Inspection Activity

Around €12.1 million per annum is spent on inspections of agricultural facilities. These inspections focus on two main concerns

- whether farmers are entitled to single payments and
- whether they have complied with statutory management requirements and requirements to maintain holdings in good agricultural and environmental condition (cross-compliance).

Most on-farm inspections cover both. The Department has estimated that approximately 60% of the activity relates to cross-compliance. However, it has not attempted to refine its costing methods in order to get a better picture of the cost of inspections and relate them to the outputs and outcomes. There is scope to use activity based costing to establish the existing costs and use the outcome to set norms for the number and type of inspections.

24.25 The Accounting Officer assured me that there was ongoing evaluation and review to provide the most efficient service delivery, and instanced reductions effected in overtime and travel costs as an outcome of this monitoring.

24.26 A more refined system for forecasting commitments using a standard costing approach could assist the Department to manage and control liabilities arising from grant approvals under various schemes.

Forecasting Programme Cost

The results of examinations of the Farm Improvement Scheme and the Farm Waste Management Scheme are reported in Chapter 25 and Chapter 26. A common concern in both schemes is the extent of liabilities which can arise due to an inability to determine commitments under the schemes. In cash limited and time bound schemes there is a need for a more refined method of gauging financial commitments perhaps by creating a forecasting model using standard costs for different claim types.

24.27 The Accounting Officer noted that all future schemes were likely to involve cash limits on overall expenditure and that he was acutely aware of the need to manage available funds to best

effect and was determined to ensure that the necessary rigour would be applied in future to forecasting.

Reporting Results to Management

24.28 An essential feature of the MIF was that it should provide periodic reports to all levels of management using both financial and non-financial information which would enable managers to systematically monitor and improve performance, provide for better management of resources and assist decision-making.

24.29 Performance reports, comprising financial and non-financial data by Division, are routinely published on the Department's intranet. Because the system operates in real-time, performance against budget can be reviewed by Divisional Management on an ongoing basis. The reports are only presented to the MAC on an exception basis. It is recognised, however, that due to the number of Divisions, it would not be feasible for the MAC to consider these reports on a routine basis.

24.30 In regard to the use of information generated by its new financial systems the Accounting Officer pointed out that the Department conducted Value for Money Reviews and its Management Services Division made extensive use of both financial and non-financial data to determine metrics related to the scale and cost of operations, the level of cost recovery. That division also examines alternative business process models designed to increase efficiency and deliver net cost savings. Recent and ongoing examples included

- a review of certain operations in the SPS, due for completion in December 2009 which would identify the optimum staffing level for that scheme
- a Veterinary Public Health Information Systems Report dealing with the ongoing decline in levels of cost recovery and how this might be addressed
- a review of the Inspectorate staffing within Integrated Controls Division and Agricultural Environment and Structures Division, currently being finalised, which was examining the appropriate staffing levels following an analysis of current and expected workloads.

Conclusions – Management Information Framework

Overall, the system could be further exploited by

- specifying targets and indicators in quantifiable terms
- using the enhanced system to derive costing information to aid resourcing decisions
- introducing a formal review process above the level of divisions, perhaps on a cyclical basis and
- formalising the governance and management routines associated with performance reporting.

Output Statements

24.31 The Annual Output Statement (AOS) is a relatively new development and is intended to facilitate Dáil scrutiny of the annual estimates of expenditure. It was considered for the first time, along with the Departmental estimate for 2007. The Department prepares the AOS in accordance with a template provided by the Department of Finance. This was amended following a feedback meeting with Departments in light of the experience with the 2007 statements.

24.32 The Department's AOS reports activities under five programmes – four of which relate to departmental activities and the remaining one which relates to support services. The programmes and the outturn expenditure for 2008 are shown in Figure 89.

Figure 89 Programmes and Expenditure 2008

Programmes	Outturn
	€m
Agri-food and Fisheries Policy, Trade and Development	358.6
Food Safety, Consumer Protection, Animal Health and Welfare, Fish and Plant Health	363.0
Sustainable Development of Rural and Coastal Economies and the Natural Environment	1,033.7
Payments and Customer Service	1,805.1
Operational Capabilities and Public Service Modernisation ^a	–
Total (Voted and Non-Voted)	3,560.4

Note:

- a Resources associated with this Programme are redistributed on a pro-rata basis across the other Programmes.

24.33 The AOS attempts to link the Department's strategy with its financial outlay and output. It does this once each year for its key programmes. Because they are highly aggregated the programme output measures are necessarily broad in nature. It is recognised that the AOS prepared by the Department conforms to the template laid down by the Minister for Finance. However, it was considered useful to review it against key criteria for good performance reporting. These may assist in any future consideration of the development of statements generally. Figure 90 summarises the findings.

Figure 90 Output Statement Review 2008

Key Criteria for Output Reporting	Rating		
	1	2	3
Alignment with Vote	✓		
Alignment with Strategy 2008-2010	✓		
Consistency between Financial Input and Human Resource Measurement			✓
Consistency between Measurement of Input and Output			✓
Quantified Measures and Indicators Used		✓	
Impact Indicators Reported			✓
Balance between Delivery/Change Management in Programmes		✓	

Rating Key

- 1 Good – Fully or substantially meets the criterion.
- 2 Adequate – Addresses most aspects of the criterion with some limitations.
- 3 Limited – Partially or does not meet the criterion or significant limitations exist in a substantive area.

24.34 Because all activities, including those funded by Vote and non-Vote sources, are presented under five programmes each programme covers a wide range of services and activities. Programme descriptions generally categorise activities appropriately and align with the high level goals in the Department's Statement of Strategy.

24.35 Payments and customer service constitutes a single programme under the AOS. Although it is recognised that the bulk of customer payments are made under the SPS the aggregation of all delivery activity into a single programme tends to militate against performance measurement.

24.36 In regard to the outcome of change management the Accounting Officer has pointed out that in recent years the Department had reduced its staff numbers by 700 and redeployed a further 500 to new areas of work. It has an on-going commitment to further reform and improve efficiency including a plan to rationalise its local office network.

24.37 While outturn against budget under each programme is reported, there is no commentary on the reasons for variances and there is no clear linkage between resources used and the actual outputs achieved. In addition, no reasons are provided for changes to estimates from one year to the next.

Conclusions – Output Statements

In the future development of output reporting, there is scope for development of output statements generally through

- Achieving a better match between the recorded inputs and the outputs. Ideally inputs should be accrual based rather than cash based and thereby better reflect the cost incurred in generating the outputs.
- In addition, it would be useful if some measures of impact were reported so as to give a measure of achievement of the stated objectives.
- While much of the work of the Department involves change management, the consolidation of all delivery and customer service activity into a single delivery programme militates against a fair view of service performance
- Some programmes like food safety involve cross-departmental activity. It would be useful to have subsidiary output statements for key cross-cutting programmes so as to transparently show the total State input and the service delivered for resources expended on those cross-cutting programmes.

Overall Conclusions

Organisational Reviews are clearly worthwhile. They have the practical advantage of assessing the benefits that flow from investment over the years under the banner of the Strategic Management Initiative while giving a composite view of a Department's ability to address its functions and highlight areas where it needs to build capacity. The review of the Department of Agriculture, Fisheries and Food has highlighted strengths the Department can build on and areas where it needs to improve.

The Department is taking steps to improve its financial and management reporting. The results of the review of this particular Department suggest that there is considerable scope to exploit the investment in MIF through

- more refined reporting on commitments and accruals
- designing summary reports for management which provide information for decision making and resource allocation
- attempting to increase use of quantified indicators and measures
- improving forecasting capacity
- exploiting the information, especially accrual based, to improve the AOS so as to more accurately match input costs with output achievement
- producing output statements for cross departmental work like food safety regulation so as to transparently match the cost and outputs associated with such work.

Recent Developments

24.38 The government has decided that the format of the 2009 AOSs should be refined so that they are more focused on the important 'headline' outputs rather than on internal processes and activities and that administrative costs should also be clearly shown alongside each programme with which they are linked.

24.39 The Department of Finance is encouraging all Departments to give greater attention to the quality and relevance of the output indicators used in the AOS, and work is progressing to improve and standardise AOS indicators, having regard to best international practice. It has also signalled that, as set out by government in its statement on Transforming Public Services, work will proceed on the preparation of a integrated Annual Report (covering both input usage and output delivery) by each public body as a basis for a comprehensive Oireachtas scrutiny, and the system for measuring and reporting outputs will be subject to external validation.

24.40 Public Service performance issues are also addressed in two key reports relevant to the further development of the Irish Public Service

- 'Towards an Integrated Public Service' (OECD 2008)
- 'The Special Group on Public Service Numbers and Expenditure Programmes' (2009).

Chapter 25 Department of Agriculture, Fisheries and Food

Farm Improvement Scheme

Farm Improvement Scheme

25.1 The Farm Improvement Scheme (FIS) is part of a measure to modernise agricultural holdings. €79 million of the overall measure provision of €85 million was allocated to this scheme within the Rural Development Programme 2007-2013 (RDP). Although the measure extends over seven years, all assistance was approved at scheme commencement. €12.9 million had been paid out by 31 December 2008.

25.2 The objectives of the scheme are

- to improve working and production conditions on farms
- to assist competitiveness and
- to contribute to the improvement of agricultural incomes.

25.3 A wide range of investments are eligible for assistance including expenditure by farmers on animal matting, fencing, mobile handling equipment and new structures. The maximum amounts of investment eligible for grant aid under the scheme are

- €120,000 per holding for investments in new structures and equipment for all sectors
- €120,000 per holding for investments on dairy and milking parlour structures
- €20,000 per holding in total for fencing⁷⁸
- 10% additional grants in certain cases for applicants that are qualifying young farmers i.e. under 35 years of age.

25.4 The focus of the scheme altered in the course of its design phase. The RDP pre-approval evaluation carried out in 2006 identified the likely target group for measures including FIS as *'commercial farmers, mainly full time and actively engaged in the management and development of their farm as financially viable enterprises'*. The intention was that the holding would be *'above average in size, heavily capitalised and engaged in intensive forms of agriculture'*. Teagasc estimated that in 2007 approximately 32.5%⁷⁹ of all farms fell into the full-time category. The target group for the FIS, according to the terms and conditions of the scheme, announced six months later, included both full-time and part-time farmers.

25.5 Ultimately, in its implementation the scheme only applied income criteria to a small number of cases. The percentage of total investments supported by FIS up to 31 December 2008 represented by intensive enterprises was less than 1%.

International Comparators

25.6 Within the common EU framework, each country decided its national strategy and national RDP and had considerable latitude in the focus and design of schemes under the Modernisation of Agricultural Holdings measure⁸⁰.

⁷⁸ The €20,000 investment ceiling for fencing is subject to the general €120,000 investment ceiling for investments in new structures and equipment and is, in effect, an investment sub-ceiling.

⁷⁹ Teagasc National Farm Survey 2007, 32.5% or 36,400 farms, page 11.

⁸⁰ Council Regulation EC 1968/2005.

25.7 In Ireland, the measure targets the major agricultural sectors, groups and investments and has a maximum grant size of €6,000 per beneficiary over the period 2007-2013, with higher grant amounts being available to qualified young farmers.

International Comparisons

In **Scotland**, capital investment grants are awarded by a regional committee after competitive business case based assessments taking into account local rural priorities. Total funding for the measure for the RDP period is approximately €6 million. The maximum grant available is €365,000. Applicants are asked to indicate what change they expect the investment will make to their business and also to specify which scheme objective their investment helps achieve. This subsequently makes it easy to collect data on these metrics and assess scheme impact.

In **Denmark** the equivalent scheme has a minimum grant amount of €40,000, total funding of €76 million and expects to assist 315 farms over the seven-year period. Selection of projects is carried out by a committee appointed by the Department of Agriculture. Objectives are explicitly based upon value for money parameters.

In **Finland** a similar scheme to the FIS operates. However it prioritises the beef and dairy sectors and bio-energy projects. It has a total funding over the period of €15.2 million and aims to assist 1,000 recipients. The maximum grant amount is much larger than under the FIS at €504,000. The whole country qualifies for Less Favoured Area Status (the equivalent of disadvantaged areas in an Irish context).

Views of the Accounting Officer

25.8 The Accounting Officer stated that the RDP identified the beneficiaries of the scheme as being all eligible farmers, subject to compliance with minimum educational requirements or farming experience. Thus the terms of the scheme, when introduced, encompassed a wider range of farmers than identified in the pre-approval evaluation. The policy of the Department was not to discriminate between full and part-time farmers when determining eligibility for schemes. This was in line with the main recommendations of the Agri Food 2010 and the Agri Vision 2015 Reports.

25.9 While the Agri Food 2010 Report stressed that agricultural policy must be framed with a full understanding of the differing needs and capacities of full and part-time farmers and in light of the challenging environment which farmers would face in the future, it recommended that there should be no distinction made between full and part-time farmers in terms of eligibility for schemes. The Agri Vision 2015 Report strongly supported this strategy and recommendations.

Scheme Structure and Commitments

25.10 The scheme was cash limited. As a result, approvals would issue for applications which met the eligibility criteria on a 'first-come, first-served' basis, until the cash was absorbed. The Department found that the scheme was quickly oversubscribed and had not anticipated the rate at which applications would be submitted or that the total funding under the scheme would be exhausted at an early stage. A large number of applications were received within a short timescale and, in conformity with the conditions of the Department of Finance sanction and the overall cash based limit of €85 million, the Department closed the scheme to applications on 31 October 2007 at which point 12,675 applications had been received.

Audit Concerns

There was a risk that

- Applications received after the cash limit of the scheme was reached but before scheme closure could give rise to contingent liabilities in respect of an estimated €63.9⁸¹ million of properly submitted and qualifying applications, if all such applications were approved for payment.
- Requesting applications for grants that the Department would not have the funding to pay for, until several years after their submission, could give rise to non-effective expenditure in that the circumstances of the applicants could change significantly over the period.

Views of the Accounting Officer

25.11 The Accounting Officer stated that applications received before the closing date but not yet processed due to the cash limit are being held by the Department and would not be processed unless further funding became available for the scheme. The terms and conditions of the FIS made it clear that the scheme would be closed for new applications when the funding was exhausted. He went on to say that the National Development Plan 2007-2013 made it clear that all expenditure was contingent on the ability of the State to fund investment priorities. The Department's position was that as approvals had not issued there was no contingent liability. However, these applications were now the subject of legal proceedings by one of the farm representative organisations.

25.12 The Accounting Officer stated that the Department could not have anticipated the rate at which applications would be submitted under the FIS or when the available funding would be absorbed by grant approvals, particularly against the background of the level of participation in the Farm Waste Management Scheme. A substantial number of farmers had been approved for on-farm investments under that scheme and would have been planning or actively engaged in farm building activity in respect of projects under that scheme. The level of applications under the FIS contrasted sharply with the actual level of activity under the scheme in 2008 when €12.9 million was paid in respect of 2,513 claims. The norm was that farmers apply for funding in respect of various projects but due to changed family, business or financial circumstances, they might decide not to proceed. The Accounting Officer stated it was not possible to anticipate such developments when grant approvals issue.

25.13 In regard to the up front allocation of all funds for the seven year period the Department considered that the operation of the scheme on an annual basis, with an annual budget, would have generated large numbers of repeat applications and on-going administrative problems with the value of applications exceeding the funding available.

Scheme Administration

25.14 Although the scheme is cash limited, the Department does not cost the applications it approves for this and a number of other schemes. Instead it estimates the value of applications based on sampling and in this instance it concluded that applications received before 21 October 2007 would absorb the entire budget. 7,347 applications for grant-aid had been received by the Department by that date. This method means that commitments cannot at any time be precisely determined. In practice, however, approvals set out the nature of the project which is being grant

⁸¹ This figure is based on the number of claims received after the estimated cut-off date of 21 October but before the closing date of 31 October 2007 multiplied by the average grant amount in that period.

aided and when taken together with the standard costings effectively allow the Department to project the amount of grant aid being approved. Subsequently, the Department carries out on-farm visits in respect of all applications prior to payment. Applications which involve the construction of buildings receive a pre-approval inspection.

25.15 At the payment stage, grants are determined on the basis of the eligible receipts furnished by the farmer or standard Department costings, whichever is the lesser.

25.16 The timing of payments is influenced by the Department's scheme procedures, which usually require successful applicants to draw down the funding within two years of approval and also by commitments under the Charter of Rights for Farmers 2005/2007 which sets time limits for administration and payment under Departmental schemes. Each application form was required to be supported by details of the new investment, location maps, planning permission (where relevant), notice under section 12 of the Water Pollution Act, 1977 (if applicable) and a declaration by a qualified agricultural advisor of the veracity and viability of the application.

Audit Concern

The compression of funding into the early years of the scheme has the merit of improving the prospect of the investment achieving an early payback. However, since investments were approved based on the timing of receipt of applications rather than on foot of business cases specifically linked to scheme targets there is a risk that value will not be optimised.

Views of the Accounting Officer

25.17 The Accounting Officer stated that a requirement for a business case for each investment was not provided for in the Rural Development Programme 2007-2013, had not been the practice in the operation of grant schemes in the past and had not been advocated in the reviews of either of the schemes integrated into FIS, namely, the Dairy Hygiene Scheme and the Farm Waste Management Scheme. The practice had been to determine the eligibility criteria for the scheme in order to direct aid towards the targeted beneficiaries and to issue approvals to eligible applicants subject to financial and timing constraints. While detailed assessment criteria were applied in cases where funding was confined to large scale projects or a small number of projects, e.g. marketing and processing grants in the food industry, it would have been impractical to evaluate and assess individually the large numbers of applications under schemes such as the FIS. However, he added that a business case requirement would be considered by the Department whenever further funding was allocated to the Department's on-farm investment schemes.

Scheme Monitoring

25.18 All applications are received in local offices and each file remains in the local office throughout the entire grant application, inspection, approval and payment process. At a national level, the Department collected information on herd number, date of application, a brief description of the investment applied for and the county. Consequently, management information processed by the Department was limited. However, a management information system has subsequently been built.

25.19 Scheme evaluation is hampered because there is no built-in linkage between investments and the higher-level RDP targets.

25.20 State schemes should, to the extent possible, lever investment that would not otherwise take place. Farmers who waited to see the terms and conditions of the scheme before applying for

planning permission were unlikely to have it before the scheme closed, 111 days later. Consequently, a considerable portion of assistance is likely to be paid to farmers who had applied for planning permission in advance of the scheme and would, therefore, have been likely to invest without State assistance.

Audit Concerns

Management information and performance reporting appeared to be inadequate in that the Department was not positioned to

- measure the impact of the FIS as a standalone scheme
- ensure payments are to the extent possible only made to holdings that needed grant assistance to induce the related investment.

Views of the Accounting Officer

25.21 The Accounting Officer stated that because of the scale of activity under the FIS and other similar schemes, the process of examining and assessing applications, issuing approvals, carrying out inspections and certifying claims for payment was administered through the Department's local office network. The process was carried out on the basis of uniform procedures throughout the system. The Department followed the approach laid down in the RDP in regard to the assessment of applications received under FIS. The organisation and structure of the local office network were currently under review and future management information requirements would be considered in that context.

25.22 The Accounting Officer stated that the impact of the FIS was evaluated in combination with related measures in accordance with the performance indicators laid down in the RDP as a whole. These indicators had been reviewed and agreed by the EU Commission as part of its approval process.

25.23 The Department considered it would be quite difficult, particularly in the case of a scheme as substantial as FIS, to ascertain the level of deadweight⁸² at grant application stage. However since the scheme was now in operation for a period of over one year, the Department felt that it was appropriate to conduct an assessment of the extent to which the expenditure grant-aided under FIS comprises deadweight and would do so shortly.

25.24 The Department did not accept the assertion, that farmers applying for planning permission in advance of the introduction of FIS, was an indication of deadweight. It was standard practice amongst farmers, together with their agricultural advisers, to apply for planning permission on several items of investment at one time in order to reduce costs and this practice was also encouraged by the planning authorities themselves. In addition, the introduction of FIS was signalled widely before the date of its introduction and farmers would have been aware of the need for planning permission to satisfy scheme conditions.

⁸² Deadweight arises where a project would have gone ahead even in the absence of State support.

Conclusions

A strength of cash limited schemes, from a financial management perspective, is that they ration a defined State allocation. The “first-come, first-served” basis of limiting access to grants is, however, a crude tool. While recognising that applicants who were grant-assisted met defined criteria, these schemes do not necessarily ensure best value, unless coupled with other selection mechanisms, including some form of cost/benefit analysis. The Department should give consideration, in future schemes, to using an additional selection mechanism, after minimum standards have been reached, to ensure optimum value for money.

The eligible pool of applicants was larger than in predecessor schemes, due to the removal of income limits and the amalgamation of several previous schemes. There were no alternative restrictions placed upon the size of the target group in order to cut down the numbers applying for this scheme. The Department should consider ways of better targeting this type of scheme, linking likely demand, scheme structure and funding. In the absence of a clear target population another mechanism should be sought for limiting scheme access, designed to promote best value.

The Department did not consider operating the scheme on an annual basis which could have allowed better sequencing of the Agricultural Inspectorate workload and Exchequer financial commitments. The Department should consider mechanisms to smooth both workload and financial commitment over the full term of a scheme.

The Department may have a contingent liability for applications received after the cash limit was reached but before the scheme closure date. The Department should ensure future schemes are designed so that there is no ambiguity about qualification for grant payment.

Overall, the scheme should be evaluated to determine the extent to which the scheme objectives have been achieved and whether the State funds have levered new on-farm investment. International comparisons should be factored into any such evaluation.

Chapter 26 Department of Agriculture, Fisheries and Food

Farm Waste Management Scheme Liabilities

Farm Waste Management Scheme Liabilities

26.1 The Department launched a Farm Waste Management (FWM) scheme in March 2006. The aims of the scheme were to help farmers to meet the requirements of the EU Nitrates Directive by reducing pollution from agricultural sources, and to meet the environmental obligations arising from their participation in the Single Payments Scheme.

The Nitrates Directive

The Nitrates Directive was adopted in 1991 and has the objective of reducing water pollution caused or induced by nitrates from agricultural sources. In March 2004, the European Court of Justice ruled against Ireland for failing *inter alia* to adopt a Nitrates Action Programme under the Nitrates Directive. Following these proceedings, the EU Commission indicated that if agreement could not be reached on the implementation of the Nitrates Action Programme, Ireland faced the prospect of further European Court of Justice proceedings that could result in the imposition of daily fines and the possibility of a substantial lump sum fine.

In response to the judgment, Ireland introduced a national Nitrates Action Programme and this was given statutory effect by regulations made in 2006. These regulations provided strengthened statutory support for the protection of waters. Implementation of the programme was supported by an enhanced package of financial supports for farmers by the Department, including the Farm Waste Management Scheme.

New nitrates regulations were signed into law by the Minister for the Environment, Heritage and Local Government in 2009. These provide for further strengthened enforcement provisions and for better farm management.

26.2 The FWM scheme involved providing grant aid to farmers for investment in storage facilities for silage and agriculture wastes, animal housing, safety improvements and equipment for the application of farm waste. Aid was also available for conversions and roofing for existing structures.

26.3 The closing date for applications for grant assistance under the scheme was the end of December 2006. Applicants were allowed to submit certain supporting documentation up to 29 June 2007. Following receipt of completed applications and all supporting documentation, the Department assessed the planned improvement projects and issued grant approvals where the scheme conditions were complied with.

26.4 In order to qualify for payment, approved applicants had to complete all construction of structures by 31 December 2008. The Department agreed that where farmers had not completed all the approved investment works by the end 2008 deadline, payment would be made for discrete elements of the planned work that were fully completed to the Department's approved specifications. Incomplete elements of approved work were not eligible for grant assistance.

26.5 Figure 91 sets out the key dates for application processing.

Figure 91 Key dates for the Farm Waste Management Scheme

Action	Date
Closing date for receipt of applications	31 December 2006
Closing date for submission of supporting documentation	29 June 2007
Closing date for completion of works and submission of claims for payment	31 December 2008

26.6 Just under 48,600 applications for grant aid had been received by the closing date of 31 December 2006. By end June 2007, 46,000 applicants had provided all the documents required in support of their applications. A total of 43,000 applications were ultimately approved by the Department. An estimated 35,000 claims for payment were subsequently received in respect of completed works by 31 December 2008. Over 14,000 claims were received in the final month.

26.7 Payments made to 17,600 applicants under the scheme by end 2008 totalled approximately €549 million (see Figure 92) — an average grant payment of around €31,200. Recoupment from the EU in respect of the scheme amounted to €37.1 million. The scheme has been entirely Exchequer-funded since the end of September 2007.

Figure 92 Expenditure under the Farm Waste Management Scheme 2006-2008

Year	Scheme Expenditure €m
2006	21
2007	114
2008	414
Total	549

26.8 The ultimate cost of assistance, subject to the maximum amount of investment eligible for grant aid of €120,000 per holding, is only determined on claim submission and is based on invoiced or standard costs.

Legislative Provision for Deferral of Expenditure

26.9 In February 2009, the Government decided to discharge the outstanding claims over two years because of the state of the public finances. It was felt that the payment of the grant aid on a phased basis was a more equitable approach than paying only a portion of claimants in full, ensuring that each claimant received a significant proportion of their payment in 2009. The payment tranches decided upon were

- 40% of the outstanding grants to be paid in 2009
- 40% in January 2010
- 20% in January 2011.

26.10 An additional ex-gratia payment will be made to farmers whose grants under the scheme have been partially deferred. The payment, which will not exceed 3.5% of the value of the deferred instalments, will be made with the final grant payment in January 2011.

26.11 Section 12 (1) of the Financial Emergency Measures in the Public Interest Act, 2009 made provision for the Minister for Agriculture, Fisheries and Food to defer payment under the FWM scheme by making a statutory order. The Department indicated on 1 July 2009 that an order was being prepared and that it would apply to all claims under the scheme with effect from 1 March 2009.

Audit Focus

The audit set out to examine

- the liabilities and commitments under the scheme at 31 December 2008
- the arrangements for controlling expenditure under this scheme.

Accrued Liabilities

26.12 The accounting policies used in compiling Appropriation Accounts require the recording of accrued liabilities under grant schemes where the grantee has met all the requirements of the scheme but has yet to receive payment.

26.13 Accrued liabilities in respect of FWM scheme grants were estimated at €550 million at end 2008. This amount has been recorded as an outstanding liability in the Department's 2008 Appropriation Account. This projection is based on the assumption that the estimated 17,400 scheme claims remaining to be processed by the Department at the end of 2008 would result in average grant payments similar to those processed previously.

26.14 Under the payment approval arrangements for the FWM scheme, the Department must carry out an on-farm inspection in relation to each individual claim before payment of the grant is finally approved. At the end of December 2008, inspections had not been carried out in relation to most of the claims that remained unpaid. Consequently, the liabilities had not matured for payment at that stage.

26.15 Subject to the Minister making the order as indicated, payments under the scheme in the period 2009 to 2011 are projected as shown in Figure 93.

Figure 93 Projected Financial Obligations under the FWM Scheme 2009-2011

Year	Scheme Obligation
	€m
2009	220
2010	220
2011 (including ex-gratia payment)	121
Total	561

Control of Scheme Expenditure

26.16 The projected total grant expenditure under the scheme is €1.1 billion. No cash limit was applied to the FWM scheme at the time of its launch.

26.17 Grant ceilings were applied to individual projects under the scheme. The maximum amount of investment eligible for grant-aid was €20,000 per holding. In addition, a system of standard costs was applied as cost limits in relation to elements of proposed investments. Each claim submitted had to include receipts to support the claim, together with statements in relation to the value of own work and machinery used (if any) and other supporting documentation. The terms and conditions of the scheme provide for the payment of the lower of standard cost or actual cost incurred.

26.18 The Department prepared an initial estimate for expenditure under the scheme in July 2005, when it sought approval for the proposed scheme from the Department of Finance and under EU Commission State aid rules. The projected cost of €248 million was based on an assessment of the farm waste storage deficit in the country (i.e. the number of farms where improved facilities were needed to meet the requirements of the Nitrates Directive) and on the average cost of developing those facilities based on the experience of previous schemes.

26.19 The Department significantly underestimated the level of interest of farmers in the scheme, and the extent to which applications would be followed by completed work. The rate at which applications were received in the first months following the launch of the scheme in March 2006 was in line with the Department's expectations, but by November 2006, almost 18,000 applications had been received. In the final month for receipt of applications (December 2006), over 30,000 further applications were received.

26.20 The level of applications greatly increased the potential grant expenditure under the scheme. However, the Department still felt there was some considerable uncertainty about the likely expenditure, which ultimately would depend on the number of projects that would be completed during 2007 and 2008. It believed this would depend on a number of factors, including the availability of finance to applicants, market conditions for agricultural commodities and farmer confidence about the future of the sector, and the capacity of the then booming building sector to absorb the additional work in the timescale allowed.

26.21 By end November 2008, around 21,000 claims for payment had been submitted. However, the 14,000 claims for payment submitted in December 2008 brought the total number of claims under the scheme to about 35,000 — over 81% of the approved applications.

Conclusions

The total liabilities and commitments under the FWM scheme at 31 December 2008 amounted to €50 million. A subsequent decision to make an additional ex-gratia payment where instalments of scheme payments are deferred will add up to €1.5 million to the total expenditure.

The scheme was time limited and experienced a surge in applications in December 2006, which was the final month for farmers to apply. In such demand-led schemes, it may be worth considering establishing a cash limit or other such mechanism in order to manage commitments and avoid the risk of incurring expenditure that is significantly in excess of what is intended to meet the stated objectives of the scheme.

In addition, as in the case of the Farm Improvement Scheme, a more refined mechanism may be necessary to ensure that those projects that are assisted yield the optimum value in terms of the scheme objectives.

Chapter 27 Department of Transport

West-Link Buy-Out

West-Link Buy-Out

27.1 The M50 is a 40 kilometre orbital motorway around Dublin, running from the M1 at Dublin Airport to the N11 at Bray. A 3.2 kilometre section of the motorway, from the N3 (Navan Road) to the N4 (Sligo Road) includes two side-by-side bridges spanning the River Liffey (West-Link Bridge). This section of the M50 is a toll road that was built by National Toll Roads (NTR)⁸³ and operated and maintained by them since 1987. The first bridge opened in March 1990 and the second in September 2003.

27.2 Under agreements with the State, NTR had exclusive rights to operate and toll the bridge section of the M50 motorway until 2020.

27.3 Arising from increased traffic volumes the M50 motorway suffered from inadequate road lane capacity with bottlenecks at junctions and at the toll plaza. To address this, an upgrade scheme was developed which provided for widening to three lanes in each direction of 31 kilometres of motorway, the upgrade of ten interchanges and junctions and the development of an electronic ‘free flow’ toll facility.

27.4 In order to facilitate this development a decision was taken to buy-out the contract with NTR and run a tender competition to design, build and operate a new barrier-free tolling system.⁸⁴ Following this competition the NRA, in March 2007, appointed BetEire Flow (a consortium of two French firms) to design, build and operate the tolling system.

27.5 In the financial year 2008, €28.9 million was received from NTR in respect of M50 toll revenue and brought to account as appropriations in aid. Under the agreements with NTR an annual payment of the State’s share of the toll revenue was made by NTR to the Department in April each year in respect of the previous calendar year. An amount of €17.8 million was paid by NTR in April 2008 for the year ended 31 December 2007. As part of the buy-out arrangement it was agreed that the income due to the State from NTR for 2008 would be paid 75 days after the buy-out agreement came into force and this accelerated payment of €11.1 million was paid by NTR in October 2008.

27.6 As a result of revised arrangements put in place in 2008 any future M50 toll income will accrue to the National Roads Authority (NRA).

Audit Focus

The audit reviewed the arrangements for the buy-out.

Buy-Out of NTR Rights

27.7 Under the agreements with NTR, the State could abolish or reduce tolls or limit any increase in them. However, this would trigger compensation which under the terms of the agreement would, in the event of abolition, give rise to an annual payment equivalent to the total amount of toll revenue in the 12 months immediately preceding the date of the abolition of the tolls less the licence fee payable to the State. This annual compensation would be subject to adjustment in accordance with indexation provisions.

⁸³ Formerly West-Link Toll Bridge Ltd.

⁸⁴ Separate contracts were tendered to provide for the M50 upgrade works.

27.8 If the tolls were abolished with effect from 31 July 2008 and under the terms of the existing agreements the compensation payable would have been as set out in Figure 94.

Figure 94 Compensation Based on Toll Revenue, August 2007 - July 2008

Basis Period	Gross Toll Revenue (Cash and HGV Subsidy)	State Licence Fee Payable (% of Gross Toll)	Annual Compensation due to NTR ^a
	€m	€m	€m
August 2007-July 2008	68.63	21.52	47.11

Note:

a The annual compensation was payable until March 2020.

27.9 An alternative to implementing the strict terms of the agreement was to negotiate a separate arrangement with NTR under which a compromise figure would be payable in lieu of the rights under the agreements. This option was the course chosen and an annual sum of €50 million was settled for the remaining agreement term⁸⁵. The buy-out gave rise to a VAT payment by the NRA of €21.9 million in 2007. Further VAT payments estimated at €19 million will arise in the period 2009-2020 as will rates payable to Fingal and South Dublin County Councils. Rates paid in 2008 amounted to approximately €2.7 million.

Audit Concern

The State negotiated a stream of payments that was higher than that to which NTR would have been entitled in the event of toll abolition under the original agreements. In addition, cessation of operations would have reduced the fixed and operating costs of NTR. On the other hand, account had to be taken of the fact that the mere abolition of tolls would not eliminate NTR rights to the bridge section of the motorway.

Views of the Department and the NRA

27.10 In response to my enquiries in regard to the negotiations and their outcome the Accounting Officer explained that there were no provisions in the original 1987 West-Link Toll Bridge Agreement for its termination and no provision for compulsorily exercising a buy-out of that Agreement. Both the NRA's solicitors and Senior Counsel advised that there was no basis for implying such a right into the Agreement. Consequently, there were no grounds for asserting that there were contractual provisions, which could or should have been applied. The termination was negotiated by agreement and not enforced, or capable of being enforced, under any contractual terms.

27.11 The West-Link Agreement did, however, provide a basis for compensating NTR in circumstances where the State invoked a zero tolling clause but this mechanism still provided that the tolling rights in respect of West-Link remained with NTR. This clause was not exercised, as the State was not willing to forego the revenue from tolling. Those revenues were earmarked to contribute to the funding of M50 upgrade works and the cost of buying out NTR's rights.

27.12 The Accounting Officer considered that, in these circumstances, it would not be appropriate to compare the sum payable under the Agreement provisions on zero tolling with the amount

⁸⁵ The net present value of this payment is of the order of €488 million based on the amount for which NTR subsequently sold its right to the income stream.

negotiated for the buyout of NTR's interest (i.e. the termination of the Agreement) because the zero tolling option would have deprived the State of future toll revenue.

27.13 The Accounting Officer said that because the Government never intended to use this approach the full cost was not formally quantified by the State side in negotiations. Notwithstanding this, the basis of calculation of the €47.11 million in Figure 94 would have had to take account of a number of important elements in relation to traffic data counts and the heavy goods vehicle toll rates, which would have been applicable in such an event. The traffic volumes on the M50 at West-Link were suppressed in the period 2006-2008 by reason of the road works being carried out to upgrade the motorway. The extent of the suppression is estimated in the range of 4-11%. These elements alone brought NTR's own calculations for this option to a sum in excess of the €50 million per annum subsequently paid for the buy-out.⁸⁶

27.14 In his view, the ultimate price paid for the buyout reflected very closely the then market value of NTR's rights in the West-Link Bridge under the Agreements. This market value would have comprehended the fixed and operating cost savings accruing to NTR.

27.15 The Accounting Officer having noted that the terms of the agreement did not position the State to terminate it, went on to say that NTR had put the NRA on notice in late 2006 that, if the NRA decided to pursue the abolition of tolls under the Agreement rather than negotiate an agreed termination, NTR intended to increase the toll rates on the M50 to a higher rate, as was their entitlement under the Agreement (they had for commercial reasons been kept at a lower rate by NTR for some time previously). This would have raised the levels above those used in the calculation.

27.16 NTR refrained from implementing these increases on the basis that the NRA was not implementing an abolition of tolls. A subsequent change of approach on the State's part would not have avoided the application of the higher rates which would in turn have impacted on the calculation of the compensation payments.

27.17 The Accounting Officer's view was that if the NRA had abolished tolls the estimated cost to the State would have been well in excess of the €50 million per year agreed, in addition to the loss to the State of the toll revenue. NTR in its negotiation stance proposed the toll abolition clauses as a basis for negotiating settlement. Their figure, corresponding to the report's €47.1 million was as high as €54.6 million per year before indexing. On that basis, the Accounting Officer contended that the final deal agreed with NTR represented very good value for money taking account of the policy objectives being pursued (i.e. a very significant improvement to traffic capacity and flows on the M50) and the underlying legal situation.

Conclusions

In order to buy out the rights and entitlements of NTR under the West-Link Concession Agreement, the State will pay €50 million per annum indexed in line with movements in the consumer price index, over the period August 2008 to March 2020 and assume responsibility for VAT of the order of €140 million.

While there was provision for the reduction of tolls to zero in the Agreements, subject to compensation of NTR for lost revenue, there was no provision for outright termination. The absence of a termination clause hampered the State in its negotiations.

⁸⁶ While the State did not produce an estimate relating to zero tolling, NTR did, in fact, for negotiating purposes.

Chapter 28 Department of Defence

Mission to Chad

Mission to Chad

Background

28.1 In order to help create security conditions conducive to a voluntary, secure and sustainable return of refugees and displaced persons to their homelands, the United Nations (UN) established⁸⁷ a multi-dimensional presence in Chad and the Central African Republic.

28.2 The UN initiative consisted of

- A UN mission comprised of UN police, rule of law, human rights and other civilian officers
- A special Chadian police/gendarmes unit (some 850 personnel) dedicated exclusively to maintaining law and order in refugee camps, sites with concentrations of internally displaced persons and key towns, and assisting in securing humanitarian activities in eastern Chad
- An EU military deployment (EUFOR TCHAD/RCA) to protect and support the overall mission.

Irish Defence Forces Contribution

28.3 On 28 November 2007, Dáil Éireann approved the deployment of a contingent of the Defence Forces for 12 months as part of the EU military deployment.

28.4 The deployment entailed the Defence Forces putting in place all the logistical and equipment needs for the mission, transporting all personnel and equipment to Goz Beida in southeast Chad and constructing an operational headquarters there. In all, 269 containers, 105 vehicles and engineering plant were transported by air, land, rail and sea to Goz Beida, via Cameroon.

28.5 A contingent of 411 personnel was deployed, 371 of whom are stationed in Goz Beida, with an area of operations of approximately 76,000 square kilometres. Irish involvement began in January 2008, and was fully operational in May 2008.

28.6 The main sphere of operations – Chad – comprises an area the size of France, Spain and most of Germany combined. It is landlocked and nearly 2,000 kilometres from the nearest port facility with poor roads and infrastructure over which to transport personnel or equipment. Climatic conditions in the region are severe.

Audit Focus

The audit reviewed

- the cost of the Defence Forces involvement in the EUFOR Chad mission
- the arrangements put in place for air support and its procurement.

⁸⁷ UN Security Council Resolution 1778 (2007) of 25 September 2007

Mission Costs

28.7 Under the terms of EU missions, each country paid all its own costs in relation to troops and equipment deployed on the mission (including the cost of air support during the deployment) and contributed to the common costs of the mission – the costs of providing the operational and force headquarters and certain other approved infrastructure and facilities.

28.8 The additional costs to the Vote for Defence in respect of Defence Forces involvement in the EUFOR mission in Chad up to the end of April 2009 was €59 million. These costs exclude the normal pay and allowances of the personnel involved. The additional costs are set out in Figure 95.

Figure 95 Additional Cost of involvement in EUFOR mission to end April 2009

Description	2007 €000	2008 €000	2009 (to April) €000	Total €000
Allowances	84	11,723	4,228	16,035
Air Corps Equipment Expenses	—	316	—	316
Military Transport	1,751	6,204	233	8,188
Barrack Expenses and Engineering Equipment	1,501	4,106	67	5,674
Buildings	183	899	63	1,145
Ordnance, Clothing, Catering	5,205	4,598	248	10,051
Communications and Information Technology	1,371	504	96	1,971
Travel, Freight	35	13,491	1,066	14,592
Medical Expenses	109	991	125	1,225
Miscellaneous	—	64	—	64
Contribution to Common Costs	676	925	254	1,855
	€10,915	€43,821	€6,380	€61,116
Costs Recoverable^a				€2,200
Net Additional Cost				€58,916

Note:

- a Reimbursement of approximately €1.2 million and €1 million is due from the Netherlands Ministry of Defence and the UN, respectively, for supplies and services provided to them by the Irish contingent in Chad.

Procurement of Air Support to EUFOR Mission

28.9 Helicopter support was a requirement of the mission, due in part to the difficult terrain in Chad and the remoteness of the location as well as the requirement for casualty evacuation and the fact that helicopter support provides other significant military capabilities.

28.10 Supplies and services for peacekeeping missions, including helicopter support, are procured on the basis of competitive tendering either by the Contracts Branch of the Department of Defence or directly by the military authorities. The instruments which delegate budgetary control and responsibility for expenditure from the Secretary General to the Chief of Staff, provide that such procedures are carried out in accordance with current national and EU procurement directives, regulations, procedures and guidelines for public bodies.

28.11 Expenditure on the mission was monitored by the Department's High Level Planning and Procurement Group (HLPPG). This is a joint civil/military committee with a planning and oversight role. All contracts with a value in excess of €1 million must have its prior approval and contracts valued between €500,000 to €1 million must have the prior approval of a Working Group that supports it.

28.12 In March 2008, an offer of two helicopters from an aviation broker (Air Partner) was not availed of, as there was an expectation that helicopter support for the mission would be provided by EUFOR. In the event, this support did not materialise and the process of acquiring civilian helicopters was restarted by the Defence Forces on 10 May 2008. A contract with Air Partner for the lease of two helicopters for the period June 2008 to March 2009 was placed by the Defence Forces on 30 May 2008. The value of the contract was approximately €3 million. The procurement was processed in Logistics Administration Section of the Defence Forces which also signed the contract.

Suitability of Aircraft Provided

28.13 Air Partner is the provider of charter flights to the Defence Forces under a Framework Agreement established in 2007.

28.14 The Director of Operations of the Netherlands Defence Forces informed the Deputy Chief of Staff (Operations) on 24 August 2008 that the Air Operator Certificate for the helicopters was limited to the transport of cargo only.

28.15 The Secretary General of the Department consulted the General Officer Commanding Air Corps in relation to this matter. The Air Corps advice was that the helicopters provided under the charter were clearly limited to cargo operations and were not authorised to carry passengers. The contingent commander in Chad was ordered by the Chief of Staff to restrict the use of the helicopters to cargo and re-supply, emergency casualty evacuation and operational emergencies.

28.16 As a result of these issues, the Secretary General asked the Internal Audit Unit (IAU) of his Department to carry out a full audit on the placing of the helicopter contract. I have drawn on the report of the IAU in compiling my report.

EUFOR Mission Timeline

28.17 The timeline for the mission and the procurement events are set out in Figure 96.

Figure 96 Timeline of EUFOR Mission

Date	Event
21 February 2008	Mission commences in Chad
March 2008	Request to Air Partner to source helicopters for the mission
March 2008	Contracts Branch of the Department state that the existing framework agreement with Air Partner did not make provision for helicopter lease
10-20 May 2008	Sourcing of helicopters recommenced. Approval of Chief of Staff required for contract ^a
21/22 May 2008	Logistics Administration of Defence Forces HQ was asked to provide a written case ^b on the need for helicopter support and again the Contracts Branch advised that the framework agreement did not comprehend the lease of helicopters for an extended period
25 May 2008	Air Partner advised that it had sourced two helicopters and supplied details on costs and other contract matters
26 May 2008	Operational Commander EUFOR informed the Department that he was hopeful of getting EUFOR helicopters to Goz Beida
27 May 2008	Deputy Chief of Staff (Support) directed that the contracting process continue and that a brief on the main points of contract be prepared for the Chief of Staff
28 May 2008	Assistant Secretary advised Deputy Chief of Staff (Operations) that a specific case was required for the lease of helicopters
30 May 2008	Contract signed by Defence Forces with Air Partner for lease of two helicopters until March 2009
6 June 2008	Assistant Secretary informed by Deputy Chief of Staff (Operations) that Operations section was preparing a case for helicopters Contracts Manager informed Assistant Secretary that she had been advised at HLPPG Working Group meeting that a contract had already been signed on 30 May
11 June 2008	On learning that the contract for helicopters had been placed without the appropriate authority, the Secretary General revoked the delegated authority for expenditure of this nature
August 2008	Netherlands Ministry of Defence raised questions regarding certification of helicopters to transport personnel
September 2008	Transport of personnel was restricted after Air Corps advice
October 2008	One Helicopter damaged in Chad
14 March 2009	EUFOR mission completed – hand over to UN mission

Notes:

- a The Chief of Staff stated that... no contract would be signed without his having sight of the major details of the contract including costs. His guidance also provided that full liaison with the Department's Contracts Branch would take place.
- b The Contracts Manager in an email to Director of Administration stated that the Secretary General required a written case on the requirement for helicopter support and that the existing framework agreement with Air Partner did not comprehend the lease of helicopters for an extended period.

Audit Findings

Overall, the audit concluded that there was a failure to follow established control procedures in the following respects

- The contract was placed on the basis of an existing framework agreement dated 17 September 2007 with Air Partner. However, the Contracts Manager informed the Director of Administration on 21 May 2008 that the existing agreement did not comprehend the lease of helicopters for an extended period and that a new tender competition was necessary.
- National and EU procurement guidelines were not adhered to, as there was a failure to seek competitive tenders for the helicopter support service.
- The prior approval of the relevant joint civil/military committee was not obtained for placing the contract.
- While it was a fundamental requirement that the aircraft would be authorised to carry passengers, the expertise of the Air Corps was not sought with regard to the certification of the helicopters for this purpose.
- Air Corps expertise was also not utilised in examining the technical specifications of the aircraft being procured.
- The Defence Forces' Logistics Administration Section relied upon the advice of Air Partner in the process of evaluating the certification documentation, which effectively meant that the tenderer was involved in evaluating its own proposal.
- A contract to a value of €3 million was entered into which breached the internal authorisation limits applicable to the procurement.

Views of the Accounting Officer

28.18 The Accounting Officer stated that he accepted the findings and conclusions of the audit. The findings were broadly in line with those of the investigation carried out by the IAU of the Department at his request which had been finalised in February 2009. However, he stressed that it was important to take into account the overall context in which the contracting for the helicopters occurred.

28.19 The deployment and sustainment of the Defence Forces contingent to Chad was the most challenging logistics project ever undertaken by the Defence Forces and, overall, had been an outstanding success in operational terms. Overall, the very difficult task of deploying and sustaining the Irish Battalion had been accomplished in a very professional manner.

28.20 He added that, given the remoteness of the Irish Battalion's base in Goz Beida, the complete absence of a road infrastructure, the isolation anticipated during the rainy season and the considerable distance from the nearest hospital, the necessity for comprehensive helicopter support was recognised at the outset. During the build up phase of the mission, the Operational HQ in Paris had, in good faith, provided reassurance that helicopter support would be available. There was never any question or reservation about the absolute requirement to have helicopter support for the Irish contingent. However, as the rainy season approached, it became apparent that the promised helicopters were in doubt and that the Department might have to make its own arrangements. It was in this context, and because of the significant cost involved, that he asked that the case to lease helicopters should be properly formulated by the Defence Forces.

28.21 He informed me that when he was advised that a contract had been placed by the Defence Forces for helicopters he responded swiftly and comprehensively. The delegated authority which authorised military personnel to arrange the charter of aircraft for troop transport / freight for overseas operations was revoked. He subsequently asked the Department's IAU to conduct a comprehensive audit into the placing of the contract. The recommendations in the Internal Audit report had been acted upon. The procedures for delegating authority to military personnel generally had been reviewed and strengthened. The terms of reference of the HLPPG had been revised. The military authorities had committed to providing additional and regular training to military personnel on procurement procedures.

28.22 In operational terms, the contracted helicopters had performed well and provided vital support to the Defence Forces. The requirement for helicopters was a very real one. Even when their use was temporarily restricted while the certification issue was being resolved, the helicopters continued to fill an important role by providing logistic support. They remained available as emergency cover for casualty evacuation and continued to provide an essential capability throughout the period.

Conclusions

There was a requirement for helicopter support for the Irish contingent in Chad. When it became clear that this was not going to be provided by other elements of the mission, it became necessary for Ireland to procure the necessary facilities.

While the Department and the Defence Forces had appropriate and documented procedures in place for procurement generally, the conduct of the particular contract for air support for the EUFOR mission did not follow established procedure.

The procurement arrangements were breached in the following respects

- non-observance by the Defence Forces of agreed procedures between the Department and the Defence Forces for equipment and capital expenditure items, including joint civil/military approval procedures
- failure of the Defence Forces to maintain contact with the Contracts Branch of the Department
- the advice of the Contracts Branch on the use of the framework agreement was not adhered to
- the requirement that a written case for prior approval be submitted to the Secretary General was not acted upon
- there was a failure within the Defence Forces to seek the advice of Air Corps expertise on the evaluation of the proposed contract and to have it assess the certification documentation presented by the successful contractor.

The cost incurred in the provision of helicopter support for the EUFOR mission for 2008 amounted to €1.8 million.

Subsequent Developments

28.23 On 10 October 2008, the UN formally requested Ireland to consider putting the Irish troops deployed with EUFOR under the command of the UN after 15 March 2009. The UN indicated that the commitment of troops deployed under EUFOR to the UN follow-on force MINURCAT

was critical to avoid a security vacuum and ensure that civilians and UN personnel at risk were protected.

28.24 Dáil Éireann approved the transfer of Irish personnel on the EUFOR mission to the new UN mission on 5 March 2009 and the rotation of further contingents of the Defence Forces for service with MINURCAT for a period of 12 months from 15 March 2009.

28.25 The transfer of the mission to MINURCAT had the following financial implications

- The UN reimburses a portion of the cost of Defence Forces' personnel deployed.
- The UN reimburses, at agreed rates
 - the cost of equipment deployed
 - transport costs on rotation of contingents and on eventual withdrawal and
 - the cost of repatriation of the Defence Forces' personnel and equipment to Ireland.
- The UN provides food, water, fuels and oils and air transport directly to contingents.

28.26 Reimbursement for troop costs is usually quarterly, three months in arrears, while reimbursement for equipment costs is also quarterly but paid six months in arrears.

28.27 It is estimated that UN reimbursement of troop costs for the MINURCAT mission will be approximately €4.24 million per annum. The estimated amount of UN reimbursement of equipment and other costs cannot be determined at this stage.

28.28 In relation to UN missions in general, Ireland pays a contribution in the region of US\$3.1 million (from the Vote for Foreign Affairs) whether Ireland is participating in a mission or not. Overall, the UN envisages a cost in the region of US\$600-700 million for MINURCAT for 12 months.

Air Support for MINURCAT Mission

28.29 Under the UN MINURCAT mission, the UN provides transport (including helicopters) under the control of the UN civil administration. As some difficulties have been encountered under this arrangement and given the nature of the area of operations, Ireland has decided to extend the contract with Air Partner for helicopter transport (valid until the end of September 2009). The UN has indicated that under its regulations it cannot reimburse the cost of the helicopters, as they are not wholly owned Defence Forces assets. However, they will cover the associated running costs, such as fuel.

Chapter 29 Department of Social and Family Affairs

Expenditure on Social Welfare

Expenditure on Social Welfare

29.1 Elements of social welfare spending are accounted for separately in the Appropriation Account of the Department of Social and Family Affairs (the Department) or in the accounts of the Social Insurance Fund, which is administered by the Department. In addition, significant social welfare spending also occurs under schemes funded through other Votes.

Report Focus

This Chapter has been compiled to consolidate the information about expenditure on social welfare from the various accounts into a single document to provide an overview against which the Appropriation Account information can be assessed.

Welfare Expenditure

29.2 All expenditure under the Department's Vote and the Social Insurance Fund has been included in the consolidation. The following expenditure under other Votes has also been included

- Early Childcare Payment — funded through Vote 41: Office of the Minister for Children — is administered by the Department
- the Domiciliary Care Allowance (DCA) and Blind Welfare Allowance operated by the Health Service Executive (HSE). A Government decision was made in 2006 to transfer these schemes to the Department. New DCA claims are being accepted by the Department since April 2009 and it is expected that the stock of existing DCA claims will transfer to the Department on 1 September 2009⁸⁸. The Blind Welfare Allowance scheme will transfer after completion of the DCA transfer.

29.3 In order to provide information about trends in social welfare spending, annual expenditure data for the years 2006 to 2009 are given. Audited appropriation account figures are used for 2006 to 2008. Audited Social Insurance Fund data are used for 2006 and 2007. For 2008, provisional outturn figures for Fund expenditure were used because the audit of the 2008 Fund accounts is not yet completed⁸⁹. Figures for planned Vote and Fund expenditure in 2009 are taken from the Revised Estimates for Public Services 2009.

Summary of Expenditure and Funding

29.4 Figure 97 summarises social welfare expenditure on each main category of recipients. It also indicates the sources of that expenditure.

⁸⁸ See Chapter 34 concerning the transfer of functions from HSE to the Department.

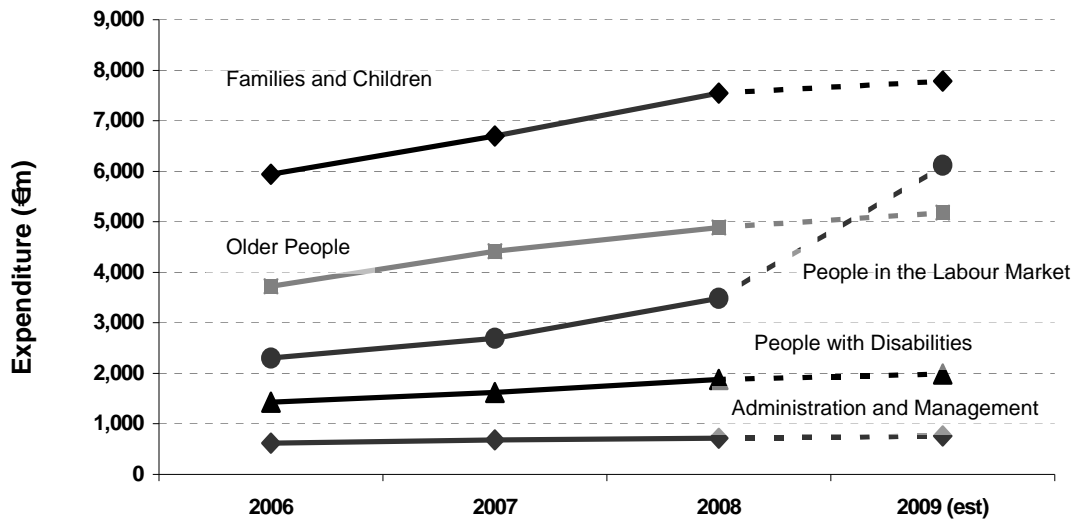
⁸⁹ Based on the experience in previous years, it is not expected that significant changes will be required to the draft account figures.

Figure 97 Expenditure on Social Welfare by Main Category of Recipient and by Source of Funding, 2006 to 2008, and Estimated for 2009

Expenditure Category	2006	2007	2008	2009 Estimated
	€m	€m	€m	€m
Support for Families and Children	5,941	6,700	7,545	7,786
Support for People in the Labour Market	2,304	2,692	3,500	6,117
Support for People with Disabilities	1,428	1,622	1,875	1,988
Support for Older People	3,724	4,414	4,885	5,181
Administration, Management, Research etc	619	679	713	759
Total Expenditure	14,016	16,107	18,518	21,831
Funded through:				
Social Insurance Fund	6,326	7,251	8,400	10,322
Voted Expenditure				
Vote 38 Social and Family Affairs	7,339	8,351	9,518	11,130
Vote 40 Health Service Executive	70	87	120	148
Vote 41 Office of the Minister for Children	281	418	480	231
Total Funding	14,016	16,107	18,518	21,831

29.5 Figure 98 shows the trend in expenditure by main category of expenditure. The fastest increase is in the level of expenditure on welfare support for people in the labour market, reflecting rapidly increasing numbers unemployed.

Figure 98 Trend in Expenditure on Social Welfare by Main Category of Recipient, 2006 to 2008, and Estimated for 2009



29.6 Figure 99 presents a breakdown of social welfare expenditure by recipient category and by scheme.

Figure 99 Expenditure on Social Welfare by Scheme and Category of Recipient, 2006 to 2008, and Estimated Expenditure for 2009

Expenditure Category	2006	2007	2008	2009 Estimated
	€m	€m	€m	€m
Support for Families and Children				
Child Benefit	2,056.3	2,233.0	2,454.0	2,500.1
Widow/er Schemes/Guardian's Payments	1,212.2	1,238.9	1,341.7	1,377.0
One Parent Family Payment	834.3	962.4	1,067.2	1,101.3
Supplementary Welfare Allowance	686.4	739.8	866.9	1,114.6
Carer's Payment	301.3	388.2	484.0	524.2
Maternity Benefit	180.8	257.9	315.9	355.1
Treatment Benefit	95.0	91.6	97.1	92.4
Family Income Supplement	107.1	140.0	170.3	211.6
Respite Care Grants	50.5	72.5	98.2	112.2
School Meal Grants	13.6	28.2	32.4	35.0
Bereavement and Widowed Parent Grants	15.9	21.0	23.9	24.2
Deserted and Prisoner's Wives	105.2	107.6	111.2	105.3
Adoptive Benefit	0.8	1.3	1.7	1.7
Early Childcare Payments	281.4	417.7	480.0	231.0
Total Expenditure	5,940.8	6,700.1	7,544.5	7,785.7
Support for People in the Labour Market				
Jobseeker's Benefit	455.1	545.0	928.8	2,422.6
Jobseeker's Allowance	768.6	875.1	1,158.9	2,190.2
Illness Benefit	627.6	755.1	852.3	889.1
Employment Support Services	115.6	145.0	160.5	180.4
Occupational Injury Benefit	96.0	104.3	112.0	112.4
Farm Assist Scheme	71.1	78.7	84.9	87.7
Redundancy and Insolvency	170.0	188.2	202.2	234.0
Health and Safety Benefit	0.4	0.5	0.6	0.6
Total Expenditure	2,304.4	2,691.9	3,500.2	6,117.0
Support for People with Disabilities				
Disability Allowance	738.4	901.1	1,052.7	1,091.0
Invalidity Pensions	602.4	618.1	685.7	691.5
Blind Pensions	17.0	15.0	16.3	16.5
Domiciliary Care Allowance	61.9	78.3	109.6	179.0
Blind Welfare Allowance	8.1	9.2	10.5	10.0
Total Expenditure	1,427.8	1,621.7	1,874.8	1,988.0

Expenditure Category	2006	2007	2008	2009 Estimated
	€m	€m	€m	€m
Support for Older People				
State Pensions	3,166.3	3,754.0	4,182.7	4,396.7
Pre-retirement Allowances	113.1	124.5	117.7	105.8
Free Travel	58.0	64.1	68.4	76.4
Electricity Allowance	108.4	147.1	156.7	199.8
Telephone Allowance	90.3	98.9	112.2	108.3
Fuel Allowance	124.2	152.6	170.0	216.7
Free TV Licence	49.0	51.7	55.7	56.7
Natural/Bottled Gas Allowances	8.5	15.3	15.6	21.1
Smog Allowance	6.0	5.9	6.0	—
Total Expenditure	3,723.8	4,414.1	4,885.0	5,181.5
Administration, Management, Research etc				
Administration and Management ^a	544.0	590.8	621.0	669.6
Grants ^b	54.6	67.2	69.6	67.9
Money Advice and Budgeting Service	13.6	14.6	16.2	17.9
Other	6.8	6.8	6.6	3.7
Total Expenditure	619.0	679.4	713.4	759.1
Expenditure on all Schemes	14,015.8	16,107.2	18,517.9	21,831.3

Notes:

- a Includes the expenses of the Office of the Pensions Ombudsman.
- b Grants were paid to Comhairle, Family Support Agency and Combat Poverty.

Schemes not included in Consolidation

29.7 Other departments and agencies also provide welfare-type supports to individuals under schemes they administer which have not been included in the consolidated figures. These include

- medical card expenditure totalling €1,772 million was incurred under the HSE's Vote for 2008
- the Rural Social Scheme, operated by the Department of Community, Rural and Gaeltacht Affairs, which cost a total of €49 million in 2008
- expenditure by FÁS on Community Employment Scheme allowances at a cost of €274 million in 2008
- the school books schemes, funded by the Department of Education and Science at a total cost of €14.5 million in 2008.

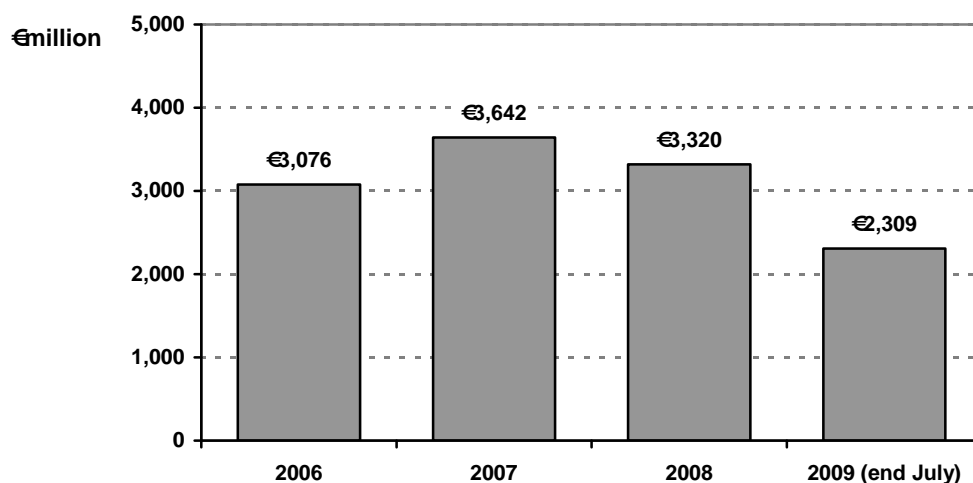
29.8 Certain educational expenditure could also be considered to have a welfare objective, in that it has the potential to reduce child poverty and to improve the life chances of individuals and create improved social outcomes. However, no apportionment of this spending was made.

Social Insurance Fund Reserves

29.9 Pay-related social insurance contributions collected by the Revenue Commissioners from employers, employees and self-employed persons are paid into the Social Insurance Fund, which comprises a current account and an investment account. Benefits under social insurance schemes are paid for out of the Fund's current account. Surplus funds (i.e. those not required to meet current expenditure of the Fund) are transferred to the investment account, which is managed and controlled by the Minister for Finance. The money in the investment account is a reserve available to be transferred back to the current account when expenditure on schemes exceeds current income.

29.10 Figure 100 shows the balance in the Social Insurance Fund's investment account at the end of each year 2006 to 2008, and at the end of July 2009.

Figure 100 Balance in the Social Insurance Fund Investment Account at the end of each year, 2006 to 2008, and end July 2009



Note: The first printed version of this report showed an incorrect figure in relation to the end July 2009 balance. The correct balance is now shown.

Chapter 30 Department of Social and Family Affairs

Welfare Payments in Excess of Entitlement

Welfare Payments in Excess of Entitlement

30.1 A special report of an evaluation of the Department's control activity⁹⁰ finalised in 2003 found that the Department had, at that stage, no reliable estimate of the level of fraud and error occurring in its scheme payments. However, at that point, the Department committed to conduct surveys to estimate the baseline levels of fraud and error. This type of survey was to become part of its overall control strategy and be integrated into its business planning process and it was planned that over time it would extend to all schemes.

Audit Focus

The audit sought to assess

- the number and results of fraud and error surveys completed
- the estimated level of payments in excess of entitlement in each base year surveyed compared with the amounts recorded for recovery action
- the results of the Department's control activity in 2008.

Survey Results

30.2 Eleven fraud and error surveys have been carried out since 2003 covering the Department's major expenditure schemes. One of these was on the allocation of PPS numbers, the results of which cannot be used to extrapolate a financial impact on any particular scheme. An estimate of the cost of fraud and error in terms of the total scheme outlay was calculated for six of the surveys.

30.3 Figure 101 shows the number of cases in the sample, the percentage which required a change to the amounts payable and the baseline percentage of fraud and error involved.

⁹⁰ VFM Report Number 45 – Evaluation of Control Activity, November 2003.

Figure 101 Results of Fraud and Error Surveys

Scheme	Base Year	Sample Size	Change Cases	Level of Fraud and Error Estimated^a
Jobseekers Allowance ^b	2003	443	15.8%	
Jobseekers Benefit ^b	2003	500	1.8%	
One Parent Family Payment ^b	2003	814	29.5%	
Child Benefit	2004	1000	2.3%	1.8%
Rent Supplement ^c	2005	915	—	—
Family Income Supplement	2005	528	2.8%	3.3%
Disability Allowance	2005	955	12.1%	7.0%
Illness Benefit (SIF)	2006	1,081	2.5%	0.4%
OAP Non-contributory	2007	1,008	17.2%	1.9%
One Parent Family Payment	2007	1,000	27.2%	7.0%

Notes:

- a This is the percentage by which the payments sampled exceeded the amount of entitlement.
- b While the percentage of cases changed was recorded there was not sufficient data captured to give a cost of fraud and error.
- c The survey was carried out in conjunction with four HSE regions. As there was a high variance in results between the regions, the Department considered the survey less reliable than those carried out by the Department.

30.4 Figure 102 presents the likely financial impact of the baseline fraud and error rates detected in the five statistically reliable surveys together with total expenditure for the schemes for the years the surveys were carried out.

Figure 102 Financial Impact of Baseline Fraud and Error Rate

Scheme	Base Year	Total Payments in Survey Year	Likely Impact
		€m	€m
Child Benefit	2004	1,765	30.0
Disability Allowance	2005	631	44.0
Illness Benefit (SIF)	2006	628	2.5
OAP Non-contributory	2007	920	17.5
One Parent Family Payment	2007	962	67.0

Note: The extrapolation is on the basis that, if the level of baseline fraud and error found in the sample were replicated in the payments in the year sampled, payments in excess of entitlement of the order indicated would have occurred.

30.5 When the extrapolated results of the surveys are compared with overpayments recorded by the Department in each base year the pattern in Figure 103 emerges.

Figure 103 Comparison of Recorded Overpayments and Baseline Fraud and Error

Scheme	Base Year	Extrapolation Financial Impact	Recorded Overpayments in Base Year	Percentage Recorded
		€m	€m	%
Child Benefit	2004	30.0	1.7	5.6%
Disability Allowance	2005	44.0	2.2	5.0%
Illness Benefit (SIF)	2006	2.5	1.7	68.0%
OAP Non-contributory	2007	17.5	7.4	42.0%
One Parent Family Payment	2007	67.0	4.9	7.3%

30.6 The comparison suggests that significant amounts of money are likely to have been paid out each year in excess of entitlement⁹¹ and that, in some cases, a relatively small element of payments made in excess of entitlement is being detected and pursued for recovery.

Reporting Control Performance

30.7 The Department annually publishes the results of its control and review activity which is focused on high risk schemes and customers. In its 2008 report, the Department indicates that 564,000 reviews were carried out. In approximately 88,000 instances the Department claims future savings of €476 million across all schemes⁹². The calculation of most of the savings involves the use of a multiplier based on the Department's estimate of the average amount of time a person who has had a payment reduced or terminated would otherwise have remained on the scheme. This time varies from scheme to scheme and ranges from four to 136 weeks. In many cases where payments are reduced or terminated, and where savings are claimed, the Department does not establish and record that a payment in excess of entitlement has occurred. In cases of non-fraud, a deciding officer may determine the effective date of a revised decision to be a current date, rather than a retrospective date, in which case no overpayment legally arises. In other cases, there is no way of establishing the date the claimant's entitlement ceased and accordingly the deciding officer does not have the evidence to make a retrospective decision resulting in an overpayment.

30.8 The savings claimed in the control and review activity report for 2008 in respect of the schemes that were the subject of the five fraud and error surveys where extrapolation was possible are given in Figure 104 together with the amount of overpayments⁹³ raised by the Department. The figure also presents a comparison the number of overpayment cases raised in the year against the number where savings are claimed.

⁹¹ Payments in excess of entitlement include all instances of unwarranted access to the welfare system whether or not overpayments have been raised for recovery by the Department.

⁹² The savings include overpayments resulting from control activity amounting to €37 million.

⁹³ Recorded by the Department with a view to recovery or prosecution.

Figure 104 Control Activity Results and Overpayments Recorded 2008

Scheme	Savings Claimed	Overpayments raised by Department	Number of Savings Cases	Number of Overpayment Cases
	€m	€m		
Child Benefit	48.6	3.2	5,141	2,007
Disability Allowance	25.1	2.8	1,413	277
Illness Benefit (SIF)	42.9	3.3	8,212	3,376
OAP Non-contributory	22.9	7.8	1,255	1,340
One Parent Family Payment	115.4	8.8	19,305	2,312

30.9 The results suggest that a significant proportion of reviewed cases counted for the purposes of savings calculations do not result in overpayment actions.

30.10 The Department has stated that it uses the surveys to estimate levels of fraud and error and to identify and target high-risk schemes and beneficiaries in order to focus its control activity where it is most likely to result in a reduction or termination of unwarranted payments. A recent report on Disability Allowance payments carried out by the Department's Internal Audit Unit found, however, that while a fraud and error survey was carried out in this scheme in 2005 no risk evaluation was carried out to target control activity. The Accounting Officer informed me that a new control review policy had been introduced for the scheme since January 2009.

Conclusions

Payments must meet a regularity test in that recipients have to have entitlement to them.

It is a basic accountability of the Department to prevent and detect irregular payments. This is underscored by the obligations set out in the Department's Annual Statement on Internal Financial Control. The conduct of fraud and error surveys are a key step in positioning the Department to discharge that accountability.

The baseline level of fraud and error is significant in some of the schemes surveyed to date. The findings in the five surveys where extrapolation was possible suggest that there is a significant level of payment in excess of entitlement in the schemes sampled.

In the five schemes reviewed, savings of €255 million were claimed by the Department in respect of 35,779 review cases in 2008. Overpayments were recorded by the Department in the year in about a quarter of that number *viz.* 9,312 cases.

The Department is also accountable for having systems, practices and procedures in place to enable it to evaluate the effectiveness of its operations. The effectiveness of control activity could be measured by the degree of convergence of the value of payments in excess of entitlement actually detected and the estimated value of fraud and error found in surveys. This can best be achieved by carrying out regular and systematic surveys across all schemes. Accordingly, greater use should be made of surveys in order to allow the Department to objectively assess the effectiveness of its control activities.

A further accountability is to ensure that there are adequate controls built into the welfare payments system. Without regular systematic follow up surveys, it is not possible to conclude on whether control adjustments put in place are working. Follow up surveys could also assist in determining the optimum level of resources to deploy to control work.

General Views of the Accounting Officer

30.11 The Accounting Officer informed me that the Department recognised the importance of fraud and error surveys and had completed surveys on all high expenditure schemes. Having achieved this by 2008, it intended to conduct two surveys every year on high risk schemes, i.e. Jobseekers Allowance, One Parent Family Payments, Disability Allowance and also on Child Benefit, which although the overall rate of fraud and error was low the incidence amongst non-Irish nationals was high. In this way, each high risk scheme would be surveyed every second year. However, the Department was not in a position to proceed with the surveys due to the increase in the live register and consequent lack of capacity amongst social welfare inspectors to review cases for the surveys. A survey on Jobseekers Allowance was however now planned for completion in the fourth quarter of 2009.

30.12 She added that the fraud and error surveys were an integral part of the Department's control strategy and sought to understand the nature and characteristics of fraudulent behaviour. This would lead to a better understanding of the risks in the social welfare system in general and more specifically as they related to individual income support schemes. The surveys were devised to identify the high risk schemes and categories within schemes and to estimate baseline levels of fraud and error.

30.13 She stated that in light of legal provisions⁹⁴ under which deciding officers may make revised decisions from a current date, there was no basis for concluding that a relatively small element of payments made in excess of entitlement was being detected. The number of cases to which savings were attributed was evidence that a high number of fraud and error cases were being detected. Overpayments arising from revised decisions with retrospective dates were recorded and recovery was pursued in accordance with legislation and guidelines.

30.14 With regard to the regularity of payments, she accepted that the Department was obliged to ensure that financial transactions were made in accordance with authorising legislation, the regulations made under the governing legislation as well as financial and auditing standards and applied for the purpose intended by the Oireachtas.

30.15 She stated that fraud and error surveys served as just one aspect of the overall control strategy in preventing, detecting and deterring fraud which had been adopted by the Department. In addition, the Department had implemented more systematic and strategic approaches to fraud and control. Guidelines to deciding officers would be reviewed and training provided to ensure tight control and strict adherence to governing legislation.

Overall Conclusions

While accepting that only a proportion of payments in excess of entitlement are pursued for recovery action and that this arises as a result of the exercise of their statutory discretion by deciding officers, surveys suggest the existence of a much greater level of fraud and error. This, in turn, has implications for the regularity of payments reported in the Department's Appropriation Account.

The baseline level of fraud and error when extrapolated suggests that the overall extent of payments in excess of entitlement in the schemes concerned is significant in the context of the charge to the related subheads.

⁹⁴ These provisions allow discretion to deciding officers to determine the effective date from which a change of entitlement will have effect.

Chapter 31 Department of Social and Family Affairs

Review of Welfare Overpayment Cases

Review of Welfare Overpayment Cases

31.1 In the course of audit a review was carried out of a number of high value overpayments raised by the Department on three schemes in 2008. Details of total overpayments on these schemes are shown in Figure 105.

Figure 105 Overpayments Recorded on Schemes in 2008

Scheme	Total Overpayments €m	No. of Cases	Average Value €
Disability Allowance	2.8	277	10,280
Carer's Allowance	2.0	247	8,300
Invalidity Pension	1.3	149	8,900

Audit Focus

As indicated in Chapter 30 not all payments in excess of entitlement results in overpayments being recorded and pursued for recovery. This Chapter reviews the background to a sample of payments in excess of entitlement in three schemes that were recorded as overpayments.

The audit reviewed the extent to which, in a sample of large overpayment cases, the Department might have avoided the overpayments by

- using information it already held on its information systems
- conducting reviews in accordance with its own preset schedules.

Outcome of Review

31.2 In the case of Disability Allowance the sample comprised 23 overpayments totalling €1.1 million. The overpayment period varied between two and twelve years and the average duration of the overpayment was in excess of six years. 15 of the 23 were subjected to detailed scrutiny. The review found that

- By far the most common reason for overpayments was failure of the client to fully disclose means.
- As at February 2009, 21 of the 23 cases had amounts outstanding totalling €975,175 (approximately 90% of sample total).
- In each of the cases reviewed the Department had information available that should have lead to the detection of the overpayments sooner.
- All of the 15 overpayments scrutinised in detail could have been identified at a much earlier date had the claims been reviewed as soon as evidence became available to the Department.
- Nine of the 15 cases could have been identified sooner as details of earnings were recorded on the Central Records System that would have indicated that the client was being overpaid or that a means review was warranted.
- 13 of the sample of 23 overpayments could have been detected earlier had the scheduled review been carried out on time.

31.3 In the case of Carer's Allowance the sample comprised 15 overpayments totalling €739,022. They related to time periods ranging between three and nine years, during which the claimants were not entitled to the Allowance. The review found that

- In eight of the 15 cases the reason for the overpayment was that the carer was paid while working in excess of the maximum 15 hours per week allowed by the scheme. Other reasons were failure to disclose means and payment of allowance after death of caree.
- The overpayments could have been identified sooner based on the evidence that was available to the Department if reviews had been conducted as scheduled.
- The audit estimated that €91,857 of the total overpayments of €739,022 could have been avoided had reviews been conducted at an earlier date.

31.4 In the case of Invalidity Pension ten overpayments totalling €99,426 were reviewed. They related to time periods between four and eight years when the claimants were not entitled to the pension. The review found that

- All of the reasons for the overpayments related to the claimant being employed while in receipt of the pension or their spouse having earnings in excess of the statutory limit.
- Eight of the ten overpayments could have been identified sooner because the client had earnings recorded on the Department's Central Records System which would have indicated that the client was being overpaid or warranted a means review.

Audit Concern

While acknowledging that overpayments arise due to changes in circumstances, I was concerned that these changes were not being detected at an earlier stage particularly as it appeared that in many cases information was available to the Department which should have prompted case reviews. The audit concluded that up to 80% of the overpayments examined could have been avoided had reviews been conducted at an earlier time.

Accounting Officer's Response

31.5 With regard to Disability Allowance, the Accounting Officer stated that due to the size and growth of the customer base it was proving no longer practical or feasible to review every claim on a regular basis. She stated that a new control review policy for the scheme was introduced on 26 January 2009. This involved assigning and recording a risk rating at the award and review stage of all claims in the medical and means categories. It was planned to review annually, subject to available resources, all cases with a high control risk within those categories, a sample of 2,000 with a medium risk rating and a sample of 500 cases with a low risk rating.

31.6 The Accounting Officer informed me that a similar risk based control review policy for Carer's Allowance, recently determined within the Department, would be piloted for a two-year period while it was intended to move to a risk based system for Invalidity Pension also.

31.7 In regard to how regularly case reviews take place the Accounting Officer informed me that, given the number of customers on these schemes and the resources available for control work, it was not possible to review every case in detail on a regular basis. Resources constraints prevented all cases being reviewed on specified dates. She stated that by moving to a risk based system it was hoped to achieve better value for money by focusing scarce resources on the most appropriate cases.

31.8 As regards the Department not acting promptly on information received by it which should trigger a review, the Accounting Officer stated that the resources available to deal promptly with information must be balanced against the resource requirements to deal with over 193,000 customers in receipt of payments under the three schemes. She also stated that in many cases the trigger information could not be entirely relied upon depending on its source e.g. anonymous reports. In addition, in the vast majority of cases where trigger information such as commencement of earnings information were investigated, there was no change in entitlement.

Conclusions

Reviews of actual overpayments can help the Department identify the factors within its control that could lead to earlier identification of payments in excess of entitlement.

The more focused risk based reviews being introduced hold out the prospect of achieving more effective control. However, the Department should continuously review their efficacy and report the results in their annual reports on control activity.

In circumstances where the resource pressure is likely to increase the Department may need to build in more training of line staff to ensure basic checks are performed on entitlement on a rolling basis using the Department's information systems.

Chapter 32 Department of Social and Family Affairs

Recording and Recovery of Welfare Overpayments

Recording and Recovery of Welfare Overpayments

32.1 The monitoring, review and control activities of the Department are designed to identify payments in excess of entitlement as outlined in Chapter 30. However, the Department does not necessarily raise overpayments in respect of all detected instances of unjustified payments.

32.2 The Department's recording of raised overpayments, their recovery and the prosecution of fraud and abuse cases is described below.

Overpayments

32.3 The Department administers some 50 welfare schemes paid through Vote 38 and the Social Insurance Fund. Expenditure on all schemes was over €17.3 billion in 2008. The pattern of expenditure since 2006 analysed between insurance and assistance schemes is set out in Figure 106.

Figure 106 Scheme Expenditure 2006-2008

	2006	2007	2008	Rate of Increase 2007-2008
	€m	€m	€m	%
Social Insurance	6,103	7,008	8,142	16.2
Social Assistance	7,017	8,004	9,156	14.4
All Welfare Payments	13,120	15,012	17,298	15.2

32.4 The amount recorded by the Department as having been overpaid totalled €55.6 million in 2008, an increase of 23% since 2006. Figure 107 sets out the details.

Figure 107 Number and Amount of Gross Overpayments Recorded for Recovery

	2006		2007		2008	
	No. of Cases	Amount €m	No. of Cases	Amount €m	No. of Cases	Amount €m
Social Insurance	21,529	11.20	26,251	17.71	29,492	18.5
Social Assistance	18,216	34.02	20,152	32.82	19,609	37.1
Total	39,745	45.22	46,403	50.53	49,101	55.6

32.5 Overpayments classified as attributable to fraud or suspected fraud at €21.1 million constituted 38% of all overpayments in 2008. Figure 108 sets out the details.

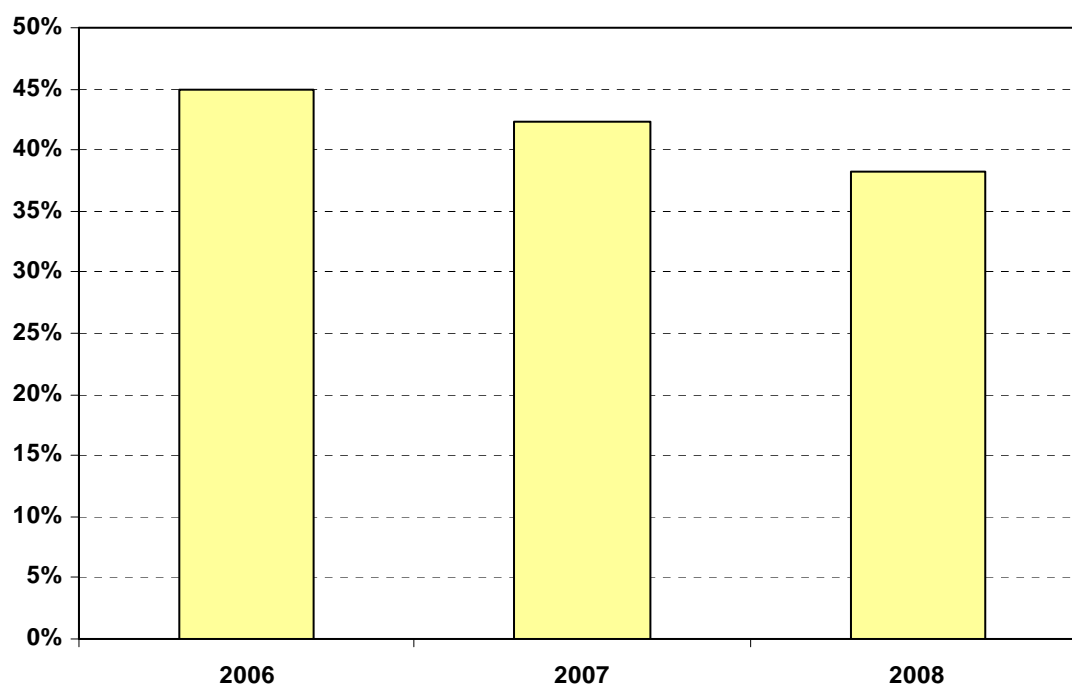
Figure 108 Number and Amount of Overpayments Attributed to Fraud^a or Suspected Fraud

	2006		2007		2008	
	No. of Cases	Amount €m	No. of Cases	Amount €m	No. of Cases	Amount €m
Social Insurance	7,877	5.16	8,304	6.26	9,991	7.05
Social Assistance	8,950	15.19	9,808	15.14	8,347	14.08
Total	16,827	20.35	18,112	21.40	18,338	21.13

Note:

- a Estate cases where undisclosed means come to light are not classified as fraud/suspected fraud. The amount of overpayments recorded in respect of 294 estate cases in 2008 was €7.2 million.

32.6 The percentage of overpayments recorded each year which were attributed to fraud or suspected fraud has varied considerably over the period 2006 to 2008 as indicated in Figure 109.

Figure 109 Overpayments Attributed to Fraud or Suspected Fraud

Recovery

32.7 The Department's record of recovery of overpayments during the period 2006 to 2008 is shown in Figure 110.

Figure 110 Department's Record of Recovery of Overpayments 2006 to 2008

	2006	2007	2008
	€000	€000	€000
Overpayments not Disposed of at 1 January	131,250	149,540	232,070
Migration of Amounts Previously Written Off ^a	—	44,411	-
Amounts Previously Omitted from the Balance ^b	—	17,204	-
Prior Year Adjustments ^c			1,820
Overpayments Recorded for Recovery	45,219	50,527	55,580
Less			
Overpayments Recorded in Prior Years Cancelled	(129)	(1,400)	(1,106)
Net Amount Written Off as Irrecoverable	<u>(4,259)</u>	<u>(4,328)</u>	<u>(4,864)</u>
Net Amount Recoverable	172,081	255,954	283,500
Cash Recoveries and Sums Withheld	(22,541)	(23,884)	(26,946)
Overpayments not Disposed of at 31 December	149,540	232,070	256,554

Notes:

- a The €44 million consists of amounts previously written off for accounting purposes, now identified as potentially recoverable.
- b The €17 million consists of previously unrecorded overpayments in prior years now considered potentially recoverable.
- c The amount of €1.82 million arises due to the correction of some technical anomalies in the overpayments and debt management system during 2008.

32.8 Of the €256.6 million overpayments outstanding at 31 December 2008, €37.5 million dates from 2008, €24.9 million from 2007, €23.9 million from 2006 and €170.3 million from earlier years.

Figure 111 Cash Recoveries and Sums Withheld

	2006	2007	2008
	€000	€000	€000
Sums recovered in cash	12,032	12,632	15,649
Sums withheld from current entitlements	10,509	11,252	11,297
Total	22,541	23,884	26,946

Prosecutions

32.9 Cases involving abuse of the system are considered with a view to taking legal proceedings. Prosecutions are taken against employers who fail to carry out their statutory obligations and persons who defraud the social welfare payments system. Prosecutions can either be by summary or indictment proceedings. Civil proceedings are also taken to facilitate the recovery of scheme overpayments or the collection of PRSI arrears. Such cases are only taken where there is an expectation that the debtor has sufficient means to discharge the debt.

32.10 During 2008, 354 criminal cases (2007 - 357 cases) were forwarded to the Chief State Solicitor's Office (CSSO) for prosecution, the details of which are shown in Figure 112. 20 cases were not deemed suitable for prosecution (2007 - 44 cases) due to the elapse of time since the offence was committed.

Figure 112 Criminal Cases Forwarded to the CSSO

	2007	2008
Jobseeker's Allowance	184	183
Jobseeker's Benefit	124	140
Illness Benefit	9	9
Disability Allowance	5	6
One Parent Family Payment	8	4
Other ^a	7	7
Offences Committed by Employers	13	5
Obstruction of Inspectors	7	0
Total	357	354

Note:

- a Includes three cases involving persons using PPS numbers other than their own (2007 - four cases). In addition there were a further six cases of misuse of PPS numbers (five Jobseeker's Allowance and one Disability Allowance) where the person was concurrently claiming a welfare payment usually using his/her PPS number while working under a different PPS number. These cases are included in the relevant scheme figure numbers.

32.11 A total of 309 criminal prosecutions (2007 – 222 prosecutions) involving social welfare recipients were finalised in court in 2008. In these cases the total amount of overpayments of persons who attempted to or obtained welfare payments fraudulently was €1,948,914 (2007 - €1,597,688). The results of these 309 court cases and the penalties imposed are given in Figure 113.

32.12 At the end of 2008, the CSSO and local state solicitors had 889 criminal cases on hands at various stages of the prosecution process.

Figure 113 Results of Criminal Court Cases involving Social Welfare Recipients

	Jobseekers Allowance	Jobseekers Benefit	Illness Benefit	One Parent Family Payment	Other ^a	Total
Fined ^b	102	75	12	6	4	199
Community Service	4	3	1	1	0	9
Prison Sentences	2	0	0	0	0	2
Probation Act	18	18	4	3	1	44
Suspended Sentence	8	9	1	1	0	19
Struck-out	11	3	1	0	2	17
Bound to the Peace	1	0	0	0	0	1
Liberty to Re-enter	6	8	2	0	1	17
Withdrawn	1	0	0	0	0	1
Total	153	116	21	11	8	309

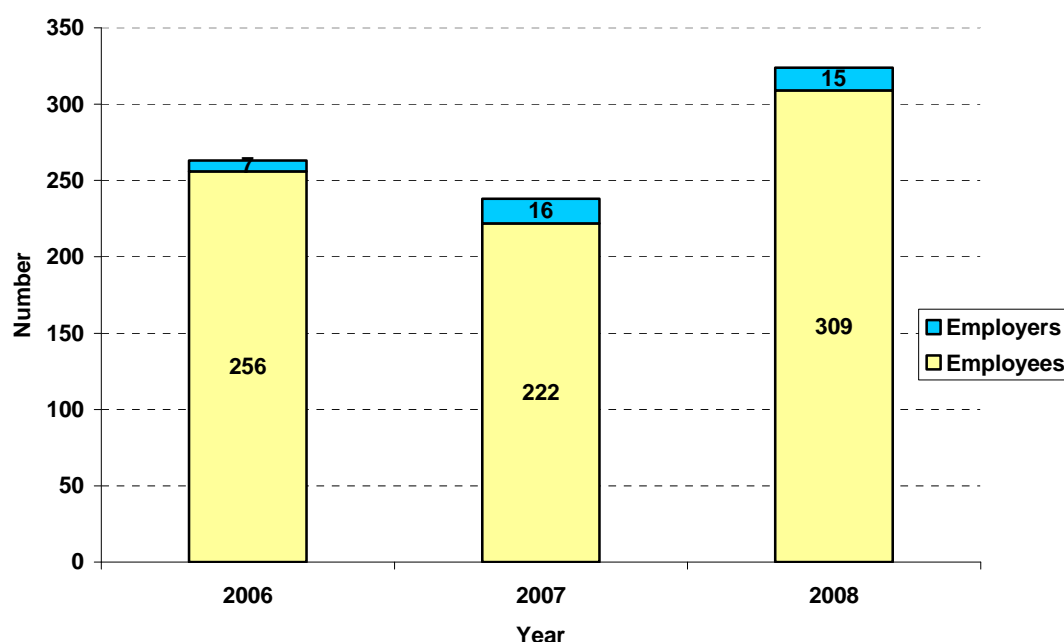
Notes:

- a Other: Widow's/Widower's Contributory Pension 1; Widow's/Widower's Non-Contributory Pension 1; obstruction 2; and misuse of PPS numbers 4.
- b Fines to the value of €111,110 were imposed by the courts. One who received a suspended prison sentence was also fined (€88,750 in 2007 in 110 cases).

32.13 Prosecutions of fifteen cases involving employers (2007 – 16 employers) were also finalised with nine being fined⁹⁵, three struck out, one withdrawn and two given the benefit of the Probation Act.

32.14 The number of prosecutions dealt with by the courts since 2004 is summarised in Figure 114.

Figure 114 Number of Prosecutions dealt with by the Courts since 2004



32.15 Between 2004 and 2008, the Department's Central Prosecution Service considered a total of 93 scheme and employer civil cases for civil proceedings. This figure does not include cases examined in scheme sections but not referred to the Central Prosecution Service. 42 employer and scheme civil cases were sent to the CSSO for the pursuit of civil proceedings. In this period, 100 cases (including pre-2004 cases) have been finalised. The breakdown per year is set out in Figure 115.

Figure 115 Civil Cases sent to the CSSO

	2006	2007	2008	Total
Considered for civil proceedings	9	8	23	93
Sent to CSSO in the year	8	2	2	42
Finalised in the year	13	6	48	100

32.16 Of the 100 cases finalised, settlement was reached in eight cases without going to court (this involved recovery of €18,024), five were finalised in court (three decrees awarded and two instalment orders granted), 31 cases were not pursued due to the circumstances of the debtor, 15 cases were statute barred and 41 made arrangements to repay the debts in instalments. There are 58 cases that have yet to be finalised.

⁹⁵ Fines to the value of €6,450 were imposed by the courts (€8,160 in 2007 in ten cases).

Chapter 33 Department of Social and Family Affairs

Review of Jobseeker Payments

Review of Jobseeker Payments

33.1 The national live register increased rapidly in 2008. At the end of 2007, the total number registered was 170,376. The corresponding figure at the end of 2008 was 291,363, an increase of 71%.

33.2 Jobseekers' Allowance and Jobseekers' Benefit are administered through a national network of 62 local offices and 62 branch offices. The local offices are operated directly by the Department using its own staff. Branch office operations are managed on behalf of the Department by contractors who provide their own premises and employ staff to handle cases. Branch offices are required to follow the Department's procedures and use the Department's systems, and are overseen by nearby local offices.

33.3 Part of the audit of spending on social welfare in 2008 involved reviews of the administration and management of Jobseekers' Allowance and Jobseekers' Benefit claims in the Department's local offices in Tullamore (which also oversees a branch office in Portarlinton) and in Longford (which oversees branch offices in Boyle and Roscommon).

Audit Focus

Review of the administration of Jobseeker cases in local offices is a normal part of the audits of social welfare spending, and aims generally to confirm, on a sample basis, that payments made are in line with claimants' entitlements.

In addition, the 2008 review sought to establish to what extent the ongoing significant increases in the number of persons registering as unemployed was impacting on the service provided to clients and on the level of control being exercised over payments.

33.4 The audit looked at the controls in place in local and branch offices in relation to how claims are processed and reviewed. It included a test examination of a sample of 50 individual claimant files for Jobseekers' Allowance or Jobseekers' Benefit, interviews with the local office and area managers, and review of specific data sought by the audit team. It also included an audit review of procedures at the branch office in Portarlinton.

Audit at Tullamore and Portarlinton

33.5 The review work done in Tullamore and Portarlinton indicated that control activity was reduced and processing delays had occurred.

33.6 The live register in Tullamore increased from 1,491 in December 2007 to 2,553 in December 2008. This was in line with the increase nationally. In Portarlinton, the number on the register increased from 1,069 to 2,021 in the same period, an increase of 89%.

33.7 In December 2008, there was a substantial backlog of Jobseekers' Allowance cases awaiting decision. In Tullamore, 281 cases (21% of claim load) were awaiting decisions. In Portarlinton, 178 cases were awaiting decision (19% of claim load). Local office staff estimated that decisions in Jobseekers' Allowance cases were taking up to two months. Claimants requiring immediate assistance are referred to the local Community Welfare Service. The backlog of pending Jobseekers' Benefit cases was significantly lower at 6% to 7% of claim load.

33.8 The Tullamore local office was upgraded from branch office status in November 2005. The office was relocated on a temporary basis to premises on the outskirts of the town. Because the public office space in the temporary premises was so small and restricted, monthly signing-on could not be carried out and a decision was taken to suspend signing-on for most claimants pending the sourcing of new accommodation. The office moved to permanent premises in May 2008. Routine signing-on recommenced for Jobseekers' Benefit in July 2008, and for Jobseekers' Allowance in September 2008.

33.9 The key audit findings were

- When signing-on for Jobseekers' Benefit recommenced, 49 clients for whom routine payments were being made failed to sign-on. Payment in each case was suspended. At the time, the Department did not further enquire into the circumstances of any of these cases or record overpayments for them. However, it treated the cessation of those payments as generating savings of €300,000.
- Since July 2008, a number of payment control measures have been suspended. Routine review of means has been suspended, unless a specific reason for a review has been highlighted. Reviews to establish if a claimant is genuinely seeking work have also been suspended, and debt management in overpayment cases has been reduced. The scaling back of control activity was approved by the Regional Director's Office to allow the local office to deal with a large backlog of unprocessed claims.
- Payments in most of the individual cases examined were found to be correct, based on the information recorded in the Department's systems. Payments to claimants in two cases were in excess of entitlements. In another case, the file showed that an overpayment had previously been identified by local office staff and repaid by the claimant, but this was not recorded on the Department's overpayment system.

Audit at Longford and its Branch Offices

33.10 The increase in the live register in 2008 in Longford and its two branch office areas was just slightly below the national average, at 67%. A total of 1,222 cases were awaiting decision at the end of 2008. This represented almost one-third of the live register figures for Longford. At the end of 2007, around 25% of cases were awaiting decision.

33.11 The key audit findings were

- The extent of control work undertaken by local and branch office staff has reduced. Means reviews in Jobseekers' Allowance cases were suspended gradually from around the middle of 2008 and fully from December 2008, except in cases where local office staff and the inspector agreed that a review was warranted.
- Checks of whether or not claimants were genuinely seeking work were reduced by three quarters in mid-2008, and ceased altogether in December 2008.
- The only control work now being done is in relation to cases where recovery of overpayment is possible without too much correspondence or follow-up work, and serious fraud cases.
- Debt management work is now only carried out on cases where the Department is in receipt of regular refunds. In March 2009, there were 403 closed Longford cases with overpayments totalling €614,942. The amounts recovered in those cases totalled €4,196 (15%).

Signing-On by Claimants

33.12 Since the audit reviews were completed, the Department has informed me that signing-on was suspended during 2008 in five other local offices, and signing-on requirements were modified in a further three offices. The circumstances of these cases were as follows

- In two cases (Loughrea and Balbriggan), signing-on was suspended because of inadequate accommodation following decisions to upgrade branch offices to local offices. In another office (Newbridge), the available accommodation was not sufficient to cope with the increased number of cases being handled, and signing-on was suspended between November 2008 and May 2009, when additional accommodation was secured.
- In two offices (Waterford and Bray), signing-on was suspended temporarily during summer months to enable office staff to focus on claim processing.
- In three offices (Mullingar, Cavan and Swords), signing-on requirements were modified, with the frequency of signing-on being reduced for some categories of claimant.

Audit Concern

The reduced level of control activity, including reductions in the frequency of signing-on, may increase the risk of occurrence of Jobseeker payments that are in excess of entitlements. Also, there is evidence of claims that were terminated by the Department without overpayments being raised, and of a reduction in the efforts to recover overpayments. This may reduce the deterrent effect of control activity.

Views of the Accounting Officer

33.13 The Accounting Officer stated that, in the normal course of events because of claimants entering and leaving the live register, it would be expected that local offices would have in the region of 10% of their claim load pending at any particular time. In the week ending 6 June 2009, a total of 74,553 (16 %) claims were pending award. She made the following observations on the impact of the increased claim load on control activity and on debt management.

Reduction in Control Activity

33.14 The Accounting Officer stated that the capacity of staff in local offices and of social welfare inspectors generally to undertake control activity was curtailed because of the increased level of claims. To assist local offices in coping with the unprecedented increase in the live register, it was decided to allocate an additional 158 staff to local offices. The bulk of these staff were assigned over the period April 2008 to February 2009.

33.15 Because of the increased level of claims, the normal range of control activity was moderated to varying degrees across the local offices network and this would have involved a reduction in the number of customers selected for a 'genuinely seeking work' review. In general, the selection of these cases was now focused on high-risk categories of claimants (e.g. late signers and claimants with a previous fraud history). The reduction in the number of reviews was being supplemented by an increased number of referrals under the Employment Action Plan⁹⁶.

⁹⁶ Under the Government's Employment Action Plan, people who are approaching three months on the live register are identified by the Department and referred to FÁS for interview with a view to job placement or offer of training.

33.16 The Department had also reduced the number of means reviews it could undertake, having regard to the claim volumes being received and resources available to it. However, it was still undertaking reviews in high risk cases or where Departmental officers had earmarked cases for ongoing means reviews.

33.17 The Accounting Officer was unable to say what effect, if any, the reduction in control activity had on the achievement of control savings and the detection of overpayments. While the level of savings on Jobseeker payments to end May 2009 was only 35% of target, a very significant proportion of savings in the past were derived from interviewing customers about their efforts to find work whereas more recent experience indicated that this form of activity was much less productive due to the restricted employment opportunities now available.

33.18 The Department wished to follow best practice in relation to controlling fraud and scheme abuse at all times. However, given the pressures arising from the increasing live register, the current control approach in relation to Jobseeker payments must be appropriately balanced with reference to all the competing elements and new demands placed on the Department, and must take into account the economic and social circumstances that now prevailed given the downturn in the economy and labour market conditions.

33.19 In the meantime, the Department was required to strike a balance between claim processing and control activities, including increased claim maintenance work due to the unprecedented growth in both Jobseeker scheme numbers. While certain control activities had been moderated, this had to be seen in the light of the Department concentrating its limited resources and control activity on higher risk cases, and any moderation in certain control activities had been based on the risk factors associated with these activities. As in the case of all aspects of control activity, the Department's approach was kept under ongoing review.

Debt Management

33.20 The Accounting Officer stated that, in the normal course of events, savings were not assessed where claimants of Jobseeker payments failed to sign-on, unless there was some associated control activity. In the case of the Tullamore local office, the reintroduction of signing-on in July 2008 was associated with the issue of a mailshot which was one type of communication with customers used for control activity. Payment was suspended where people failed to respond, and was terminated where no further contact was made with the Department. In these circumstances, savings were claimed.

33.21 At this stage, 25 of the 49 cases involving Jobseeker Benefit claimants that did not sign-on as requested in Tullamore in July 2008 had been fully investigated and one overpayment had been raised. The remaining 24 cases were being currently examined and overpayments would be raised where a deciding officer made a decision on entitlement with effect from a retrospective date in accordance with legislation and guidelines. In the absence of such a decision, it was not possible to assess an overpayment and there was no legal basis for doing so.

33.22 The Accounting Officer stated that debt management and the recovery of overpayments continued to be an important control element throughout the local office network for Jobseeker payments. Overpayments continued to be assessed and recovered in line with legislation and guidelines.

33.23 In addition to the recovery of overpayments, a key element of the Department's strategy to deter fraud was the prosecution of cases involving serious fraud. The Department's review activity and the rigorous preventative measures in place at claim application stage were also important in the deterrence of fraud.

Conclusions

The impact of the economic downturn has resulted in a considerable increase in the jobseeker claim load. The Department has reduced its control activity in a number of ways and placed greater focus on processing claims in order to deliver on the primary service it provides to unemployed workers.

It will be important as the claim load stabilises to reassess key control risks in the current environment taking account of factors such as local economic conditions so as to ensure that a proportionate but effective control response is incorporated into the administration of these claims.

Chapter 34 Department of Social and Family Affairs

Transfer of Welfare Functions

Transfer of Welfare Functions

34.1 As part of the planning for reform of health sector structures that led to the establishment of the Health Service Executive (HSE), an interdepartmental review group was set up in September 2003 to examine the scope for transfer of certain non-core activities carried out by health sector bodies to other, more appropriate, departments and agencies. The review group recommended

- the transfer of responsibility for the Community Welfare Service (CWS) and for certain health sector administered income support and maintenance schemes to the Department
- the transfer of the General Register Office to the Department.
- an examination of the mechanics for transferring the Dental Treatment Benefit Scheme and aural and ophthalmic services from the Department to the health sector.

The Government agreed on 28 February 2006 to implement the recommendations of the review group.

34.2 On 19 September 2007, the Government noted the preparations made to that point for the transfer of functions between the HSE and the Department, and approved the proposed implementation plan. The plan envisaged the transfer of CWS staff to the Department on an Exchequer and staff neutral basis. This was to proceed as soon as possible following the conclusion of negotiations with the trade unions concerned. The Government directed that the transfer should not result in a reduction in public access to CWS premises and that a single means testing arrangement should be used by the Department and by the HSE. It also approved the transfer of responsibility for the General Register Office to the Department by the end of 2007, and the transfer of responsibility for the Domiciliary Care Allowance and certain other disability and care-related payments to the Department by the first half of 2009.

Audit Focus

The audit examined the progress to date on the execution of the Government decision.

Community Welfare Service

34.3 The Community Welfare Service (CWS) is part of the HSE, and operates through the local health service network. While the Department is responsible for policy, regulation and the provision of funding for the Supplementary Welfare Allowance (SWA) scheme, the HSE has statutory responsibility for that scheme's administration. This is one of the primary functions of the CWS.

34.4 Decisions about entitlements in relation to claims under the SWA scheme are made by Community Welfare Officers (CWOs). Basic SWA payments are made to eligible applicants, including people who are awaiting decisions on claims under assistance schemes administered by the Department (e.g. Jobseekers' Allowance, One Parent Family Payment). Other components of the SWA scheme are

- rent supplement
- mortgage interest supplement
- exceptional and urgent needs payments
- diet and heating supplements.

34.5 It was considered that a transfer of responsibility for administration of SWA would provide opportunities for enhanced service to claimants, achieve efficiencies, result in coordinated control mechanisms and elimination of duplication of effort, with consequential savings to the Exchequer.

34.6 Apart from processing and administering of SWA claims, CWOs in most areas also have an involvement in a number of schemes funded and administered by the HSE. These include

- Domiciliary Care Allowance (normally the forerunner to payment of Disability Allowance which is a Department scheme)
- Blind Welfare Allowance
- Mobility Allowance
- Infectious Diseases Maintenance Allowance.

In general, the role of the CWOs in relation to these schemes is to carry out means assessment (where appropriate) and to provide general information on the schemes to clients in relation to eligibility criteria and application procedures. In many HSE areas, CWOs are also involved in means testing for medical card eligibility and for nursing home subventions.⁹⁷

Transfer of the CWS

34.7 The legislative provision for the transfer of the administration of SWA from the HSE to the Department was included in the Social Welfare and Pensions Acts 2007 and 2008. The provisions, which effectively remove the HSE from involvement in the administration of the SWA scheme, are subject to a Commencement Order.

34.8 The Accounting Officer has informed me that project planning for the transfer is well advanced, that a significant amount of preparatory work in the areas of facilities management, human resources, information technology and finance has been completed and that the next step is to prepare for implementation when a date for the transfer is agreed.

34.9 Current proposals for the transfer involve the setting up of the CWS as a separate branch in the Department, closely aligned with its regional structure pending full integration within a two-year period.

34.10 The Accounting Officer has stated that the CWS itself is under considerable pressure particularly due to increased claims for rent supplement and mortgage supplement. A careful and well organised and resourced change management programme is required to ensure that service to the public is maintained while implementing the transfer.

34.11 It was agreed with the HSE that 866 CWS staff would transfer to the Department. It has now also been agreed, following consultation with the Department of Finance, that an additional 95 posts will be transferred to the Department from the HSE to provide for senior management as well as for support services such as information technology, facilities management and human resources.

34.12 The Accounting Officer has informed me that the transfer of almost 1,000 front-line and other staff from the HSE will have a significant organisational and human resources impact on the Department. In the meantime, transfer issues include

⁹⁷ The CWS in the greater Dublin area is not involved in these functions.

- HSE staff that transfer will change status from public to civil servant and this will involve changes in their terms and conditions of employment.
- Agreement has not been reached with unions representing staff in the HSE who are due to transfer to the Department, despite a lengthy facilitated engagement overseen by an independent chairperson which concluded in December 2008.
- No agreement has been reached in a number of areas related to terms and conditions of employment.
- The position of the health sector unions is that the staff wish to remain as employees of the HSE.

34.13 The transfer of functions was reviewed by Government on 28 April 2009. Noting the progress made to that point on the transfer programme, the Government approved 1 January 2010 as the implementation date for the transfer of the administration of SWA to the Department. It directed that the issues that remained unresolved between the management side and the unions should be referred to the national industrial relations institutions.

34.14 The Labour Relations Commission was contacted by the corporate employee relations unit of the HSE in May 2009 asking it to intervene and to bring the parties together for further discussion in an effort to progress the matter.

34.15 The Department and the HSE are aiming towards a transfer date of January 2010. However, achieving this is dependent on progress being made in relation to the industrial relations issues in the coming months.

34.16 The Accounting Officer has pointed out that the Department has no direct control over the industrial relations environment in which the CWS staff and their employer, the HSE, operate. The Department will continue to work with the HSE, the Department of Health and Children and the Department of Finance to resolve the industrial relations issues through the national industrial relations institutions, as directed by Government.

Unified Means Test

34.17 A Working Group which reviewed the SWA scheme reported in 2006 that there was duplication of means testing for social welfare schemes which should be addressed as a matter of priority. It recommended that only one means test should be carried out, and that all the means information required for the various schemes should be collected at that test. In the context of a single means test, the development of a single social assistance payment would further eliminate duplication in the system. It was concluded that staff resources freed up by elimination of such duplication would have a beneficial effect on the turnaround times for schemes.

34.18 The Accounting Officer has stated that the introduction of a single means test for recipients of all social assistance schemes and pensions is a long-term aim of the Department. It is linked with the development of a unified payment scheme for short-term assistance (Jobseekers Allowance, Disability Allowance, One Parent Family Payment etc.) but significant difficulties remain. A feasibility study into introducing a single social assistance payment for people of working age, both from the policy and operational aspects, is currently being undertaken. The study is at an early stage and an interim report will be produced later this year.

34.19 In addition, the Cabinet Committee overseeing the Transformation of the Public Service has established a Working Group, chaired by the Director-General of Social Welfare Services, to determine the feasibility and value of mechanisms to simplify the manner in which customers provide means information to public bodies. While this is not a proposal for a single means test, it

will include consideration of the possibility of establishing a Common Means Assessment Repository which could support the application of various bespoke means tests by participating agencies on the basis of a common view of what constitutes the means of the individual or household concerned. A final report is expected by the end of 2009.

Other Transfers

34.20 The Accounting Officer has stated that the following is the status of transfer arrangements or proposals for other schemes and units.

Scheme	Status of Transfer
General Register Office	Transferred to the Department in January 2008
Dental and Treatment Benefit	Proposals are being developed for the introduction of a single integrated computer system to allow payment to be made to service providers in respect of persons who are entitled to dental and/or treatment services under either the PRSI or medical card schemes.
Domiciliary Care Allowance	<p>There are currently approximately 23,000 recipients of allowances.</p> <p>New claims are being accepted by the Department since April 2009 and the stock of existing claims will transfer in September 2009.</p> <p>The legislative provisions for the transfer were included in the Social Welfare and Pensions Act, 2008.</p>
Blind Welfare Allowance	<p>There are currently approximately 3,000 recipients of allowances.</p> <p>A specific date to commence the transfer of Blind Welfare Allowance has not been set. A decision will be made when the Domiciliary Care Allowance transfer has been completed and having regard to the progress being made in transferring the SWA service.</p> <p>The legislative provisions for the transfer were included in the Social Welfare and Pensions Act, 2008.</p>
Mobility Allowance	<p>There are a number of concerns about the appropriateness of the transfer of this scheme to the Department at this stage. In its current configuration, it does not fit comfortably with any other social welfare payment.</p> <p>The Department of Health and Children is reviewing the appropriateness of the proposed transfer.</p>
Infectious Diseases Maintenance Allowance	This scheme is to be discontinued. Fewer than ten cases remain in payment. These are being transferred to an appropriate social welfare allowance.

Conclusions

The original proposals to transfer schemes out of the HSE arose out of a 2003 report of the Commission of Financial Management and Control Systems in the Health Service. The aim was to remove non-core services from the health sector and to align accountability with the agency that had authority to commit the funds.

Much of the transfer agenda remains to be completed although enabling legislation is in place in a number of instances.

In order to achieve the improved customer service efficiencies, coordination of control and elimination of overlap, a sharper focus on change management designed to address the business impacts of the transfer appears to be called for. The overall drive would benefit from a plan with defined timescales and deadlines.

Chapter 35 Department of Social and Family Affairs

The Money Advice and Budgeting Service

The Money Advice and Budgeting Service

35.1 The Money Advice and Budgeting Service (MABS) is provided by a network of companies with the Department having overall responsibility for the service. The service is provided by 51 local companies throughout the country.

35.2 In addition to the 51 companies, two further companies have national functions

- MABS National Development Ltd (MABS NDL) was established in 2004 to support staff and manage the service.
- National Traveller MABS was established in 2005⁹⁸ to provide specific support on issues relating to the traveller community.

At May 2009 there were 252 staff employed in all of the companies.

35.3 In October 2008, the Minister for Finance announced that the service would be assigned to the Citizens Information Board⁹⁹ (CIB), with the Department retaining overall policy and financial responsibility for MABS. The legislative basis for this change is set out in the Social Welfare (Miscellaneous Provisions) Act 2008.

35.4 Local MABS companies are established as companies limited by guarantee and are overseen by boards of directors. Membership of these boards is typically drawn from representatives of Credit Unions, the Society of St. Vincent de Paul (SVP), the Community Welfare Service of the Health Service Executive (HSE), resource centres for the unemployed, the Citizens Information Service of the CIB, Local Authorities and the Department.

35.5 The principal aim of the service is to provide a free, confidential and independent debt advice and management service mainly to low-income families who are already in debt or at risk of getting into debt. The MABS service involves

- providing information (around 13% of cases in 2008)
- helping to make arrangements with creditors (around 73% of cases in 2008)
- facilitating debt management (balance of cases).

35.6 Limited information was available on the service's client base prior to mid 2005. However, since then a new management information system has been put in place. Figure 116 records the level of client throughput for 2007 and 2008.

Figure 116 Clients Dealt with in 2007 and 2008

Year	New Clients	Information Only Cases
2007	12,433	2,643
2008	16,600	2,441

35.7 The cost of providing the service in 2008 was €16.22 million. Figure 117 details the financial allocations and the actual expenditure on the service for the period 2000 to 2008.

⁹⁸ Its predecessor, Exchange House MABS, was established in 1995.

⁹⁹ The Citizens Information Board is a statutory body operating under the aegis of the Department.

Figure 117 Allocations and Expenditure for MABS, 2000 to 2008

Year	Allocation	Expenditure
	€m	€m
2000	5.77	6.15
2001	8.47	8.28
2002	9.70	9.28
2003	9.87	9.41
2004	11.40	11.40
2005	13.62	13.59
2006	16.41	13.58
2007	17.67	14.58
2008	17.95	16.22

35.8 In 2008, the average expenditure of local companies was €278,322.

Environment in which the Service Operates

35.9 Personal sector credit has been expanding. The Central Bank of Ireland has reported that by the end of 2006 personal sector credit reached 164% of disposable income compared to 70% in 1998¹⁰⁰.

35.10 In its 2007 Financial Stability Report, the Central Bank reported that 6.5% of households who had mortgages experienced some form of financial stress in 2005 – a similar level to 2004 and 2003. At that time, failing to meet scheduled utility payments (4.3%) was the most common form of financial stress followed by falling into arrears on mortgage payments (3.8%). Single parent households were the most likely to experience financial stress, while households with the lowest incomes reported the highest level of financial stress.

35.11 The increasing resort to credit in recent years has resulted in households having high debt levels at a time when incomes are predicted to stagnate or fall and unemployment levels are increasing. The tightening of credit and aggressive pursuit of debt by financial institutions have resulted in increased demand for the service.

35.12 There were 222,800 persons unemployed in the first quarter of 2009, representing an increase of 113,400 (104%) over the same quarter in 2008¹⁰¹. Unemployment is predicted to increase further in the short-term.

Organisation of the Service

35.13 Services are delivered through local companies. A benefit of this is the involvement of local voluntary groups and the fact that they remain close to the communities they serve.

35.14 The Department has overall responsibility for the management of the programme, including monitoring of MABS, the administration of the funding allocation, policy development and executive decision-making. A dedicated unit within the Department manages the service centrally. The network is further supported by the Department's officers based in regions. The Department

100 Central Bank Financial Stability Report 2007.

101 Central Statistics Office, Quarterly National Household Survey – January to March 2009.

has a representative on each local MABS board of management. In addition, Department regional coordinators support local MABS boards and the local companies themselves.

Regional and National Structures

In addition to the 51 local companies, the service also has regional and national structures.

- Departmental Regional Coordinators support local companies, chairing meetings with representatives from the companies in their areas four to five times a year.
- A Money Advice Training Unit operates within MABS NDL. It supports staff and management countrywide, providing training services and a range of operational supports.
- Commencing in 2009, the CIB will formulate policy, make recommendations to the Department, and look at issues that affect users of the service and the local companies. Formerly, a National Advisory Committee (NAC) discharged this role.
- MABS NDL provides technical advice and support in relation to specific case queries. It facilitates the development and delivery of community education programmes. In addition, support is provided for IT systems and the national telephone helpline.
- A National Executive of Money Advice Staff aims to promote professional standards among money advisors and administrators employed by the companies.
- A National Management Forum which is representative of the local management groups and its Executive Body consists of two representatives from each region.

35.15 Around 73% of clients receive support to deal with existing debt and to avoid its recurrence. A further 14% receive enhanced support, under which special accounts are operated in conjunction with credit unions. In these cases, clients enter into an agreement through which money advisors are authorised to manage their credit union accounts and make repayments to their creditors.

35.16 In addition, a Loan Guarantee Fund (LGF) is operated, to guarantee credit union loans to clients who do not meet normal credit union criteria. The money is advanced by the Department and lodged with credit unions as a reducing balance guarantee. It remains the property of the Department.

The Loan Guarantee Fund

The Fund predates the establishment of the MABS and was set up in 1989 as part of an action plan to deal with the problems of money lending. The Fund was made up of a contribution of €127,000 from National Lottery Funds and €127,000 from the Irish Banks Standing Committee and was initially managed by the SVP. The Department stated that it was established and continued to be used for MABS clients, as an alternative credit source to money lenders, who can charge interest rates of up to 188%.

Each MABS company places a LGF deposit with its local credit union. This is used to guarantee small loans where a client has a track record with MABS but an insufficient savings record to obtain a normal credit union loan. Amounts rarely exceed €500 and may occur in family emergencies. A client applies to the credit union for a loan in the normal way but is not informed that it has been guaranteed by the LGF. Before the credit union can have recourse to the LGF in respect of a default, it must have exhausted all normal recovery procedures.

The LGF operates outside the normal MABS procedures in assisting clients with debt management. At present there is €630,893 in the LGF, with 206 loans guaranteed to the extent of €143,920.

35.17 Clients are seen by MABS money advisors by appointment. Offices are not open to the public in the same way as a social welfare local office. Prospective clients phone their local service and they are given an appointment time or, alternatively, an appointment may be set up for them through a helpline. The helpline is available Monday to Friday from 9am to 8pm.

Audit Focus

The audit reviewed whether the service as currently structured

- delivers its service efficiently
- reaches the target population (low-income families who are in debt or at risk of becoming so)
- has had its effectiveness assessed.

The proposed assignment of the service to the CIB provides an opportunity to address the current service model. The views of the Accounting Officer were also sought on the challenges that were involved in restructuring the service.

Efficiency of the Service

35.18 Excluding clients seeking information only, the service dealt with 16,600 clients in 2008. This is an average rate of less than two per week per staff member. The cost of dealing with an average case was just less than €1,000.

35.19 There is no overall information on the time taken by clients to move through the system. None of the MABS companies visited were in a position to state how long it took to complete dealings with clients. While information is available on the numbers of clients served, the lack of information on the time devoted to the average case militates against evidence-based allocation of resources in individual companies and across the network.

35.20 A further indicator of service delivery is the length of time it takes to access the service. No formal targets have been set at national or local level. However, one company visited had set a guide time of two weeks.

35.21 No data on waiting times is maintained. Only one of the companies visited recorded client queries and appointments in such a way that waiting times could be calculated. In all cases clients are seen by appointment only.

A standardised system for recording client contacts at company level should be developed, under which information such as initial contact dates, appointment dates, non-attendance rates and client discharge dates are collected and reported, so that timely output and performance information can be generated and used.

Service Standards

35.22 A Customer Service Charter has been in place since 2006 and is displayed in local offices. Having a charter is not in itself sufficient to guarantee performance; the commitments under the charter need to be monitored. In the area of client satisfaction, while comment cards had been introduced in 2007, none of the four companies visited had received a response to these cards. One of the companies visited indicated that it is working with MABS NDL with the intention of performing a client survey.

35.23 Overall, there has been no assessment of client satisfaction. The Department has stated that a Quality Assurance Working Group was established in 2007 to examine service processes and develop appropriate standards. The focus is on developing governance capacity across the network. This includes the development of quality standards. A working group is examining the delivery of the service and is expected to report in mid-2009. It is intended to seek approval or certification for the quality standard from an appropriate third party. This will be followed by the development of appropriate training and the implementation of the standards across the network.

35.24 The effectiveness of board oversight is somewhat constrained by a strict interpretation of the confidentiality clause in the contracts between the Department and the companies. This has limited the capacity of boards to assess the quality of the service being provided to clients, since client files are not available to boards.

The work of the Quality Assurance Working Group needs to be prioritised so that specific service standards can be developed. Particular focus should be given to waiting times and client satisfaction levels. The Department should ensure procedures are introduced to standardise the data maintained.

Reaching the Target Population

35.25 In order to effectively deliver on its mandate it would be necessary that

- the target population be aware of the services available
- a balance be achieved between preventative work and services for those already in debt
- a well-developed referral system exist linking organisations that service the same or similar client bases.

Service Promotion

35.26 The examination noted that approximately 1% of overall expenditure is used for service promotion. This is applied as part of seasonal and once-off campaigns.

35.27 At national level, a website was established in 2004. This provides information on debt management, a service location map, contact details for individual companies and outreach services¹⁰² and information on the services available. None of the companies had their opening hours displayed on the website¹⁰³. It is estimated that there have been approximately 320,000 visits to the site since its introduction. One of the companies has developed its own website, however its opening hours were not displayed on the site.

35.28 In September 2007, a national telephone helpline was established which provided advice and information to those who only required first line assistance. The helpline can now handle less complex single debt cases such as threatened utility disconnections. The helpline currently deals with over 18,000 calls per annum. Issues are said to have been resolved in over 90% of these cases. Helpline staff also refer callers to local companies where the issues are too complex to resolve.

35.29 Where waiting lists for appointments have built up at local level, calls are sometimes made to the helpline by those who are on the waiting lists. These clients are provided with preliminary information and advice, and are helped to prepare for meetings with money advisors, so that maximum value can be gained from the first consultation with their local service.

35.30 At local level, all of the companies visited placed promotional literature in prominent public places. They also informed the examination team that they rely on word-of-mouth as well as permanent advertisements in local newspapers, distributing leaflets prepared by MABS NDL and advertising the service on supermarket receipts in major shopping centres. All four companies visited expressed concern to the examination team that they may not be reaching the right target groups. However, only one of the companies undertook any formal evaluation of the effectiveness of its approaches.

35.31 The Department stated that there were no plans to implement an annual marketing programme in respect of the MABS at this time. However, the matter would be kept under review in the light of uptake of the service, the findings that emerged from research about access to assistance for people that have debt difficulties and the availability of resources. It stated that a number of initiatives were in hand to ensure that MABS remained prominent in the public eye. The communications officer in MABS NDL made regular contributions to the media on budgeting and money management. Until recently he had a regular weekly slot on RTE's 'The Afternoon Show'.

35.32 A radio campaign was undertaken to highlight the MABS national telephone helpline in January and March 2008. While the radio advertisements were playing there was a short-lived upsurge in calls but this was not sustained over a longer period. A series of regional meetings with the MABS key partners and the main referring organisations has proved more successful in raising awareness about the helpline and the services it can provide. It is also anticipated that the requirement to refer people in debt difficulty to the MABS included in the two statutory codes of practice for money lenders and for the banks in dealing with mortgage arrears will highlight awareness of, and increase referrals to, the MABS.

102 Some of the MABS companies operate what are termed 'outreach services' in addition to the main full time services, where they provide the service, normally once a week, in a location different to the company office.

103 Waterford MABS provided opening hours for outreach centres, but not for its main office.

Under its Strategic Plan for 2008-2010, MABS NDL has an objective of raising awareness and increasing the use of the service.

Preventing Debt Problems

35.33 An important objective of the service is to educate citizens on how to avoid getting into debt. However, at present, there is no national community education strategy in place. MABS NDL informed the examination team that they plan to develop such a strategy.

35.34 An exception is the travelling community, where the National Traveller MABS company aims to address the problem of debt and access to affordable credit by encouraging clients to join credit unions or use banks, and by educating clients and groups in budgeting and money management. The employment of a full-time community education worker has facilitated the development of an educational strategy in this area.

35.35 Activity at company level is highly skewed in favour of case management of debt problems to the detriment of preventative actions. At company level, the examination found that while educational activity was not recorded precisely, estimates provided by the companies visited indicate something approaching 5% of staff time is devoted to it. This varies from company to company and in one case, this activity ceased in 2007 because staff were said to be too busy dealing with clients who had already fallen into debt.

35.36 The Department stated that it might be desirable to have solid research evidence that would help to determine the optimum level for educational activity. However, there were no proposals to undertake such research at this time. Dealing with clients who were in debt difficulty is the priority activity for all MABS services, but community education was an important part of local work programmes.

Referral System

35.37 The smooth referral of clients by other agencies is important in effectively targeting the population served. The examination team found that in general there were no agreed criteria for the referral of clients between companies and referring agencies. While companies recorded incoming referrals manually, no records were kept by two key agencies – the CIB or the HSE at local level.

35.38 The Department stated that MABS NDL is currently arranging meetings with the main referring and creditor organisations including banks, credit unions, citizens information and the SVP, to discuss with them the appropriate channels (helpline or appointments) for referring their clients to the MABS.

35.39 The main types of referrals to MABS companies were

- self-referral – 26% in 2008 (27% in 2007)
- family/friend – 20% in 2008 (18% in 2007)
- HSE Community Welfare Officers (CWOs) – 11% 11% in 2007 and 2008.

35.40 A significant proportion of clients were referred onwards by the local companies – 30% in 2008 (32% in 2007). These referrals generally arose where different problems were identified during the course of engagement with staff, such as gambling or substance abuse.

Service Effectiveness

35.41 For the service to function effectively, it would need to communicate a clear vision of its purpose, establish performance reporting and set up mechanisms for evaluating its effectiveness.

Service Objectives

35.42 At local level, each company has a three-year contract with the Department, which covers funding and service delivery commitments. As part of the contract process, each company submits a three-year strategic action plan grounded in the MABS high-level objectives, and a progress report outlining achievements in respect of the previous plan. Each company submits an annual report outlining its achievements under its action plan.

35.43 The service has never had an overall national strategy. The Department did identify the high-level policy objectives when the service was established in 1992 and the objectives have remained the same since.

35.44 The Department stated that MABS was a highly valued service with committed voluntary boards of management and staff. However, it recognised that further improvements could be made in the operational structure, in relation to leadership and overall coordinated management of the network of services. The Department had developed policy and legislative proposals in recent years to address these matters, and to deliver on commitments in the programme for Government to put in place a new structure for MABS, with strong national leadership and the continued involvement of the voluntary sector. The CIB was preparing a new strategic plan in relation to its activities for 2009 to 2011 and that plan would encompass MABS activities.

Management Information

35.45 Since 2005, MABS NDL has collected data from individual companies and produces client statistics for the Department. Currently, it can provide national statistical information on the

- number of new clients monthly, quarterly and annually
- category of clients, including age, gender and accommodation
- clients' income status
- source of referrals to and from MABS
- amount of new client debt
- special accounts.

35.46 Overall the type of data provided is mainly demographic information and does not extend to operational costs, staffing levels, client waiting times or throughput statistics. The consistency of the information is questionable, in that, at local level the examination found four different methods of categorising repeat clients in companies visited.

Data relating to the number of clients should be accurate and compiled in a standard fashion. The lack of a common approach to categorising and recording clients has implications for planning, control and resource allocation.

Performance Reporting

35.47 Consistent information is necessary for performance reporting. Data supplied by local companies for central monitoring was found to be unreliable because of internal differences and

varying criteria used by individual companies to classify activities. The examination found the statistics in relation to new clients in 2006 were unreliable. The total number of new clients who availed of the service in 2006 was recorded as 14,504. However, when presented by age, gender, income status etc., the total came to 12,455 – a difference of 2,049 (14%). This gave rise to concerns over accuracy and reliability of the data.

35.48 The Department stated that the underlying software system (MABSIS) was rolled out on a phased basis from July 2005 and over the course of 2006. Almost inevitably, any new IT system would give rise to issues that would require modification of the system. Action had been taken to address any such inaccuracies promptly.

35.49 In regard to the resources used by the service, the Department received quarterly financial reports from the companies, who were also obliged to submit annual reports and audited accounts. Annual reports were reviewed in the MABS Unit in the Department.

35.50 At local level, monitoring focuses on client numbers – new, re-activated, active and discharged. Monthly activity reports relating to the number and type of clients who contacted the service, together with client demographic information, are submitted to boards for consideration.

35.51 The Combat Poverty Agency (CPA) suggested that performance reporting could be strengthened by publishing an annual report, a view supported by the CIB, which also suggested the introduction of a mechanism to assess the impact of the service. The Department stated that the CIB produced an annual report outlining its activities, which from 2009 onwards would include a report on the MABS.

The Department needs to introduce a standard definition of case types and details to be reported in order to ensure that the information is reliable and consistent. It should also complete a review of the current reporting software to ensure the reliability of the reports the system produces.

Evaluation of the Service

35.52 In a four phase evaluation between 1999 and 2002, one evaluation¹⁰⁴ concluded that

- the original stated objectives were still valid, but it was recommended that they be revisited and restated
- the primary target group for the service needed to be restated
- an agreed set of standards for the money advice process should be developed
- the national structure should be immediately reviewed and revised.

35.53 A report in 2002¹⁰⁵ suggested that a self-evaluation approach at company level should be adopted so as to facilitate quality reviews and strategic planning at that level. This would also feed into the ongoing national development of the service. Evaluation training and support, which would become part of the training calendar, should be provided for the companies. The report recommended that all companies should be invited to participate on a voluntary basis in thematic evaluations over an eighteen-month to two-year period, with each company conducting three pieces of applied research. It also recommended the greater use of trend analysis to generate thematic topics that could impact at national level.

104 National Evaluation of the Money Advice and Budgeting Service, Report for Phase Two, Eustace and Clarke, April 2000

105 MABS External Evaluation, Phase Three: Report of the Pilot Self-Evaluation Process, Eustace and Clarke, December 2002

35.54 A Peer Review in the Field of Social Inclusion Practices was conducted by the European Commission in November 2004, to examine the service and its transferability to other EU Member States. It found that over 90% of clients were satisfied with the service. The Peer Review members visited three companies.

35.55 The Department, in response to the evaluation process, noted the actions and commitments that had been undertaken.

- The MABS NAC restated the MABS objectives as continuing to be relevant and that the primary target group remains individuals or families on low incomes.
- Guidance to MABS boards of management and staff on all aspects of the service are provided in manuals.
- Commitments in relation to the introduction of a customer charter, a comments and complaints procedure, and the development of quality assurance standards for the service have been made under 'Sustaining Progress'¹⁰⁶. A Quality Assurance Working Group was established in late 2007. In July 2009 the Group produced an interim report which has been forwarded to the CIB and MABS NDL for follow up action.
- The next steps will be to seek third party certification of the standards, the development of appropriate training, the implementation of the standards across the network, and procedures for monitoring and evaluation.

Indebtedness and Poverty

35.56 No assessment of the impact of the service on other Department poverty reduction measures has been completed. The Department has stated that it would be difficult to draw generalised conclusions from an assessment of the impact of the MABS on poverty rates. Only a small percentage of social welfare customers have recourse to the MABS. The reasons people become over-indebted are complicated. Clients present to the MABS with debt owed to a variety of creditors. The top ten primary debt types include personal loans, utilities, credit cards, mortgages, hire purchase loans, overdrafts, rent arrears, catalogues, fines, and sub-prime loans. Clients that attend the MABS usually owe money to more than one creditor.

35.57 The Department is keen to get more information about the links between over-indebtedness and poverty. A number of research studies undertaken recently indicate that wider issues to do with financial inclusion, such as access to credit and other financial services, are also relevant to the issue of over-indebtedness, and to the possibilities that people on low incomes have available to them for managing their budgets.

35.58 The Department has stated that the findings from research studies by agencies such as the CPA¹⁰⁷, the CPA on behalf of the Financial Regulator¹⁰⁸, and the Financial Regulator¹⁰⁹, together with the statistical information from MABSIS, are routinely considered in the Department for what they can contribute to an understanding of the nature and cause of over-indebtedness and the ways in which the MABS may respond to the needs of people on low incomes with debt difficulties.

¹⁰⁶ Sustaining Progress was the Social Partnership Agreement for 2003-2005.

¹⁰⁷ A Policy Framework for Addressing Over-indebtedness, Stuart Stamp, April 2009

¹⁰⁸ Financial Exclusion in Ireland: An Exploratory Study and Policy Review, Caroline Corr, 2006

¹⁰⁹ A Report on the Licensed Moneylending Industry, Financial Regulator, March 2007

Views of Related Agencies

35.59 The views of interested parties on the operation of the service were invited as part of the examination in June 2008. A submission by the CIB expressed concern over possible duplication and waste of resources by the service. It was of the view that the service lacked a national strategy, national statistics and a national annual report, which set out activity and measurable outputs. The autonomy of individual companies and the multiplicity of fora were also identified as matters of concern.

35.60 The CPA noted that there were a number of committees with roles in the oversight and functioning of the service. It considered that there was a need for greater clarity on the role of these committees.

Views of the Accounting Officer

35.61 In response to my inquiries in regard to the organisation of the service following its transfer to the CIB, the Accounting Officer informed me that the enabling legislation provided for the amendment of the Citizens Information Acts, 2000 to 2007, to extend the functions of the CIB to include responsibilities in relation to the provision of the service. The legislation provided that MABS would be a separate and distinct service within the CIB. There would be no change in the status of the companies that constituted the service nor in the employment status of their employees.

35.62 A project plan to effect a smooth transfer of the responsibility for the MABS to the CIB had been completed with the assignment to take effect from 13 July 2009 following the commencement of Part Four of the Social Welfare (Miscellaneous Provisions) Act, 2008.

35.63 The Accounting Officer stated that the experience of the CIB in providing strong management support to the voluntary and community sector in the provision of a quality local public service was well recognised. The CIB managed 42 companies with voluntary boards of management employing 189 staff providing information, advocacy, and advice services in over 268 centres nationwide, comprising 106 Citizens Information Centres (54 full-time and 52 part-time) and 162 outreaches. It could provide the MABS with the support of a strong national leadership to assist in providing a high quality, coordinated budgeting and advice service that represented value for the taxpayer's investment. Overall, the synergies that already existed between the two services in terms of advocacy and the provision of information would be further enhanced by this move.

35.64 In terms of economy, the Accounting Officer stated that it was not envisaged that significant savings or additional costs would accrue on the assignment of responsibility for the provision of the MABS to the CIB. Rather, the intention was to provide strong management support to the local voluntary MABS companies in the provision of a quality service to meet the needs of people encountering debt difficulties. Cost efficiencies would be realised in the medium to longer term through premises co-location and the integration of support services such as administration and IT. It was not possible to quantify these potential cost efficiencies at this time.

35.65 The assignment of responsibility for the MABS represented a challenge for CIB, but it had extensive experience in managing a similar type structure through the Citizens Information Services network. In addition, the CIB had in the past been highly successful in managing the integration of the National Rehabilitation Board and the National Social Services Board with Comhairle, and the subsequent expansion of its functions under the CIB to include an enhanced information service for people with disabilities and specialised advocacy services.

Conclusions

In 2008, the service cost €16.22 million. However, because of its dispersal across the country it is relatively costly, servicing 16,600 clients in 2008, or an average of less than 2 per week per head of staff.

While the service will function as part of the wider CIB network from 2010 onwards, the change is not projected to yield substantial financial savings since MABS will retain its current structure within the CIB. In order to identify any possible savings, there needs to be early identification of the extent of surplus property and the potential for shared services within the new CIB structure.

Overall, the audit results suggest a need to review the service in order to determine the extent to which

- it is meeting the needs of the target population
- its resourcing is based on identified service demand, evidenced by comprehensive management information
- additional synergies leading to service efficiency may be achievable within the wider CIB network
- it is positioned to meet the emerging demand that is likely to result from the current economic downturn.

From a service effectiveness viewpoint, the quality assurance and standard setting work initiated in 2007 needs to be brought to a conclusion.

Chapter 36 Department of Health and Children

National Treatment Purchase Fund

National Treatment Purchase Fund

36.1 The National Treatment Purchase Fund (NTPF) was set up on an administrative basis in 2002 and established on a statutory basis in 2004. The principal aims of the NTPF are

- to arrange and fund treatment for public patients who have been waiting longest for elective i.e. non-emergency treatment in a public hospital
- to collect and make available reliable lists of persons waiting for such treatment.

Since 2005, the NTPF has also engaged on a pilot basis in the provision of out-patient consultations and resultant surgery where required.

36.2 The NTPF had a staffing level of 47 in 2008 and a budget of €104 million. A total of 20,829 public in-patients were treated during the year, and 12,342 out-patient consultations and 3,098 MRIs were arranged. At year-end, the National Patient Treatment Register (PTR) held details of a total of 18,221 persons¹¹⁰ awaiting treatment for a period longer than 3 months. Details of operational data in respect of the period 2005- 2008 are included in Figure 118.

Figure 118 NTPF Resources and Patients Assisted 2005-2008

	2005	2006	2007	2008
Annual Budget	€64m	€78m	€92m	€104m
Staff Complement	28	35	41	47
In-Patients Treated	14,580	15,003	19,769	20,829
Out-Patient Consultations	4,414	7,480	10,569	12,342
MRIs Provided	—	1,928	2,300	3,098

36.3 The NTPF interacts with each of 44 public hospitals, both in terms of compilation and validation of waiting list data and of the identification of patients for NTPF intervention. While the NTPF arranged 20,829 in-patient treatments for public patients in 2008, the total elective in-patient treatments in public hospitals amounted to 658,000 in that year. The NTPF service, therefore, complements mainstream public hospital elective treatments.

36.4 The relative impacts can be seen from Figure 119 which shows the total number of elective in-patient¹¹¹ treatments provided in public hospitals in the years 2005-2008 and the additional treatments arranged and funded by the NTPF.

¹¹⁰ Comprising 13,863 Surgical Cases and 4,358 Medical (i.e. non-surgical) Cases.

¹¹¹ The term 'in-patient' includes a person receiving treatment as either an overnight or a day case and is distinguished from the term out-patient which refers to a person waiting for an appointment with a consultant.

Figure 119 Elective Treatments 2005-2008

Year	Public Hospital Treatments	NTPF Treatments	Percentage of Patients Treated %
2005	450,953	14,580	3.23
2006	511,924	16,931	3.31
2007	631,987	19,769	3.13
2008	657,806	20,829	3.17

Audit Focus

The audit examined

- the procedures in place to validate the waiting list
- the arrangements for the cost-effective procurement of treatments by the NTPF.

Waiting Lists

36.5 In each public hospital, patients are placed on the treatment waiting list of that hospital on the direction of a consultant doctor. Hospitals are required to keep the waiting lists up to date, and to suspend or remove patients from the list where appropriate in accordance with the National Guidelines for the Management of Waiting List Data.

National Guidelines for the Management of Waiting List Data

National Guidelines for the management of in-patient and day case waiting list data were developed by public hospitals and the NTPF and introduced in July 2007. They apply to all hospitals with public in-patient and day-case surgical and medical waiting lists. The guidelines set out

- general principles for the administration of waiting lists including notification of data to the NTPF
- a requirement on hospital management to validate the waiting list at least quarterly
- the basis for addition to, and removal or suspension of patients from, the waiting list.

Patients on waiting lists should be medically fit for treatment and available for admission. Patients unavailable for social or medical reasons are placed instead on a suspension list until they are available for treatment. Patients who decline treatment, or do not attend on two occasions following receipt of admission dates, should be removed from the hospital waiting list.

Collection of Waiting Data by NTPF

36.6 Each of 44 public hospitals, excluding maternity and psychiatric hospitals, provide the NTPF with details of patients on its waiting list. The information, including contact details, medical or surgical procedure required and date of medical consultation, is sent weekly to the NTPF by electronic transfer. The information is collated by the NTPF to form the PTR. The PTR is available online and may be consulted at varying levels of detail by the general public, hospital staff or General Practitioners subject to password protection.

36.7 While details of all patients on waiting lists are provided to the NTPF, only patients who are on a hospital waiting list for longer than three months are available for an offer of NTPF intervention. When that requirement is taken into account together with the provisions of the National Guidelines for the Management of Waiting List Data, the 'active' PTR comprises patients who

- are waiting longer than three months
- have not been suspended¹¹² as unfit for treatment, or temporarily unavailable for social reasons
- have not been removed under request or due to failure to attend
- have not been scheduled for treatment by the hospital or through the NTPF.

36.8 This 'active' PTR is the focus of NTPF action, and its current total is the number usually quoted as the national in-patient waiting list. It includes those waiting for surgical and non-invasive medical treatments which may be provided on a day-case basis or may require one or more overnights in a hospital.

Validation of Data by NTPF

36.9 Hospitals are responsible for validating their waiting lists in line with national waiting list data management guidelines and for submitting that information to the NTPF. However, the validation of information received from hospitals in relation to persons waiting for treatment is also a statutory function of the NTPF. In 2007, following the introduction of the National Guidelines for the Management of Waiting List Data, the NTPF established a Review and Analysis Section to ensure by means of spot checks that the guidelines were being followed and that the hospital data was accurate. Further audits were carried out in 2008 and in 2009. Initially, the focus was on cases waiting for longer than 12 months, but this has since been widened to include those waiting in excess of nine months.

36.10 During the process, NTPF staff in conjunction with hospital staff examine the hospital records, and any necessary changes are agreed. Any resultant recategorisation of patients should take place either during the process or following receipt by the hospital of a subsequent NTPF report.

36.11 The results of the validation checks to date indicated that

- Only a small percentage of the cases reported to be longest waiting (ranging from 17% down to 8% in the three completed checks) were available for the offer of NTPF-funded treatment. In a partially analysed 2009 check, no cases were available. The NTPF indicated that this was a percentage of a constantly changing number of patients that totalled approximately 3,500 in 2008.
- The most common reason for unavailability for NTPF treatment (37% to 46% of cases) arose from the failure of hospital administration to follow up patients who had not responded to a previous contact e.g. the offer of a hospital admission date. In November 2008 three hospitals accounted for almost half of the numbers in this category – Letterkenny General (340), AMNCH Tallaght (228) and Sligo General (200).
- 29% or over 1,000 cases were removed from the active PTR as a result of the November 2008 NTPF validation process. Reasons included patients being unavailable for medical or social reasons who should have been removed to a 'suspended' list, as well as patients

¹¹² Approximately 8,000 patients were on the suspended patients list as at April 2009.

already scheduled for treatment. The largest number of removals were in Letterkenny General (100) and Sligo General (70).

- In a May 2009 partial analysis, 37% of patients or 226 out of the 612 cases analysed to date are recorded as unsuitable for treatment, for clinical reasons, other than in their own hospital – this is a major increase over previous findings¹¹³.
- In 2008, the NTPF validation process showed that for patients listed as waiting over 12 months, an average of 17% of this cohort were reported as having declined the option of treatment in another hospital under the NTPF scheme. The highest number 124 (or 44%) of the 282 patients in this category in November 2008 related to Letterkenny General Hospital.

36.12 A general summary of the initial three validations together with partial results from 2009 is set out in Figure 120. The NTPF has pointed out that the figures are influenced by the size of samples and actual hospitals examined.

Figure 120 Results of NTPF Validation of Cases on the PTR

Validation Scope	Nov 2007	May 2008	Nov 2008	May 2009 ^a
Hospitals Examined	27	26	33	20
Case Type Sampled	12 Months+	12 Months+	9 Months+	9 Months+
Number of Cases Examined	2,729	2,711	3,555	612
Audit Results				
Cases on the PTR not open to NTPF action due to failure of the hospital administration to follow up patients and keep records updated	46%	37%	46%	37%
Cases incorrectly on the PTR under the Guidelines, and to be removed	18%	25%	29%	14%
Cases for treatment in own hospital	15%	7%	9%	37%
Cases reported as declining NTPF intervention	4%	17%	8%	12%
Percentage not available for NTPF intervention	83%	86%	92%	100%

Note:

- a These are provisional results based on the analysis by the NTPF of 612 or 52% of the 1,177 cases examined.

Review of Waiting List Totals and Longer Waiting Cases

36.13 The NTPF provides extensive detail and analysis on hospital waiting lists through the medium of the on-line PTR, periodic reports on the PTR, and its Annual Report. The general classifications are between surgical and medical patients, and the main waiting periods of between 3-6 months, 6-12 months and over 12 months. Figure 121 details the numbers of patients recorded in these categories as at December 2007, December 2008 and April 2009.

¹¹³ The NTPF indicated that, in effect, a static number of untreated cases are forming a larger portion of a reducing overall total in each category.

Figure 121 Waiting List Totals as at December 2007, December 2008 and April 2009

Waiting Period	December 2007 ^a		December 2008		April 2009	
	Surgical	Medical	Surgical	Medical	Surgical	Medical
3-6 Months	7,279	1,597	7,280	1,932	7,080	2,090
6-12 Months	5,831	1,143	5,007	1,554	4,927	1,380
>12 Months	4,637	893	1,576	872	1,186	828
Sub Total	17,747	3,633	13,863	4,358	13,193	4,298
Total	21,380		18,221		17,491	

Note:

- a 2008 was the first year in which all 44 hospitals provided their waiting list details to the NTPF. 2007 includes all hospitals except Mayo General, Louth County, Monaghan General and Naas General.

36.14 The data in Figure 121 indicates that the numbers in each category across the three periods remain quite consistent, with the exception of the >12 month surgical category which has experienced a fall of the order of 75%. This category has been the main focus of the NTPF validation activity since 2007.

36.15 Examination of the 1,576 cases waiting more than 12 months for surgery at December 2008 revealed that

- The total was evenly split between day-cases and cases requiring at least one overnight stay in hospital. The NTPF indicated that hospitals have reported the vast majority of the day-case patients were unavailable for NTPF action as hospital administration follow-up was required, an offer of NTPF treatment had been declined or the patients were clinically unsuitable to be referred to the NTPF.
- While children accounted for 356 of these cases, the adult cases were spread quite evenly across age categories as follows: 19-40=>396, 41-60=>367, 61-80=>365 and 81+=>92.
- From a review of a listing of 1,319 of the 1,576 cases, a number of surgical procedures were somewhat more prevalent e.g. excision of skin lesion (143), male circumcision (97) and fibre-optic colonoscopy (93). However, overall there was a very general spread of required procedures with only one patient waiting in the case of each of 159 different procedures.

36.16 A review of the 13,193 cases awaiting surgical procedures for over three months at April 2009 showed that 66% of that number was accounted for in 11 hospitals, each of which had in excess of 500 patients on its waiting list. These hospitals included some of the largest in the State. Figure 122 indicates which of those 11 hospitals continue to have high numbers waiting in the 6-12 month and over 12 month categories. In the over 12 month category, two hospitals account for 89% of the children waiting and a further three hospitals record 49% of the equivalent adult list.

Figure 122 Hospitals with more than 500 Patients on the PTR as at April 2009

Hospital	Total	>300 for 6-12 Months	>60 for >12 Months		
			All Cases	Adult	Child
Cork UH	520	—	—	—	—
Letterkenny General	574	—	—	—	—
Mater	1,293	486	130	130	—
Mid-West Regional Dooradoyle	731	—	138	126	12
Midland Regional Tullamore	531	—	—	—	—
OLHSC Crumlin	841	356	146	—	146
Sligo General	641	354	—	—	—
St James's	808	—	—	—	—
AMNCH Tallaght	783	344	130	128	2
Temple St (CUH)	541	—	209	—	209
Galway (UCH)	1,466	501	—	—	—

Conclusions – Waiting List Management

The validation process that commenced in 2007 has found that fewer than 10% of those listed as waiting longest for elective treatment are available for treatment under the NTPF scheme. Consequently, it is difficult to see how the NTPF can discharge its functions in relation to those waiting longest for treatment.

The validation procedure suggests that the main categories of patients not open to an NTPF offer of treatment arise where

- hospitals did not follow up on patients that failed to respond to previous contacts
- patients should have been temporarily or permanently removed from the list.

These administrative weaknesses militate not just against effective provision by the NTPF of faster treatment, they must also reduce the ability of hospitals to schedule their own patients for treatment.

The finding in the most recent validation exercise that an increased proportion of patients (up to 37%) are now being reported by their own hospital as unsuitable for treatment elsewhere due to clinical reasons reflects a significant growth over previous validations.

Also, the number of patients waiting over nine months that have been recorded by their hospital as unwilling to accept an offer of private treatment under the NTPF scheme is surprising and must be a matter of some concern to the NTPF.

The fall of 75% in the number of patients waiting over 12 months following the validation raises questions regarding the integrity of the listings for shorter periods and as to whether the NTPF should perform some spot tests in those areas.

A review of the 1,576 patients waiting for over 12 months at end 2008 indicated an even spread across age groups and procedure categories. However, that long-term waiting list could more reasonably be considered to have a hospital focus, with two hospitals accounting for 89% of children on that list and a further three hospitals having 49% of the waiting adults. These concentrations would appear to provide an opportunity to the NTPF for a focused partnership approach beneficial to the long-term list.

Views of NTPF

36.17 With regard to availability of patients for treatment, the NTPF stated that as well as producing national waiting list guidelines for the management of hospital waiting lists it had directed specific campaigns at three hospitals. These campaigns were aimed at the longest waiters in those hospitals and resulted in a significant reduction in the number of the longest waiters in Letterkenny and Sligo.

36.18 The May 2009 results in relation to patients recorded as unsuitable for treatment other than in the hospital where they are waiting for treatment are based on a small cohort of patients and may not be representative. However, there has been little evidence of movement off that list. The evidence suggested that patients previously audited in this cohort were slow to be treated by hospitals. Hospitals needed to put structures in place on an ongoing basis to admit these patients.

36.19 The NTPF stated that its figures suggested that the number of long waiters reported as declining NTPF treatment was nearer 10%.

36.20 The NTPF stated that experience to date did not demonstrate that the same trends and validation issues relating to longer waiters also applied to persons waiting shorter periods. It was expected that the application of the waiting list guidelines should minimise those issues particularly in relation to five hospitals which it stated were not currently adhering to the guidelines¹¹⁴.

36.21 The NTPF was very conscious of problems in individual hospitals particularly in relation to the number of patients waiting greater than twelve months for surgery. Earlier in 2008, problems existed in a number of hospitals which were tackled on an individual basis. Joint approaches were arranged in association with the Department and the HSE.

Views of the Department

36.22 The Accounting Officer of the Department of Health and Children noted that prior to the establishment of the NTPF, the validity, comparability and accuracy of waiting list data was open to question and difficult to verify. He stated that the NTPF, working with the co-operation of acute hospitals, had developed a meaningful data set which could be validated according to nationally agreed guidelines.

36.23 He considered it to be unsurprising that validation exercises, especially when the subject of particular focus in a concerted national effort, would reveal large numbers not needing or not ready for treatment at that time. The NTPF had always been aware of this issue, and worked accordingly when planning its activities and arranging for treatment of individual patients. He did not consider that the efficient or effective functioning of the NTPF was impaired.

36.24 The Accounting Officer emphasised that the validation of waiting lists was as much a matter for individual hospitals as for the NTPF. The Department had placed considerable emphasis on ensuring that lists were validated, and that patients' treatments were not delayed unnecessarily because of administrative issues. The Department had been working with the NTPF and the HSE to ensure that hospitals liaised closely with the NTPF on speedy referral of patients who needed treatment, and on validation of patients who should not appear on the PTR. He considered that it was equally important to validate the waiting lists of those recorded as waiting for shorter periods, and he stated that the Department would work with the NTPF and the HSE on this issue.

The Provision of Treatment

36.25 The NTPF is required by the Department to maximise its activity levels while remaining within the resource budget provided. The key elements in the efficient management of treatment provision by the NTPF are

- the setting of budget and activity levels
- identification of patients for treatment
- procurement of treatment, and
- control over the cost of treatment.

¹¹⁴ The hospitals are – Mater, MWR Dooradoyle, OLHSC Crumlin, AMNCH Tallaght and Temple Street (CUH).

Budget and Activity Levels

36.26 As well as covering patient treatment, the overall budget also includes allocations for other activities including the provision of MRIs and out-patient appointments, and the development of the Fair Deal for the Elderly Scheme.

36.27 Annual proposals on activity levels and expenditure requirements are submitted for the approval of the Department of Health and Children. Detailed targets for levels of treatment provision are agreed with the Department in conjunction with the approval of the annual funding allocation. For instance, an allocation of €90.3 million has been approved for 2009 based on the anticipated treatment of 18,875 in-patients including an estimated breakdown as between the waiting categories of the order of 3-6 months – 30%, 6-12 months – 40% and over 12 months – 30%. The Department requested the setting of a target of having no one waiting for longer than 12 months at the end of 2009.

36.28 In response to an audit request for a breakdown of the number of treatments provided as between the 3-6 month, 6-12 month and over 12 month waiting list categories, the NTPF stated that it did not routinely collect this information because public hospitals were treated differently depending on progress achieved to date. It considered that to do otherwise would penalise the better performing hospitals.

36.29 The NTPF informed me that the monitoring of waiting lists was carried out on a number of levels by median wait time, by procedure, by surgical and medical group and, importantly, by hospital. The movement in those figures was the indicator by which the effectiveness of the funds allocated to the NTPF was measured.

36.30 Details were provided of the number of patients treated in 2008 and during the first half of 2009 who were more than 12 months waiting. For 2008, the monthly proportion of referrals of long waiters ranged from 47% down to 13%, with an overall average of 24% for the year. During the first six months of 2009, 16% of referrals were from the over 12 months group.

36.31 The NTPF also provided details of its current Hospital Eligibility Timeframes which govern their dealings with the different hospitals and specialties. For instance, in the case of St. James's Hospital, patients waiting more than three months can be referred to the NTPF while in the case of Temple Street Hospital the limit is twelve months. The NTPF stated that the reason for this variability was that, in the case of St. James's Hospital, there are not many long waiters while in Temple Street the opposite is the case.

36.32 The Hospital Eligibility Timeframes for the five hospitals referred to in paragraph 36.20 above as holding a significant number of those adults and children waiting over 12 months are set out in Figure 123.

Figure 123 Selected Hospital Eligibility Timeframes

Hospital	Adults >12 Mths	Children >12Mths	Eligibility Timeframe
Mater	130	—	6 Months
MWR Dooradoyle	138	—	12 Months
OLHSC Crumlin	—	146	6 Months
AMNCH Tallaght	128	2	8 Months/3 Months
Temple St (CUH)	—	209	12 Months

Identification of Patients for Treatment

36.33 The annual treatment work list comprises patients that are referred to the NTPF either by a patient's hospital or directly by a patient or his/her representatives. In addition, the NTPF may make unsolicited offers of treatment to patients based on the PTR.

36.34 Referrals by hospitals are the source of over 90% of the NTPF treatments provided each year. Following NTPF negotiations with hospitals, on the basis of the active PTR, each hospital commits to a quota of patient referrals together with a quarterly and monthly schedule of procedures to be referred. That even flow enables the NTPF to plan for the provision of treatments on a regular and financially sustainable basis. Within these patient identification negotiations, the NTPF prioritises the referral of the longest waiting patients that are on the PTR. However, the NTPF notes that there is no statutory provision to support this.

36.35 In addition to seeking hospital referrals, the NTPF also handles direct referrals from patients or their representative e.g. family members or GP. Once it is established that the patient is on the active PTR, that patient is included in the treatment provision process alongside the hospital referrals. Over 26,000 such referral contacts were received by the NTPF during 2008, and 6,281 were eligible for the provision of treatment by the NTPF. The NTPF stated that essentially all of these 6,281 patients had been treated. In discussions with public hospitals provision was made for the impact of directly referred cases¹¹⁵ although the scale of what is required varies from hospital to hospital.

Procurement of Treatment

36.36 The NTPF annually negotiates service level agreements with private hospitals for the provision of various treatments, and agreements with public¹¹⁶ hospitals are generally on an longer cycle. The agreements provide for an all-inclusive rate of charge for each type of procedure, details of participating consultants, and other terms and conditions. Prices for each procedure are negotiated individually with each hospital, and are based on standard¹¹⁷ surgery with a defined period of hospital accommodation where required. In cases where the length of stay is exceeded, provision exists for some degree of risk sharing. The actual cost associated with individual patients can vary substantially depending on an individual's medical history and response to

¹¹⁵ As treatment may have been arranged by NTPF following discussions with the patient's hospital, or separately in another hospital, there is undoubtedly an overlap between the figures for hospital referrals and direct patient-driven referrals.

¹¹⁶ Under direction of the Department the NTPF may not incur more than 10% of its treatment expenditure on public hospitals. This requirement is intended to ensure that only treatments which cannot or should not be provided by the private sector (e.g. specialist paediatric surgery) are funded by the NTPF in publicly funded hospitals. The intention is to avoid a situation where the NTPF double-funds procedures in public hospitals which would otherwise be provided under their existing budget.

¹¹⁷ The type of treatments funded by the NTPF includes complex surgery such as cardiac work and joints, and the standard rates agreed with hospitals include the normal mix of cases where some will be straight forward and some will give rise to expected complications. The understanding between NTPF and public hospitals is that cases of undue complexity or abnormality are not referred under the scheme.

surgery. Between contracts, prices for new or evolving treatments are negotiated on a case-by-case basis.

36.37 Patients referred for treatment and approved by the NTPF are allocated to client hospitals taking into account considerations such as the location of the patient, hospital capacity, procedure price and degree of medical complexity. Invoices for payment, together with supporting documentation, are received monthly from client hospitals following completion of treatment.

Cost Control

36.38 The commercial environment of price negotiation and competition requires a sensitive approach to publication of cost data from the NTPF, but full details of all transactions were available for audit review. Two separate exercises were performed with the objectives of seeking a measure of NTPF performance in regard to the setting of price levels and, subsequently, to holding payments to the contracted value.

36.39 A review of the 2008 contracts that had been entered into with both private and public hospitals established the average price for seven common procedures. The average prices were expressed as a percentage of a benchmark price derived¹¹⁸ from the national hospitals Casemix standard cost index. The results are set out in Figure 124 and indicate that

- The average contracted price for private hospitals is less than the adjusted Casemix figure in five of the seven procedures
- Over all seven procedures, the average contracted price for private hospitals is 5% below Casemix
- The contracted price for public hospitals is at least 23% below adjusted Casemix for all procedures, and averages 31% below. The Department has pointed out that the prices paid by NTPF for work in public hospitals do not contain a remuneration element for the treating consultant, as these personnel are in receipt of a public salary.

Casemix

Casemix is an internationally recognised multi-purpose calculation index based on the classification of diseases and procedures together with financial accounting data and is used to reflect the relative cost of a hospital's mix of cases compared to a national mix of cases. It is used by the HSE as a basis for part of the revenue funding provided to individual public hospitals.

Casemix does not take account of factors such as a return on investment or of the cost of capital which are significant elements of private hospital costs. On the other hand, it does include a training element not necessarily included in the private hospital sector.

¹¹⁸ It was agreed with NTPF that 2007 Casemix figures (the latest available) should be increased by 5% to anticipate an expected increase in 2008 Casemix due to additional costs. A further amount was added to reflect costs of pre- and post-operation appointments that are not included in Casemix but are included in the 'all-in' NTPF prices.

Figure 124 NTPF 2008 Average Contracted^a Prices in Relation to Adjusted Casemix

Procedure	Private Hospital	Public Hospital
	Contract Price %	Contract Price %
Knee Replacement	109	77
Hip Replacement	89	75
Cataract Extraction	93	71
Tonsillectomy	94	74
Unilateral Squint	118	75
Coronary Artery By-pass	85	55
Hernia Repair	76	58

Note:

- a Information is expressed as a percentage of adjusted Casemix due to commercial sensitivities about absolute prices.

36.40 For the second test, a specific individual invoice payment was selected for each of the common procedures giving four invoices for each procedure split between private and public hospitals. The invoiced costs paid were expressed as a percentage of the agreed contract price. There were three instances of significant uplift for which NTPF provided detailed explanations as follows

Procedure	Cause of Price Uplift
Knee replacement	Requirement for extra hospital stay
Cataract Extraction	Requirement for overnight stay
Cataract Extraction	Artificial lens inserted

36.41 In one instance, the amount paid was less than the contract price as a procedure for which there was an overnight contract was performed as a day case. The overall results of the second test are set out in Figure 125.

Figure 125 Invoice Price as a Percentage of the Contract Price for Public and Private Hospitals

Procedure	Private Hospitals		Public Hospitals	
	Q2 Invoice %	Q4 Invoice %	Q2 Invoice %	Q4 Invoice %
Knee Replacement	108	100	100	100
Hip Replacement	100	100	100	100
Cataract Extraction	112	113	100	100
Tonsillectomy	94	100	100	102
Unilateral Squint	100	100	100	100
Coronary Artery By-pass	100	101	100	— ^a
Hernia Repair	100	100	— ^b	102

Notes:

- a An invoice was selected from each of the second and fourth quarters of 2008.
b No payment in the Quarter.

Conclusions – Management of Treatment Provision

Most procedures purchased from private hospitals cost less than the casemix adjusted benchmark cost.

Two procedures – knee replacement and unilateral squint, which cost 109% and 118% of the benchmark respectively - are outside of this pattern, while a similar departure is not evident in the case of related public hospital prices. There were three ‘post contract’ cost uplifts in the small sample subjected to detailed examination. These arose due to claims for additional work or a necessity for an additional night in hospital.

In light of the fact that cases are pre-selected by the referral system as relatively straightforward, and taking account of the volume and the value of NTPF business, consideration might be given to acceptance by the private hospitals of a greater share of risk.

The cost of treatment purchased from public hospitals is of the order of 25% less than private hospital cost. However, public hospital prices are not commercially sustainable, being on average only 70% of adjusted Casemix cost and exclusive of consultant fees.

Views of the NTPF

36.42 The NTPF stated that prices were negotiated in advance of treatment and include costs for the entire episode of care (routine visits before and after surgery, medical professional fees and hospital accommodation are included in NTPF prices). While the treatment was provided free of charge to eligible public patients, getting value for taxpayers’ money was a priority. Prices offered by hospitals were subject to a number of tests to help make sure this was achieved. These tests included comparing prices offered against

- Cost information for similar treatments in public hospitals.
- Prices offered to NTPF for similar treatments in peer hospitals.
- An NTPF estimate of a reasonable price based on the component parts of the particular treatment (e.g. likely medical professional fees, theatre costs, whether prosthesis costs are likely, drugs, etc.). NTPF have built up a knowledge base of typical patterns of treatment costs that helps with this comparison.
- Where publicly available, prices paid by private medical insurers for the professional fee and hospital accommodation elements of hospital care.
- International data on treatment prices where relevant.

36.43 In recent years, additional capacity in the Irish private health sector had provided further value opportunities to NTPF and these had been availed of. For 2009 the NTPF had negotiated procedure prices downwards. Examples were in the case of hips, knees and cataracts where prices have reduced by between 5% to 15%. In addition, prices paid by the NTPF were competitive compared with published public hospital costs.

Overall Conclusions

NTPF Administration

The examination suggests that, relative to the casemix benchmark, procedures purchased from private hospitals by the NTPF generally cost less than those carried out in the publicly funded hospital system. The initial cost of these procedures is necessarily set on the basis of complication free surgery. In general, the samples examined suggest that cost uplifts are limited to cases demanding extra care.

The extensive removal of longer-waiting patients from hospital waiting lists as a result of on-site validation reviews by NTPF staff has left less than 10% of those previously listed now available for treatment under the NTPF scheme. This creates a particular difficulty for the NTPF in addressing its primary target group.

There may be a need for an in-depth review of a sample of cases removed from the PTR following NTPF validation in order to determine

- the factors that give rise to those removals, and
- why the delay in removing them from the register arose in the first place.

That type of analysis may uncover opportunities for more proactive waiting list management.

The NTPF contribution to clearance of the PTR is essentially programmed on foot of agreements with hospitals. However, as 30% of its cases arose from direct patient-driven referrals, it may also be useful to examine

- the source of demand for its services, and
- the extent to which its activity, in current circumstances, actually targets the longest waiting patients.

Wider System Implications

From a more general perspective, it is clear that the volume of procedures purchased by the NTPF from private hospitals represents only a small proportion of the overall annual publicly funded hospital throughput of elective treatments – of the order of 3% of total elective treatments or about eight days work of the overall system. Given the issues noted in regard to the management and clearance of the waiting list during this examination, it would be worth exploring

- whether and to what extent an increase in public hospital capacity (due to the recent agreement of an extra four hour time commitment from consultants under Consultant Contract 2008) or the elimination of any spare capacity already existing could be used to reduce or eliminate the waiting list
- whether throughput norms for specific procedures can be set for each publicly funded hospital so as to manage demand effectively
- whether there might be a need to broker exchanges between the public hospitals so as to achieve more cost effective waiting list clearance and
- how hospitals might be incentivised to maintain more accurate waiting list information.

Chapter 37 Health Service Executive

Management of Private Patient Income

Management of Private Patient Income

37.1 Under longstanding arrangements Irish public hospitals treat a certain number of private patients. As a result, charges are payable by those patients to the hospitals for their accommodation and to the consultants in respect of their fees. Over 50% of the population are covered by private health insurance. Consequently, much of the income from private patients is recovered by the hospitals from private health insurers.

Treatment Policy

While Irish public hospitals treat private patients, the core purpose of the public hospital system is to provide services for public patients. All persons ordinarily resident in Ireland have full eligibility for hospital services. The fact that a person may have private health insurance does not take away from his/her eligibility for services as a public patient. Government policy has been to ensure that there is equitable access for public patients, that the proportion of private activity is appropriately controlled and, as far as possible, additional resources provided benefit public patients in the first instance.

37.2 In order to control the level of private activity in publicly funded hospitals, with a view to ensuring equitable access for public patients, a system of bed designation was introduced by regulation in 1991¹¹⁹. Under this system all beds were designated as private or public or were declared to be non-designated¹²⁰. In broad terms, the Regulations were intended to ensure that, as far as possible, private patients were only accommodated in private beds. A consequence was that only beds designated as private were reckoned by private insurers in refunding the cost of maintenance of patients in hospitals. The designation process led to approximately 20% of beds being designated as private but with varying levels of private bed designation in individual hospitals.

Regulation of Public : Private Activity

The Health Services (In-patient) Regulations, 1991 provide that no private patient being admitted as an in-patient to a hospital as an elective (i.e. non-emergency) admission should be accommodated in a designated public bed. Conversely, a public patient being admitted in similar circumstances should not be accommodated in a designated private bed. This rule does not apply in the case of an emergency admission.

¹¹⁹ S.I. No. 135/1991 – Health Services (In-patient) Regulations, 1991.

¹²⁰ Non-designated beds generally refer to critical care (e.g. Intensive Care Units, Coronary Care Units).

Audit Focus

The audit sought to examine

- the extent to which private patients are treated in public hospitals and whether all private patients were being charged for accommodation by hospitals in circumstances where they had a private treatment relationship with their consultant
- whether the full economic cost was being levied on private patients
- whether Consultant Contract 2008 will impact on the recovery of accommodation charges by hospitals in respect of private patients
- the timeliness of debt recovery by hospitals in the public health system.

Extent of Private Patient Treatment

37.3 In the course of the audit, data relating to in-patient private and public bed usage in 24 hospitals was examined for 2008. The results are set out in Figure 126.

Figure 126 Comparison of In-Patient Categories and Accommodation Provided^a

	Public Patients	Private Patients	Total
Patient Classification	1,315,441	408,267	1,723,708
Patient Accommodation			
Public Beds	1,149,740	183,848	1,333,588
Private Beds	83,541	203,064	286,605
Non-Designated Beds	82,160	21,355	103,515

Note:

a All figures quoted are expressed in bed-days.

37.4 45% of all private in-patient throughput was not the subject of a maintenance charge because the patient was accommodated in a designated public bed and a further 5% was not charged for because the patient was accommodated in a non-designated bed with the result that only 50% of private patient throughput gave rise to a maintenance charge.

37.5 On the other hand, accommodation designated for private patients was used to the extent of 83,541 bed-days to accommodate public patients. In these cases, from a financial management viewpoint, the overall effect is that the hospital system has foregone the potential income from private patients in return for the use of these resources to provide services to public patients.

37.6 Bed-days in the 24 hospitals examined represent about 46% of the total in-patient bed-days in the public hospital system. While the data pertains only to those hospitals whose information systems were capable of producing the required analysis it appears to be reasonably indicative of the throughput within the system.

37.7 In 2008, 124,000 (20%) of day cases were private patients. As with in-patients, the hospitals are only entitled to a maintenance charge if the private day patient occupies a designated private bed. No analysis of public : private bed usage was available in respect of day cases so it is not possible to determine the percentage of cases for which the hospitals did not receive a fee.

Conclusions – Charging for Private Patients

50% of in-patients who are treated privately in the 24 hospitals reviewed are not charged for their maintenance.

Cost Recovery by Hospitals

37.8 Maintenance charges levied by the HSE in respect of patients treated in designated private beds are determined by the Minister for Health and Children. The rates are usually revised on an annual basis and over the past few years the percentage increases have been significantly more than the rate of inflation. The 2008 rates are set out in Figure 127 below.

Figure 127 Charges for Private Maintenance

Accommodation	Maintenance Category	Regional ^a	County ^b	District
		2008	2008	2008
		€	€	€
Private	A	758	506	217
Semi-private	B	594	407	185
Day Care	C	546	362	161

Notes:

- a HSE Regional Hospitals, Voluntary and Joint Board Teaching Hospitals.
- b HSE County Hospitals and Voluntary Non-teaching Hospitals.

37.9 The rates do not cover the full economic cost to the public hospital but increases over the past few years have reduced the gap. The HSE has calculated the 2009 average daily cost for category A maintenance at €1,018 for in-patient cases and €733 for day cases and category B at €913 for in-patient cases and €885 for day cases¹²¹. No costings were available for category C as of July 2009.

37.10 The examination did not seek to verify these costings as work is ongoing as part of a detailed study of the economic cost of private and semi-private accommodation in public hospitals under an independently chaired Steering Group set up by the Department.

Conclusions – Cost Recovery

The full economic cost of maintenance is not being levied. However, there has been an increase in recent years in the proportion of that cost recovered and fees have been substantially increased in 2009. The Department has set up a group to establish the most appropriate way of charging the economic cost of providing services to private patients in public hospitals.

¹²¹ Key assumptions made in calculating these estimated costs for 2009 are – inflation adjusted 2007 costs are used in calculating the average cost per bed day. This is the latest full year for which data is available. There is no capital or depreciation costs in the 2007 base calculation. A capital cost of 5% is assumed and included in the estimated 2009 cost.

Factors Influencing Charging

37.11 The public hospital system only claims accommodation charges for patients who occupied designated private beds. Where a patient occupies a public bed, despite having opted for private consultant services, the hospital may not charge for that accommodation. As indicated in Figure 126, a proportion of public patients are accommodated in designated private beds.

Views of the Accounting Officer of the HSE

37.12 The Accounting Officer stated that the capacity of the health service to charge for maintenance of private patients was constrained by the factors outlined above and hospitals managed those constraints in the following manner

- Where a patient is accommodated in a public bed but is private to the consultant, hospitals in these instances can only claim accommodation charges for the time in which the designated private bed is occupied by the private patient. However, every effort is made to ensure that where a patient elects to go private then designated private accommodation is allocated to them at the earliest available opportunity.
- The overriding consideration in the treatment of any patient is the appropriate clinical care and, in some instances, whatever the patient's designation, the appropriate clinical care demands isolation in a single room, particularly in the case of Infection Control patients. The availability of single rooms as isolation facilities is an important factor in tackling the serious threat posed to patient safety by Health Care Acquired Infections (HCAIs), including MRSA, in acute hospital settings. Consequently, private rooms are used for public patients in a proportion of cases. For this reason, in 2007 the Minister for Health and Children directed that designated private beds should be used where isolation facilities are required for patients who contract HCAI. In practice, a designated private bed would only be used where an isolation facility is required for a patient with a HCAI and another isolation facility is not available.
- In certain cases of care – a specific example would be where a patient admitted to a Coronary Care Unit (non-designated bed) opts to avail of private consultant physician services and the hospital facilitates this arrangement in accordance with the patient's wishes – the hospital would not be in a position to claim private accommodation charges in this case. The policy rationale for non-designated beds is that accommodation for persons who are very acutely ill or where a national specialty is concerned should not be differentiated. This was done to ensure that it is solely clinical factors that determine which patients are accommodated in those facilities.

37.13 In regard to the on-the-ground bed management decisions the Accounting Officer informed me that, in the larger hospitals, bed management was carried out by staff dedicated to that function and, out of hours, by nurse management. Bed management processes took into consideration that private patients might only occupy public beds in the restricted circumstances provided for in the Regulations.

37.14 In regard to the fact that at current admission rates, the bed designation system could not ensure that all private patients are charged a maintenance charge by the hospital in which they are treated, the Accounting Officer pointed out that the designation of private beds in public hospitals was a matter of Government policy and was based on the Government's objective of ensuring equitable access for public patients.

37.15 The Accounting Officer stated that since the designation of beds was last reviewed in the 1990s, hundreds of new beds had been provided in public hospitals but they had not been formally designated as either public or private beds. Many of these beds were in private or semi-private

rooms, and were, therefore, potentially suitable for designation as private beds. However, since they had not been so designated, private health insurers did not accept maintenance charges in respect of private patients occupying them. While no maintenance fee was chargeable for insured patients who were not accommodated in one of the designated rooms or beds, fees were claimable by the consultants treating those patients.

37.16 At the same time, with the increasing use of designated private rooms to accommodate public patients, for infection control reasons, there was a further loss of private patient income to the public hospitals.

37.17 The Accounting Officer said he would welcome a review of the bed designation arrangements, regardless of whether the overall number of private patient beds was altered or not. He informed me that the HSE was now in correspondence with the Department of Health and Children with a view to achieving greater flexibility in the operation of the bed designation arrangements, so as to try to mitigate this loss of potential income.

Views of the Accounting Officer of the Department

37.18 The Accounting Officer of the Department has pointed out that Action No. 88 in the 2001 Health Strategy¹²² provided as follows

‘All of the extra acute hospital capacity within the public sector, both in-patient beds and day beds, will be designated for use by public patients. The only exceptions will be Intensive Care Units, Coronary Care Units and other specialised beds which will continue to be non-designated. The provision of additional beds announced in this Strategy will be a significant step forward in ensuring that the needs of public patients are adequately met’.

37.19 Accordingly, the Minister had not considered it appropriate to increase the number of beds – whether existing or new – in public hospitals designated for the use of private patients.

37.20 The standard of much of the newer ward accommodation and the need to combat HCAs is such that the trend was increasingly towards provision of single rooms for public as well as private patients.

37.21 Since the publication of a White Paper on Private Health Insurance in 1999, Government policy had been to move towards charging the full economic costs for the use of public facilities and services for private patients, while being sensitive to the need for continuing stability in the private health insurance market and wider inflation concerns. This policy had seen significant increases in private charges in recent years, including a 20% increase introduced in 2009. These charges were in addition to the public hospital statutory in-patient charge, which currently stood at €75 in respect of each day during which a person was maintained. The maximum payment in respect of the statutory charge in any twelve consecutive months was €750.

¹²² Quality and Fairness – a Health System for You.

Conclusions – Factors Constraining Cost Recovery

The objectives of ensuring equitable access and optimising the recovery of the cost of maintenance of all privately treated patients are difficult to achieve simultaneously within the present system.

The principal factor impacting on the recovery of maintenance costs of private patients is the fact that the designated beds system that is operated limits the extent to which maintenance charges can be recovered, even for patients who pay their consultants on a private fee basis for treatment charges. As will be seen from the next section the category of the primary consultant clinician is also relevant to the potential of the health system to levy charges for private patient maintenance.

Impact of New Consultants Contract

37.22 In March 2009 the Department of Health and Children clarified that a patient may only be regarded as having private status where he/she opts to avail of private consultant services rather than public consultant services under the Health Acts. The relationship of the patient to the consultant in this regard is a private matter for the individuals concerned.

37.23 Under the Consultant Contract 2008 certain consultants do not have any private practice in public hospitals (Category A consultants). The Department of Health and Children has confirmed to the HSE that patients of these consultants are public patients.

37.24 The HSE had assumed initially that maintenance charges would be payable to it in respect of patients with private insurance, accommodated in designated private beds and treated by a Category A consultant. The HSE believes that the fact that patients treated by Category A consultants will now be considered to be public patients is likely to lead to a loss of patient income.

37.25 Theoretically, it is possible for the HSE not to suffer any loss of income if hospitals can ensure that the rooms designated as private are only occupied by private patients under the care of a non-Category A consultant. In practice, however, this additional complicating factor in deciding bed allocation is likely to lead to income loss.

37.26 A second aspect of the new contract that may have consequences for bed designation is the provision that the volume of private practice that a non-Category A consultant may carry out in a public hospital is capped at a percentage of patient throughput adjusted for complexity through the medium of the casemix system¹²³. This is a more sophisticated measure of private activity than one which relies on discharges or bed usage. It will require a detailed reporting system, which the HSE is currently putting in place (See Chapter 38). It remains to be seen how this approach to controlling private activity will operate in practice but it seems likely that adjustments to a consultant's public : private mix required under this system will prove a further complicating factor in managing bed utilisation.

Views of the Accounting Officer of the Department

37.27 The Accounting Officer stated that the Minister's intention was that the introduction of the Category A consultant grade should improve access for public patients to consultant services. The Department did not accept that the quantum of private accommodation income would be materially affected by the introduction of the Category A grade. In order for such a reduction to

¹²³ Casemix is a system which takes account of the varying complexity of medical procedures by converting them into comparable standard units of care.

occur, private beds in public hospitals would have to remain unoccupied by private patients for a significant part of the year. The Department stated that it had asked for, and was awaiting, evidence from the HSE to support this suggestion but maintained that the data in Figure 126 would suggest that this was unlikely to be the case.

37.28 In regard to the view that the casemix-weighted system for measuring consultants' public : private mix under the new contract will prove a further 'complicating factor' in managing bed utilisation, the Accounting Officer stated that the core principle was, save in certain permitted circumstances, that private patients might be accommodated only in designated private beds. This remained in force and the new measurement system provided an additional lever to help the HSE achieve the core public policy objective of improving access for public patients to public hospitals.

Conclusions – Consultant Classification

The arrangements for determining the relationship with the primary consultant are likely to impact on the potential private patient income recoverable by hospitals. It is difficult to quantify the financial effect at this point. However, 37% of all consultants who had opted for Consultant Contract 2008 are Category A consultants who work solely for the public hospital and are remunerated entirely by way of salary.

Timeliness of Debt Recovery

Audit Concern

At 31 December 2008, the total amount due to the HSE and the Voluntary Hospitals in respect of maintenance charges from private health insurers was €64 million of which €37 million was due to the HSE and €27 million to the Voluntary Hospitals. Many of these charges were outstanding for a considerable period of time.

The audit sought to determine the cause of the delay in collection.

Claim Procedures

37.29 Under current procedures the hospitals are required to submit to the insurers a completed claim signed by the patient's 'Primary Consultant Clinician' who is the consultant responsible for the care of the patient during their stay in hospital.

37.30 Each claim details the treatment provided, the length of stay in hospital and the costs which include the Primary Consultant Clinician's fee, the fees of any other consultants who treated the patient in hospital ('secondary consultants') and the maintenance and diagnostic charges. If any of the consultants, for whatever reason, delays submitting their paperwork to the hospital administration then the entire claim including that for the patient's maintenance is delayed and cannot be processed.

37.31 All of the administrative cost involved in processing the claim are borne by the hospitals even though a significant portion of any claim pertains to the recovery of fees that accrue to the consultant. The hospitals also, in some cases, process claims in respect of consultants' fees even when no maintenance charge is payable as a result of the patient not being accommodated in a designated private bed.

Amounts owed to the HSE and Voluntary Hospitals

37.32 Over the years, the requirement to obtain confirmation from the Primary Consultant Clinician has given rise to significant delays in the collection of maintenance charges from insurers. Figure 128 illustrates the debt outstanding at 31 December 2008 and the average number of months income it represents for the larger HSE hospitals.

Figure 128 Debt Outstanding for Larger HSE Hospitals at 31 December 2008

Hospital	Due at Year End	Income of the Year	Debtors
	€m	€m	Months
Waterford Regional	12.2	13.2	11.1
Sligo General	6.3	7.6	10.0
Cork University	9.5	17.8	6.4
UCH Galway	11.0	21.8	6.0
Limerick Regional	8.8	18.2	5.8
Our Lady of Lourdes Drogheda	6.6	13.9	5.7
Unified Maternity	2.1	8.5	2.9
All HSE Hospitals	87.0	170.8	6.1

37.33 Figure 129 sets out the corresponding information for voluntary hospitals.

Figure 129 Debt Outstanding for Larger Voluntary Hospitals at 31 December 2008

Hospital	Due at Year End	Income of the Year	Debtors
	€m	€m	Months
Mater Misericordiae	8.7	8.8	11.8
AMNCH – Tallaght	15.5	23.8	7.8
Beaumont	10.1	15.8	7.7
St James's ^a	13.6	22.2	7.3
South Infirmary	3.5	10.3	4.1
Holles Street	3.2	10.0	3.8
Mercy University	4.1	13.2	3.7
All Voluntary Hospitals	77.1	153.5	6.0

Note:

- a As a result of the introduction of electronic processing of claims piloted in St. James's Hospital, the period of credit has subsequently reduced to 65 days.

Reasons for the Delays

37.34 The Accounting Officer informed me that there were two main factors which caused delays in the processing of private health insurance claims and the subsequent payment process. These two factors were

- the entire process continues to be paper based and

- delay in obtaining sign off by some of the individual primary consultants.

37.35 Private insurance providers require that all insurance claims submitted for payment be signed by the primary treating consultant. From an administrative perspective, this involves staff locating all documentation (averaging 10 documents per claim) in relation to each claim, collating this documentation and arranging for appropriate sign off and submission to the private insurer.

37.36 The current administrative process is designed to facilitate the claiming of accommodation charges and clinical fees from the private insurance providers. The entire claim must be signed by the primary treating consultant before any part of the claim will be paid. Hospitals would be able to submit their claims for private patient accommodation immediately if they were not required to collate them with the consultant fees and medical data.

37.37 The Accounting Officer of the HSE informed me that there were sometimes difficulties in obtaining the required sign off by the primary consultant in each individual case. These difficulties varied considerably as between hospitals, depending on the willingness of individual consultants to sign off their own claim forms promptly.

Performance of Specific Hospitals

37.38 In regard to the hospitals with the greatest delays, the Accounting Officer said that there are recurring themes in the explanations received from these hospitals for delays in processing claims and receiving payment from the private insurance providers. In general, they pointed to the nature of the process, the requirements of the private health insurers, the delays by consultants in signing and the fact that a hospital's systems may not capture information in a way that supports efficient completion of the claims.

37.39 He assured me that each of the hospitals was taking action to improve speed of collection. In some cases additional resources were being allocated to deal with the issue. In others, the hospitals had reviewed the process to see what could be done to make it more efficient.

Addressing Claim Delays

37.40 The Accounting Officer also said that the HSE has been aware of difficulties with regard to collection times for private insurance claims and has been focused on improvements in this area over a period of time. The Minister for Health and Children recently met with the largest insurance provider and the HSE and secured agreement to an advance payment of €50 million to the HSE for 2009 for work already undertaken, as well as an agreement to work together to improve the processing of private insurance claims generally. This advance payment is for a time-limited period to allow for work to achieve improved performance in this area.

37.41 In November 2008 the HSE established a small high level working group to liaise directly with private health insurers on behalf of all public hospitals in relation to the following matters

- streamlining transaction processes and data exchange
- parameters for private and semi-private charges by public hospitals both voluntary and statutory
- billing and payment methods
- implications of Consultant Contract 2008
- the level of debt outstanding
- administration of Private Insurance claims process

- administration of premium deductions from payroll in the HSE.

37.42 This high level group which is representative of both HSE and voluntary hospitals and is chaired by a Hospital Network Manager has, at this stage, met with the largest private health insurers and with senior officials from the Department in relation to the designation of beds in the public hospital system. This group has secured agreement with the insurers for the sign off of claim forms by a secondary clinical consultant or clinical director after a period of 90 days, in the event of the hospitals being unable to obtain sign off by the original primary consultant. This is an interim measure and will be reviewed as agreements relating to the overall business processes progress.

37.43 In addition to the above, the HSE has now appointed a specialist group of finance and hospital representatives to visit each individual hospital with a view to implementing improvements in business processes in this area.

37.44 Hospital managers have been instructed that it is a requirement that they initially seek to achieve a maximum period of credit of 60 days in the short-term and improve this situation further in the longer term. Appropriate sanctions will be implemented to ensure that these targets are achieved.

37.45 The Accounting Officer also said that the HSE is separately examining the totality of its income collection process and further improvements which can be made in that area by the introduction of a shared services National Credit Management facility based in Kilkenny. The proposals for this facility are at an advanced stage and a comprehensive business case has been submitted to the Department of Finance for approval. Subject to formal approval, the HSE is now in a position to proceed to tender.

Electronic Preparation of Claims

37.46 The Accounting Officer expressed the view that an electronic claims preparation process could play a big part in improving collection times. An electronic claims preparation process had already been piloted in St. James's Hospital. Based on the results of the pilot, the Accounting Officer believes that a similar process could bring immediate reductions of 20% in the administrative overhead associated with claims preparation. It could also bring an immediate reduction in debtor days to all of the acute hospitals in the public hospital system. In addition, the streamlining and automation of the process would result in better data compliance, improved records retention, improved document management processes and reductions in storage space.

37.47 The HSE has submitted a business case to the Department of Health and Children for the introduction of an electronic solution along the lines piloted in St James's Hospital.

Alternative Claims Mechanism

37.48 In regard to whether it would be possible to decouple the HSE's claims for maintenance charges from the consultants' claims for their private fees, the Accounting Officer stated that this would be the HSE's preferred solution. However, he recognised that there had been a longstanding practice of the provision of this administrative service to the consultants. In addition, the HSE had been informed by the insurers that their regulatory bodies require medical sign off before any private insurance claim can be paid and that this is a standard requirement of the private medical insurance industry. However, in the event that agreement with the insurers on improvements to the claims process cannot be reached, the HSE will consider submitting accommodation claims together with medical discharge summaries and demand payment for the accommodation charges.

37.49 In that event, the HSE would continue to process the private bills from the consultants when they are received in the normal way, notwithstanding the fact that there is no contractual obligation on the HSE or the voluntary hospitals to provide administrative assistance to consultants in the processing of their private fee claims.

Conclusions – Timeliness of Debt Collection

Collection of private patient debts on a timely basis continues to be a problem for the HSE. The interim measures taken and the proposed electronic claim preparation system could help. However, the significant differences between hospitals in terms of collection times suggests that more could be done to share best practice within the system.

Overall Conclusions

The low rate of income recovery from patients who were treated privately in the hospitals reviewed would suggest that the State is facilitating private medicine without getting the related income for the service it provides.

Overall, a mismatch exists between the number of patients who present as private patients, the number who are treated as private patients and the number of privately treated patients whose accommodation costs are recoverable by hospitals. A more streamlined set of business processes is desirable so that each business stream is more closely aligned with its funding source and services billed accordingly.

Overall, the audit results suggest that

- Where private patients are charged for accommodation by hospitals, there are substantial delays in collecting debts from insurers. The delays are due to
 - outmoded administration systems
 - delays in sign off by consultants.
- 50% of private in-patients are not charged for their accommodation.
- Hospitals cannot charge for those patients that have private insurance and are accommodated in a private bed but are treated by Category A consultants.
- Finally, the rates charged do not represent the economic cost.

Chapter 38 Health Service Executive

Performance Measurement and Improvement in the HSE

Performance Measurement and Improvement in the HSE

38.1 The objective of the HSE is to provide services that improve, promote and protect the health and welfare of the public. Since 2007 the HSE has undertaken a process to align its reporting of performance at three levels

- measurement of progress in achieving the goals of its three year Corporate Plan on a twice yearly basis
- reporting to the Board and the Minister for Health on performance and achievement of the requirements in the Annual Service Plan on a monthly basis
- instituting a performance information and improvement system — HealthStat — piloted during 2008 and operational since the beginning of 2009.

38.2 This Chapter examines the third element of that process – HealthStat.

38.3 While historically, a lot of data in relation to the costs and activities of its 50 acute hospitals had been collected on a routine basis, this data was not collated, analysed and presented in a way that would allow for comparison of actual performance against targets or facilitate comparison between hospitals. HealthStat is the first attempt at providing integrated operational performance measurement. 36 hospitals are currently included in HealthStat. The intention is to extend the process to the remaining hospitals and to other service delivery arms such as services delivered in the Primary, Community and Continuing Care (PCCC)¹²⁴ settings.

38.4 HealthStat comprises a performance measurement system that produces indicators based on data collected from hospitals and a monthly Forum, led by the CEO of the HSE. It is attended by hospital management and clinical directors and the performance of individual hospitals is discussed based on the information produced. Improvement actions are monitored through an Action Log and progress on implementing previously identified actions is discussed at the beginning of each Forum meeting. The thinking is that this, together with the monthly publication of individual hospital results on the internet, encourages hospitals to work towards consistent performance improvement.

38.5 HealthStat is built around three key types of indicator, Access, Integration and Resource

- Access indicators are geared towards the measurement of waiting times for health services.
- Integration indicators are intended to provide insights into hospital throughput.
- Resource indicators aim to measure the resources used in supplying the services.

38.6 An overview of the system and details of the indicators included under each category are set out in Annex A.

¹²⁴ The HSE has indicated that a suite of indicators designed to indicate the alignment between hospital and community based services, will be introduced.

Audit Focus

HealthStat is an important step towards the development of an effective performance management system in the HSE. It is recognised that it is at the early stages of development and will continue to be refined, enhanced and extended to other arms of the service in future years.

In this regard, the primary aim of the examination was to identify how HealthStat is working and make recommendations for improvements. As a result, and in light of its early stage of development, data presented does not identify individual hospitals but rather shows variations in performance between hospitals and, where appropriate, demonstrates the scope for improvements in particular areas.

The examination involved visits to a number of hospitals, consultation with staff involved in the development and production of HealthStat information and examination of documentation produced by the Forum.

Results of Performance Measurement

38.7 For the purpose of this examination six indicators were examined in detail. Two key indicators were reviewed in each category. The audit, in the case of each indicator selected, reviewed reported performance, identified apparent shortcomings and made suggestions for improvement. The indicators selected for investigation were

- access indicators — waiting time for elective admissions and waiting times for out-patient clinics
- integration indicators — day case rates and delayed discharges
- resource indicators — staff per in-patient bed and the public : private split of activity.

Access Indicators

38.8 Timeliness of provision of services is an important measure of the performance of the health service, gauging its capacity to meet the required demand. For the purpose of this examination two¹²⁵ access indicators were examined.

- Waiting time for Elective Admissions – The time patients wait for elective¹²⁶ procedures from the time the clinical need is identified.
- Waiting time for Out-patient Clinics – Waiting time for routine appointments in consultant led out-patient department clinics.

¹²⁵ Waiting time for admission from Emergency Departments will be examined in a separate Special Report which will issue shortly.

¹²⁶ An elective procedure is a planned, non-emergency procedure. Unlike emergency procedures, which must be performed immediately, a required elective procedure can be scheduled at a time of the patient's and surgeon's choosing.

Waiting Time for Elective Admissions

38.9 The time patients wait for elective admissions is an important measure of the capacity of individual hospitals to deliver non-emergency procedures. A patient's waiting time starts when the clinical need is identified and ends when either an admission date is arranged or the patient has been accepted by a private hospital under the National Treatment Purchase Fund (NTPF).

38.10 The NTPF maintains a database of all patients waiting for elective procedures – the Patient Treatment Register (PTR). The PTR is based on information supplied by individual hospitals. While the database records the status of patients, the numbers reported excludes patients who are scheduled for a procedure in a public hospital, accepted by a private hospital under the NTPF or are otherwise unavailable for treatment. In addition, in line with international practice, the National Waiting List as reported by the NTPF comprises only those patients who have been waiting more than three months.

38.11 The data collected by HealthStat shows the numbers of patients (adults and children) waiting in defined time bands. The target set by the HSE is that adults will be waiting no longer than six months for an elective procedure and children no more than three months. A separate indicator is calculated for adults and children and the focus is on the extent to which the relevant target is being achieved.

Hospital Performance

38.12 As at the end of January 2009, a total of 37,200 patients were recorded as waiting for procedures¹²⁷. Of those, 18,500 had been waiting more than three months and were included on the National Waiting List. Figure 130 sets out the length of time they had been waiting at that point.

38.13 In January 2009, 61% of children had been waiting longer than the target waiting time of three months while 21% of adults were waiting longer than the target of six months.

Figure 130 Patient Waiting Times for Elective Procedures, January 2009

	Number of Adults	Number of Children	Total
In excess of 12 months	1,900	500	2,400
6 — 12 months	5,000	1,300	6,300
3 — 6 months	8,600	1,200	9,800
National Waiting List	15,500	3,000	18,500
0 — 3 months	16,800	1,900	18,700
Total Patients^a	32,300	4,900	37,200

Note:

- a Excludes patients scheduled for a procedure in a public hospital, accepted by a private hospital under the NTPF or otherwise unavailable for treatment.

38.14 The ratings allocated by HealthStat based on achievement of targets (for hospitals that returned data) are set out in Figure 131.

¹²⁷ Data in relation to earlier periods is not presented since the numbers reported in HealthStat showed only those patients waiting for surgical procedures and excluded patients waiting for medical procedures, which accounts for approximately half of those waiting. This was rectified from January 2009 onwards.

Figure 131 HealthStat Rating – Elective Waiting Time Indicators, January 2009

HealthStat Rating	Adults	Children
	Number of hospitals	Number of hospitals
Target	< 6 months	< 3 months
Very good (within 15% of target)	9	1
Average performance with room for improvement (deviation from target of between 15% and 35%)	15	2
Unsatisfactory performance requiring urgent attention (35% or more below the target)	3	19
Total	27	22

38.15 Performance in this area was much poorer in relation to achievement of waiting time targets for children with the majority of hospitals rated as unsatisfactory and requiring urgent attention in this area.

Measure Shortcomings

38.16 The measure has a number of shortcomings in that

- While it reports how long the current patients have waited to the measurement date, it does not evaluate performance in ensuring that patients wait no longer than six months for elective procedures. As a result, it is not a true measure of the number of patients treated within the target timeframe.
- The NTPF guidelines state that all patients who are scheduled for a procedure in a public hospital or have been accepted by a private hospital or are otherwise unavailable can be excluded from the waiting list. In one hospital visited the total patients waiting reported to HealthStat in January 2009 was 1,741. There were an additional 766 patients who had received appointments to be admitted to that hospital who were excluded from the waiting list. The exclusion of patients scheduled for treatment in a public hospital gives rise to concerns about the accuracy of the measure due to the high risk of cancellation of these procedures under pressure from Emergency Department (ED) activity and delayed discharges.
- There were also differences between the hospitals visited in how patients who had received dates for admission to that hospital were classified. Some hospitals excluded patients who had received admission dates while others continued to record those patients on the waiting list. As a result, the statistics reported are not comparable.

Waiting Time for Elective Admission – Suggestions for Improvement

In order to get a true measure of hospital performance a waiting time measure for elective admissions should also be calculated for patients up to the point of treatment. This, combined with the existing measure, would give a more complete indication of the average time patients were actually waiting.

In the case of the existing measure, the HealthStat User Guide should define clearly the source data to be used. In particular, the guide should specify the category of patients who are not included in the calculation, such as patients who have received dates for admission in a public hospital or have been accepted by a private hospital under the NTPF.

Waiting Time — Out-patients

38.17 At the end of 2008, there were 175,000 patients on waiting lists for out-patient clinics. While 70% of them had been waiting less than a year, 19% had been waiting two years or more.

38.18 Out-patient waiting time is calculated by identifying the time to the next available routine appointment in each clinic. Waiting time for an out-patient clinic starts when the referral letter is received by the hospital and ends on the appointment date. The target waiting time for an out-patient appointment is 90 days. The measure is presented by speciality, and is calculated by aggregating the waiting time by speciality and dividing by the number of clinics in that speciality.

38.19 The measure does not show the actual longest time waiting for an individual clinic since waiting times are calculated as an average for each speciality. In one hospital, the longest waiting time for an individual clinic was 2,920 days (eight years).

Hospital Performance

38.20 The waiting time for out-patient clinics (by speciality) is set out in Figure 132. Between October 2008 and January 2009 there was no significant reduction in the national average waiting time for out-patient clinics or in the specialities with the highest waiting times.

Figure 132 Average Waiting Times (Days) for Out-patient Clinics, October 2008 – January 2009

Speciality	October 2008	November 2008	December 2008	January 2009
Orthopaedics	473	480	528	461
Otolaryngology	376	423	407	453
Ophthalmology	265	272	276	279
Medicine	166	192	186	160
Surgery	181	168	167	157
Other	140	138	128	119
Paediatrics	91	100	89	87
National average – All Specialities	194	205	200	186
Number of Hospitals which Reported Data	30	31	30	32

Measure Shortcomings

38.21 This is a relatively good measure of waiting time for out-patient appointments but in order to guarantee its accuracy some dysfunctional practices need to be addressed

- In one hospital some clinics were no longer accepting referrals in order to get the out-patient waiting lists under control.
- In another hospital the waiting times were established once and the task was not repeated. Therefore, the waiting time for out-patient clinics reported by that hospital is unlikely to be accurate.

38.22 The measure is forward looking since it identifies the time to the next routine appointment. It does not calculate how long those who have already attended as out-patients were waiting. It was not possible to establish this waiting time for the purpose of the examination.

Waiting Time for Out-patient Clinics – Suggestions for Improvement

Consideration could be given to calculating average actual waiting time for those patients seen by out-patient departments.

The practice of closing the out-patient appointments book in order to bring waiting time under control should be prohibited.

38.23 A project has been facilitated through the Forum to improve the performance of out-patient clinics. Details of the project are outlined below.

National Improvement Project – Out-patients

In June 2008, only three hospitals were providing out-patient waiting list information. Individual hospitals carried out significant work to catalogue waiting lists and now 38 hospitals are providing information in relation to out-patient waiting times. This is a considerable advance.

17 hospitals have conducted effectiveness audits to identify inefficiencies in the out-patient area that needed to be addressed. The main objective was to bring about more new attendance appointments. This called for improvement in clinic and appointment scheduling, communication with the patient and the day-to-day management of out-patient clinics. The audits identified the need for the development of standard operating procedures and a performance management system, including Key Performance Indicators and targets in relation to out-patients, along with monthly reporting of waiting lists and monitoring of performance. The need for national referral protocols in the high volume specialities was also identified in order to ensure that all out-patient referrals are appropriate and necessary. The issues identified and the suggested solutions fed into a national framework for out-patient clinics.

At July 2009, the framework had been drafted and is currently being validated by a number of hospitals. The framework emphasises the need for hospitals to

- focus on increasing new attendances through all clinics and reducing unnecessary follow-ups
- clearly report out-patient waiting time targets
- reduce the number of patients who do not attend
- reduce unnecessary GP referrals
- ensure nurse activities relate to clinical activity and increase the potential of nurses to see and treat new patients.

Integration Indicators

38.24 Integration indicators provide information in relation to patient throughput. Two integration indicators were examined in detail

- Day case rates — measures the proportion of patients' procedures conducted on a day case (as opposed to in-patient) basis.
- Delayed discharges as a percentage of bed-days available – measures the loss in capacity due to the inability to discharge patients who no longer require acute care.

Day Case Rates

38.25 The day case rate measures the proportion of procedures conducted without the need for an overnight stay. It is expressed as the number of procedures conducted on a day case basis as a proportion of the total procedures carried out. Maximising day cases improves the overall capacity of the hospital. It is also important from the patients' viewpoint as it minimises the length of stay for a patient.

38.26 Up to December 2008, this indicator was calculated on the basis of all procedures conducted. Since January 2009 it is based on a sample of 24 procedures¹²⁸. HealthStat also produces information in relation to five specialities.

Hospital Performance

38.27 The target is that at least 75% of the basket of 24 procedures are carried out on a day case basis. Performance against this target in January 2009 is shown in Figure 133. Performance was well below target with 56% of cases being conducted on a day case basis.

Figure 133 National Day Case Procedures, January 2009

Speciality	Hospitals Carrying Out Procedure	National Average Day Case Rate ^a	Lowest Rate of Day Case in Individual Hospital	Highest Rate of Day Case in Individual Hospital
	Number	%	%	%
Cataract	10	72	3	100
Investigative Scopes	36	69	8	90
Inguinal Hernia	30	36	1	79
Varicose Veins	27	61	0	98
Tonsillectomy	18	1	0	25
Basket of 24	36	56	22	82

Note:

a The national average is calculated by measuring procedures carried out on a day case basis as a proportion of the total procedures for all of the hospitals who reported data.

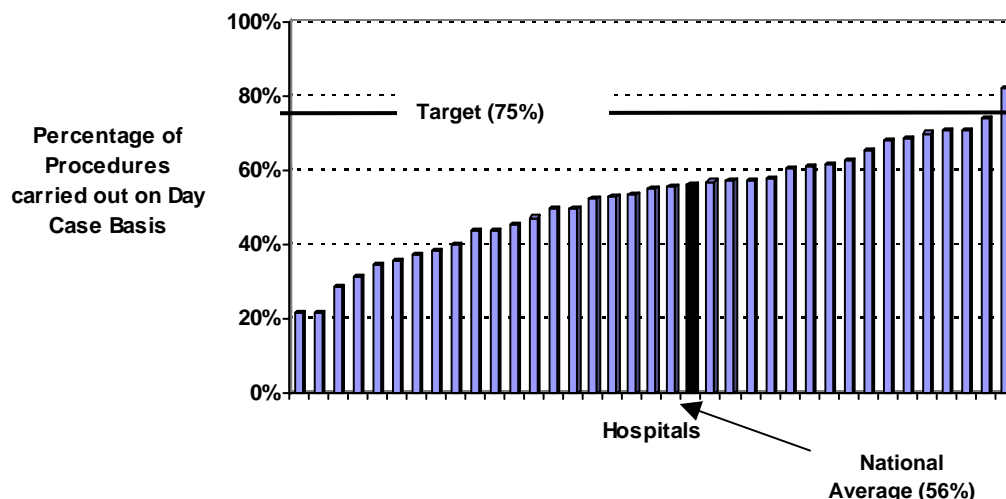
38.28 There is a wide variation in day case activity with rates varying from 22% to 82% for the full basket of 24. This degree of variation is evident in all of the procedures reported except for tonsillectomy where the overall day case rate is lower than other specialities.

38.29 Forum meetings during 2008 and early 2009 were drawing attention to poor performance in this area and seeking commitments from hospitals to increase the proportion of procedures carried out on a day case basis. The day case rates for the 36 hospitals who reported at January 2009 are graphically displayed in Figure 134.

38.30 The HSE stated that it regularly reviewed the level of day cases as a key element of hospital throughput and the Forum investigated low performance in this regard as well as specific improvement actions for hospitals which included examining day capacity and clinical practice.

¹²⁸ The basket of 24 is an internationally recognised set of procedures that can be carried out as day cases on a regular basis, thus excluding those procedures that could not normally be carried out on a day case basis.

Figure 134 Day Cases as a Percentage of the Total In-patient and Day Case Activity – January 2009



Shortcomings with the Measure

38.31 A number of shortcomings were identified with this measure

- Procedures carried out in an out-patient setting are not included in calculating the day case rate. One hospital visited informed the audit team that a particular procedure, which they felt was a day case procedure, was regularly carried out in that hospital in an out-patient setting but could not be included in calculating the day case rate. In this respect, performance is potentially understated.
- Another hospital felt that the basket of 24 procedures was not representative of their day case activity, as some of the bigger volume day case procedures in that hospital were not included.

38.32 The HSE stated that the day case basket of 24 procedures was internationally accepted and the proportion carried out in individual hospitals would reflect their overall caseload mix. It added that its objective was to carry out as much care as is possible in a non-acute setting. However, it was of the opinion that any procedures conducted in an out-patient setting did not involve the level of acuity (anaesthetics, theatre, clinical team, etc.) of a normal day case procedure.

Day Case Rates – Suggestions for Improvement

There is a need to fully investigate the characteristics of those hospitals with very high performance in this area to establish the reasons for this, distil the lessons learned and disseminate the findings in a structured way so that hospitals with poor performance can consider implementing similar practices. A comprehensive identification of good practice would greatly assist the nine hospitals with day case rates of under 40%.

Delayed Discharges

38.33 A delayed discharge occurs when a patient no longer requires acute care but cannot be discharged from hospital. This mainly occurs due to lack of suitable step-down facilities, home care facilities or rehabilitation placements.

38.34 The measurement of capacity lost through delayed discharges is important because of its effect on other functions within the hospital system. Delayed discharges can contribute to ED admission waiting times, elective admission waiting times and causes cancellation of elective appointments.

38.35 Delayed discharges are measured on the basis of the number of bed-days lost as a percentage of the total bed-days available. The HSE informed me that at present no target had been set for delayed discharges as they have a high dependency on services provided by the PCCC in the community¹²⁹.

Reported Delays in Discharging Patients

38.36 The level of delayed discharges is set out in Figure 135. For the period October 2008 to January 2009 an average of 5.6% of available bed-days were lost due to delayed discharges. Seven hospitals reported no loss of bed-days while the remaining 29 reported losses of between 0.1% and 23.7%. The hospital with the highest level of loss of capacity due to delayed discharges was significantly higher than all of the remaining hospitals. Within the remaining hospitals the range was 0.1% to 13% and the adjusted national average was 5.3% after excluding this outlier.

Figure 135 Number of Hospitals with Bed-Days Lost Due to Delayed Discharges October 2008 – January 2009

Percentage Bed-Days lost to Delayed Discharges	Hospitals			
	October 2008	November 2008	December 2008	January 2009
0%	8	9	9	8
0.1 – 2.5%	10	9	8	7
2.6 – 5%	6	6	7	9
5.1 – 10%	6	6	4	6
10.1 – 20%	5	5	7	4
> 20%	1	1	1	1
National average	5.5%	5.1%	6.3%	5.4%

38.37 Between October 2008 and January 2009 there has been a slight improvement in delayed discharges across the 36 hospitals. Individually, 14 hospitals experienced improvements in the level of delayed discharges and eight hospitals experienced no change, but the reduction was negated by increases in 14 other hospitals during the period.

38.38 The HSE stated that between 2005 and 2008 there had been extensive development of long-term care, home care and rehabilitation capacity which contributed to reductions in delayed discharges in hospitals. However, financial constraints since Autumn 2008 had resulted in reduced capacity in this area.

¹²⁹ The HealthStat indicators currently under development for the PCCC will cover this aspect of performance.

38.39 The HSE is of the view that since the patients are medically fit for discharge, it would be more appropriate to provide data on this measure to the local health officers and it is currently included in the HealthStat pilot for them.

Shortcomings in Measure

38.40 While this is a relatively good measure of the capacity lost due to delayed discharges, it suffers from some drawbacks

- There are differences in how bed-days lost are calculated among hospitals. Some hospitals count each delayed discharge from the date the patient became a delayed discharge and other hospitals count each delayed discharge as being delayed for seven days of the previous week, regardless of when their need for acute care ceased.
- There was a lack of uniformity across the hospitals visited in terms of the beds included in calculating bed-days available. In addition, instances were noted during the examination where the bed-days available reported in HealthStat could not be reconciled to hospital records. The number of bed-days available had been calculated correctly and could be reconciled to local records in two of the hospitals visited. In the remaining two, HealthStat had overstated the number of bed-days available by 14% thus reporting better performance under this measure than was actually the case. The bulk of the difference was due to incorrect interpretation of the beds to be included.

Delayed Discharges – Suggestions for Improvement

The indicator should be defined more clearly, in particular, setting out how bed-days available are to be calculated.

Consideration should be given to adopting a target for this indicator. As HealthStat evolves it would be desirable to link this indicator with other indicators affected by this phenomenon. This could give insight into the extent to which delays in other functions of the hospital are being caused by delayed discharges. Other factors which would need to be taken into account in any such review include the timing of pre-admission testing, the extent of admission on day of surgery, the length of acute stay and the extent of day care utilisation.

Resource Indicators

38.41 Resource indicators are useful in measuring efficiency and productivity. Two resource indicators were examined in detail

- Staff per in-patient bed – this measures the number of staff required in relation to each in-patient bed.
- Public : Private split of activity – measures the proportion of hospital activity devoted to treating public patients.

Staff per In-patient Bed

38.42 In principle, a measure of whole-time staff per in-patient bed is an important productivity measure allowing for resource comparisons between hospitals. The number of staff per in-patient bed is further broken down by category of staff between nursing, medical/dental, health and social care, other patient care, general support and management/administration. Targets were not adopted for this indicator. Rather, averages for all hospitals were shown as a means of comparison with peers. This measure is no longer reported in HealthStat.

Reported Performance

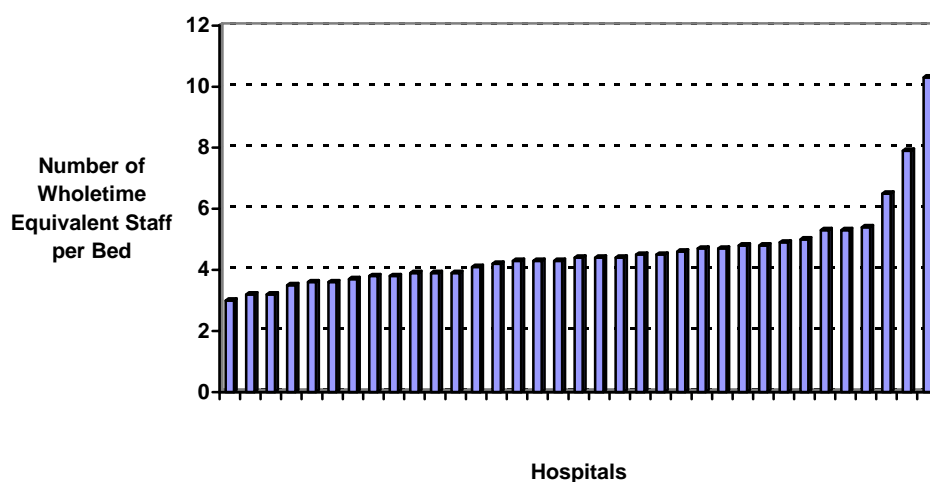
38.43 This indicator was reported by HealthStat up to December 2008. Thereafter, its use was discontinued. The HSE informed me that this decision was taken for a number of reasons

- There were continued discrepancies on bed count.
- Two hospitals did not report whole-time equivalent staff per bed from October 2008 to January 2009.
- It was considered that the measure, as presently constituted, did not incentivise good use of resources since it penalised hospitals that made increased use of out-patient departments, medical assessment units and fracture clinics in place of in-patient beds.

38.44 The whole-time equivalent staff devoted to each bed was in the region of 4.5 nationally for the months of October 2008 to January 2009. In January 2009 the levels ranged from three whole-time equivalent staff per in-patient bed to 10.3 per bed. These levels were largely consistent with the previous three months, October to December 2008.

38.45 The range of whole-time equivalent staff per bed in January 2009 is outlined in Figure 136.

Figure 136 Whole-Time Equivalent (WTE) Staff Per In-patient Bed – January 2009



Note: The total WTE staff includes all staff working in the hospital in the following categories: medical and dental, nursing, health and social care, management and administration, general support and other patient care. Staff numbers are expressed in terms of WTE irrespective of grade.

38.46 The level of variation between hospitals for the categories of staff is outlined in Figure 137.

Figure 137 Whole-Time Equivalent Staff Per Bed by Category for January 2009

Category	Hospital with Lowest Overall WTE per Bed	Hospital with Highest Overall WTE per Bed	National Average
Medical / Dental	0.3	1.2	0.5
Nursing	1.4	3.8	1.8
Health & Social Care	0.0	1.9	0.6
Management / Administration	0.3	2.1	0.7
General Support	0.2	0.9	0.6
Other Patient Care	0.8	0.4	0.3
Total all Staff Categories	3.0	10.3	4.5

Shortcoming of the Measure

38.47 Information on how efficiently a hospital is being staffed is important. This measure had some shortcomings in this regard. In particular, in the calculation of this measure, all staff were included yet only in-patient beds were used. As a result, hospitals with significant day case, out-patient and emergency activity would be disadvantaged since staff employed on these functions are counted while the beds are not.

Staff WTE per Bed – Suggestions for Improvement

While the measure has been abandoned, a replacement productivity indicator that takes due account of the complexity or mix of patients in the hospital needs to be evolved.

A revised measure should be adopted taking account of the need to incentivise hospitals to optimise the use of resources. It may be necessary to apportion staff between in-patient, daycase, ED and out-patient care with separate productivity indicators for each.

Public : Private Split of Activity

38.48 The management of the public and private components of activity is important in the context of the implementation of government policy that at least 80% of activity in acute hospitals is public activity. As indicated in Chapter 37 its management can also impact on whether income from private patient maintenance is optimised. A further factor is ensuring that

- consultants remunerated entirely by salary treat only public patients¹³⁰
- other consultants operate within the limits of private practice set in their contracts (See Chapter 39).

38.49 The indicator measures the split of hospital activity (measured by in-patient and daycase discharges) between public and private patients and is further analysed between day cases, elective and emergency in-patients. The target is that at least 80% of all activity should be public activity.

¹³⁰ Their enhanced salary levels are negotiated on the basis of this.

Reported Performance

38.50 The national average for public patient treatment activity was 78% in January 2009 and that percentage has remained relatively stable since October 2008. However, the performance between hospitals varied from 45% in one hospital to 94% in another hospital. The level of public activity for January 2009 is detailed in Figure 138 in respect of 35¹³¹ hospitals.

Figure 138 National Public Rate of Activity, by Speciality January 2009

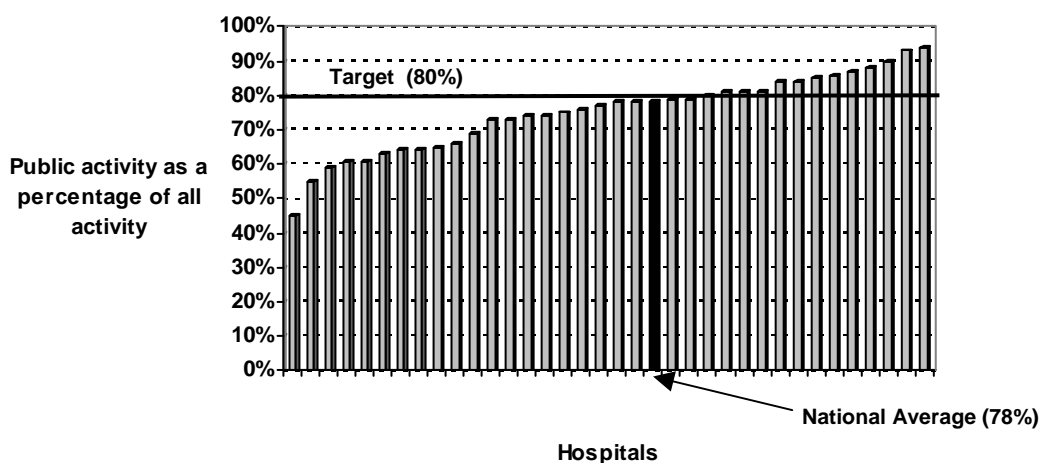
Speciality	Number of Hospitals ^a	National Average %
Ophthalmology	12	87
General Medicine	29	81
Other	23	80
Otolaryngology	16	77
Paediatrics	21	75
Orthopaedics	23	72
General Surgery	30	72
National Average – All Specialities	35	78

Note:

- a While the percentages are broadly indicative, caution is necessary in their interpretation because not all hospitals carry out all procedures reported.

38.51 The range of public activity by hospital is set out in Figure 139 below.

Figure 139 Public : Private Split January 2009



38.52 Examination of the underlying data in respect of the individual hospitals revealed that, in general, no one speciality was influencing the percentage of public cases. The overall percentages of public activity for individual hospitals mirrored the pattern for the specialities for that hospital.

¹³¹ Two hospitals – Merlin Park and UCHG merged in January 2009.

38.53 With a high level of variation and with approximately half of all hospitals rated by HealthStat as having either average or poor performance, there is scope for more focus on this issue at the Forum. In January 2009, 15 hospitals were rated as poor performers requiring urgent attention, three were rated as having average performance with room for improvement, while 17 were satisfactory.

Shortcoming of the Measure

38.54 This indicator, as currently calculated, does not take account of the complexity of cases as it is based on discharges as between public and private patients.

Public : Private Split – Suggestions for Improvement

The measurement of the public private split would be improved through the use of weightings in order to give a better picture of the complexity involved in the cases treated by individual hospitals.

There may be a need, following final completion of contracting arrangements with consultants, to set an adjusted national target which takes account of consultant categorisation.

38.55 The HSE have stated that, from September 2009, it hoped to present this indicator in two parts, one being the overall public : private split for hospitals and the other being a comparison of public : private split with agreed limits in relation to individual consultants arising out of Consultant Contract 2008 weighted for complexity using casemix¹³².

Getting Value from Performance Measurement

38.56 Ideally, a performance measurement system should be balanced and cost effective, that is, the indicators selected should cover all aspects of performance and the cost of collecting the required information should not be prohibitive. However, information production is not an end in itself and is only useful if it is used to drive performance improvements. Future steps to improve the process might include

- further integration of indicators to give a joined up view of performance
- developing relevant cost and activity indicators
- further enhancement of arrangements for good practice transfer by adopting more structured approaches to the transfer process
- linking performance measurement with the value for money drive
- enhancing data collection and verification procedures.

Integration of Existing Indicators

38.57 Currently, information in relation to each indicator is shown separately. It is acknowledged that their presentation in 'dashboard' format enables the links between individual indicators to be explored at management level. However, it would be useful, in order to deepen the information presented for discussion, to integrate on a periodic basis, a number of measures in order to allow

¹³² Casemix standardises each care episode into standard units of care. A weighting is applied to each diagnosis according to the severity and complexity of that diagnosis. These weightings allow for comparison of units of care across hospitals with differing mix of patients.

for a review of hospital performance in a holistic manner. This could provide useful insights into the relationship between different aspects of hospital performance.

Development of Cost and Activity Indicators

It would be useful to further link inputs with outputs in order to give an indication of how efficiently resources are being used to deliver the required service. These indicators could help gauge efficiency and when used in conjunction with reporting by hospital type would allow for comparisons over time and between comparable hospitals. Enhanced indicators might include

- Cost per Patient Discharged
- Activity per Whole Time Equivalent Staff.

38.58 Over time, they could be refined through the application of casemix weightings to more accurately reflect activity levels.

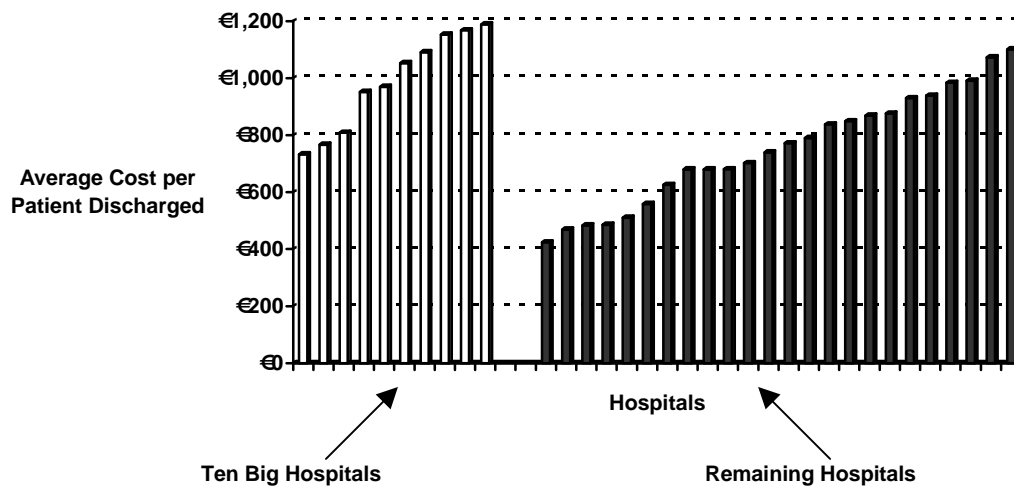
Cost per Patient Discharged

38.59 A cost per patient discharged indicator would show how much an average patient's visit to the hospital costs and allow hospitals to track efficiency over time and compare with peer providers.

38.60 A further refinement would be to break down the components of cost between medical pay costs, non-medical pay costs and non-pay costs.

38.61 The January 2009 cost per discharge for each hospital has been calculated for the purpose of this examination. The results graphically displayed in Figure 140 reveal a difference between the ten large hospitals which vary from €733 to €1,189 with an average of €986 per discharge as compared with the remainder who vary from €424 to €1,101 with an average of €742.

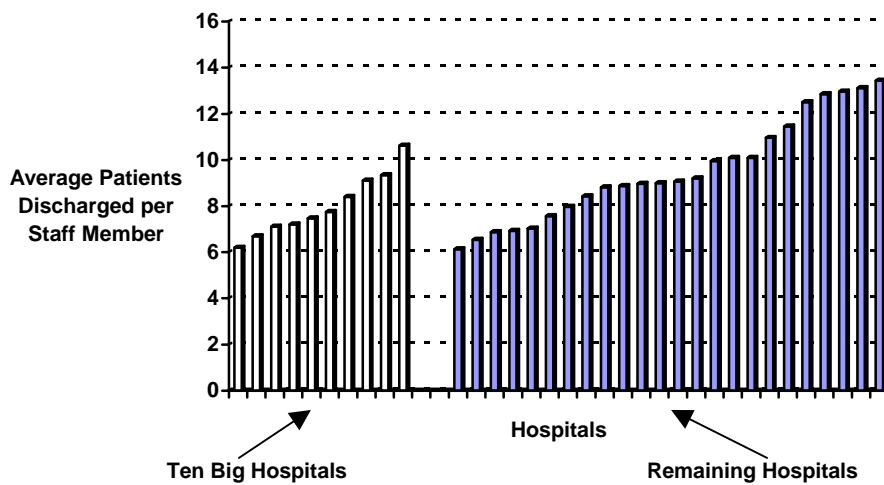
38.62 The calculation of the Casemix adjusted base price included in HealthStat in relation to each hospital estimates the cost of a standard unit of care for each hospital. However, it only includes in-patient discharges which results in the exclusion of significant activity groupings such as day case discharges, out-patient encounters and non-admitted ED throughput.

Figure 140 Average Cost^a per Patient Discharged^b, January 2009**Notes:**

- a The indicator is calculated by allocating total expenditure for the period over the number of patients discharged in the period to arrive at an average cost.
- b Patients discharged include in-patient and day cases, non-admitted ED and out-patient attendances.

Activity per Whole Time Equivalent Staff Member

38.63 The compilation of an indicator that demonstrates the average throughput of patients per member of staff and its comparison with peer providers and over time could give a picture of where efficiencies might be gained. Using discharges as a surrogate for throughput, the discharges per whole-time equivalent staff for January 2009 is outlined in Figure 141.

Figure 141 Patients Discharged^a per Staff Member^b, January 2009.**Notes:**

- a Patients Discharged include in-patient and day cases, non-admitted ED cases and out-patient attendances.
- b The indicator is calculated as the total number of patients discharged in the period divided by the total staff for the period.

38.64 Again there is a difference between the ten big hospitals and the remaining hospitals. In the ten big hospitals, patient throughput per staff member varied from 6.2 to 10.6 with an average of 7.9. The corresponding figures for the remaining hospitals ranged from a low of 6.1 to a high of 13.4 with these hospitals on average having 9.2 patients discharged per staff member.

Opportunities for Development of Indicators

The indicators outlined above would provide useful measures of overall efficiency. In their current form these indicators are crude and there is scope to develop them further to provide more meaningful information by taking account of complexity of hospital caseload. In addition, while information is available on patients discharged by type of care, (in-patient and day case, out-patient and ED), the associated expenditure and staff numbers are not similarly broken down.

In time, the indicators could be enhanced and refined by

- using the casemix weighting to standardise discharges into standard units of care
- using cost centres to break total expenditure between in-patient and day case discharges, ED attendances and out-patient attendances
- reporting by groups of peer hospitals, thus facilitating improved peer comparison.

Transfer of Good Practice

38.65 The objective of the Forum, established in association with HealthStat, is to compare performance by peers, focus on improvement actions and disseminate good practice of high performing hospitals. The Forum provides an opportunity to identify good practice across a range of activities by requesting hospitals with good performance in particular areas to identify the drivers of that performance.

38.66 During the pilot phase of HealthStat the National Director of Hospitals and the eight network managers represented hospitals. The first Forum was held in February 2008. It looked at the ten largest hospitals. It was planned that once the pilot phase was well underway, hospitals would be represented by their CEOs, general managers and clinical directors and this happened for the first time in November 2008 when the performance of five hospitals was examined. In each subsequent Forum between four and six hospitals have been examined and by March 2009 hospitals were returning for a second visit. Hospital specific performance improvement action plans have formed part of the dialogue from the outset in February 2008.

38.67 The aim is to invite each hospital three times per year. The format of the meeting is a dialogue where the improvement or deterioration in performance is discussed and Forum members attempt to identify, with network and hospital managers, hospital CEO's and clinical directors the reasons their hospitals are performing better or worse than peer providers. Where appropriate, a hospital manager is advised to discuss with managers of those hospitals with good performance how best to improve in a particular area.

38.68 Management in the hospitals visited during this examination welcomed the Forum's focus on continuous improvement as opposed to apportioning blame for poor performance. In general, they found the tone of the Forum meeting to be constructive.

38.69 However, hospital management went on to say that the learning objective was being pursued in an ad hoc manner through informal contact between personnel in individual hospitals. They were of the opinion that there was room for a more structured approach to the dissemination of good practice.

38.70 To date, the Forum has facilitated two improvement projects. The projects were

- Absenteeism – In this case new absenteeism guidelines were issued.
- Out-patients — There is an ongoing investigation of the administrative process in order to make it more efficient.

38.71 There is a high level of variation in the performance of individual hospitals across a range of measures, in particular, in areas like their proportion of day cases, the level of public activity and the number of bed-days lost through delayed discharges. The Forum could do more to identify the determinants of good performance in those areas with a view to transferring that knowledge to hospitals with lower than average performance. Combining centrally generated good practice guidance with existing peer learning appears to be the optimum approach to achieving this.

38.72 Some hospitals visited expressed reservations in relation to the scope for HealthStat to contribute to improved performance in their individual cases as they already had performance management systems that were more sophisticated than HealthStat.

38.73 While it is accepted that, as a national system, HealthStat has scope for development and that overlap with systems already developed by some hospitals is inevitable, in any enhancement of the system there may be scope to review the strengths of hospitals' existing models.

Opportunities to Transfer Good Practice

A more structured approach to the identification and transfer of good practice might include

- identification of areas for national roll-out of good practice guidance
- combining the current peer learning with a more structured approach to the dissemination of lessons learned through the development over time of good practice guides, developed centrally which set out the approaches that have contributed to good performance in particular areas.

Realising Added Value from Performance Measurement

38.74 As well as providing a mechanism, through the Forum for the transfer of good practice, a complementary approach could be to link performance measurement more closely with other initiatives including the HSE value for money drive, which is outlined below.

The HSE Value for Money Programme

In its recent Statements of Strategy the HSE has committed to undertake qualitative and quantitative analysis of value for money in order to identify

- Cost containment measures — quantitative savings in terms of reduced costs e.g. procurement savings.
- Productivity Gains — Quantitative savings by producing the same outputs for fewer inputs or more output for the same input.
- Value Gains — Qualitative gains in terms of the same or better outcomes for less or the same inputs.
- Benchmarking — Produce ‘benchmarked’ standards or resource levels relative to population and their needs and compare them alongside existing staffing and funding levels.
- Health Technology Assessments (HTA) — Inform decisions by identifying technologies that deliver best results for the resources allocated.

38.75 To date the primary focus of the value for money drive has been on cost containment measures. This has operated by identifying savings in consultation with business units. The value for money unit is likely to be hampered in its pursuit of value due to resource constraints following a recent recruitment ban.

Opportunity to Link Measurement and the Pursuit of Value

One obvious way of cost effectively driving the value agenda is to base some of the value for money unit’s work on a rolling review of HealthStat indicators

- probing the reasons for the performance reported through independent examinations
- identification of norms and standards for future operations taking account of complexity
- quantifying potential efficiencies and validating their achievement.

Data Reliability

38.76 Reliable and accurate data is critical in ensuring the credibility of any performance measurement system. While tests carried out for the purpose of this audit, in general, confirmed the accuracy of the data, some reliability risks were identified during the visits to individual hospitals including the following

- While a HealthStat user guide has been developed, hospitals were interpreting the data required to calculate the indicators supplied differently in areas such as the definition of the number of beds and the definition of patients waiting for elective procedures.
- Data capture methods impacted on the capacity of hospitals to supply accurate information. This varied with the size of the hospital with large hospitals, in general, having well developed ICT systems whereas small hospitals relied largely on manual systems.
- In a small number of cases the data supplied was inaccurate. The HSE is confident that inconsistencies arising from errors in the data supplied are captured during reasonableness checks and are corrected before inclusion in HealthStat.
- In some cases, in particular in relation to the calculation of Whole Time Equivalent staff documentation was not retained and the data supplied could not be verified during the visits to the hospitals.

Opportunity to Improve Data Reliability

There is scope for more precise definition of the data to be supplied in calculating the indicators.

There is a need to enhance the reliability of data through the conduct of periodic audits to verify the accuracy of data supplied.

In the longer term, there is scope for the development of central protocols in relation to data collection, verification and reporting.

Planned Enhancements

38.77 The HSE intends to establish a Planning and Performance Directorate by the end of 2009. This Directorate will produce performance information for the hospitals funded by the HSE as well as those in the community services area. It will also have responsibility for ensuring that data produced is accurate and for further enhancing and developing integrated performance data.

38.78 Currently, an aggregate rating is given for each type of indicator (Access, Integration and Resource) and for the hospital overall. This aggregation does not weight the individual indicators. The HSE has stated that a weighting mechanism is being developed at present.

Overall Conclusions

The institution by the HSE of a system to monitor performance of its hospital network is an important first step in moving the organisation towards accountability for performance and facilitating improvement.

Overall, the audit review concluded that

- while some refinements have been suggested in this Chapter, the types of measure being reported are relevant to the hospital service
- the continued extension of relevant indicators to other parts of the service will be useful
- the periodic linking of indicators, perhaps as part of occasional in depth studies could help illuminate connections and dependencies, for instance, between access issues such as elective waiting times and factors such as the extent of daycase work performed or the extent of delayed discharges
- the basic material could be used to create more efficiency indicators such as cost per patient discharged and generally deepen the performance debate – moving further along a spectrum from output measurement to performance management.

Indicators must be based on a bank of consistent, reliable data. The review suggests that the HSE needs to ensure that all hospitals produce comparable base data to common standards.

Overall, the various measures and the range of performance they report could be a fertile area for exploration by the HSE's internal value for money unit.

Annex A The HealthStat System

A user guide describes each indicator and identifies the source of the underlying data, the reporting frequency, the owner of the data and the reporting entity. It also sets out the formula for calculating each indicator and the target set.

Indicators

HealthStat is based on three key types of indicator, Access, Integration and Resource. Access indicators measure waiting times for various health services, Integration indicators measure patient throughput and Resource indicators measure resource utilisation. The indicators included under each type are set out in Figure 142.

Figure 142 Indicators included in HealthStat

Access	Waiting Times for Elective Procedures
	Waiting Times for Admission from Emergency Department
	Waiting Times for Out-patient Clinics
Integration	Average Length of Stay
	Day Case Rates
	Delayed Discharge
	Admission on Day of Procedure
	Appropriateness of Admission and Care
	Discharges entered on HIPE
Resource	Finance and Resource Usage
	Activity v Service Plan for Total, Out-patients, Daycase and In-patients
	Staff WTE Variance from Staff Ceiling
	Percentage Hours Lost Through Absenteeism
	Distribution of Staff
	Consultant v NCHD Ratio
	Allied Healthcare Professionals Activity (e.g. Physiotherapists)
	Hospital Diagnostic Activity per relevant Staff WTE
	Patients as a Percentage of Out-patient Clinics
	Public : Private Split of Activity
	Day Case as a Percentage of Total Activity

Targets were set by the HSE based on a variety of sources. International targets informed nine indicators and specific national targets were set for eight others. Where international or national targets did not exist for indicators, two in all, the best performance being achieved in Ireland was selected as the target. This applied to indicators such as average length of stay and allied healthcare professional activity.

At the reporting stage, a 'traffic light' system is used to rate performance in relation to each indicator. Performance within 15% of the target signifies very good performance and this is represented with a green light. A deviation from target of between 15% and 35% is rated as average performance with room for improvement and is assigned an amber light. Performance of 35% or more below the target is categorised as unsatisfactory performance requiring urgent attention and this is demonstrated by a red light. An aggregate rating is given for each type of indicator (Access, Integration and Resource) and for the hospital overall.

Chapter 39 Health Service Executive

Implementation of the Medical Consultants' Contract

Implementation of the Medical Consultants' Contract

39.1 In July 2008, agreement was reached between the Health Service Executive (HSE) and the consultants' representative organisations on a new Consultant Contract (Consultant Contract 2008). The new contract positions consultants, for the first time, as employees – working under terms and conditions similar to those in place for workers across the health service. It brings about alterations in consultants' working hours, reporting relationships, the structure of their employment and the terms governing private practice. It also introduces disciplinary procedures for consultants similar to those applying to other employees.

Previous Review of Medical Consultants' Contract

39.2 In April 2007, a Special Report was published on an examination of the operation of the previous Medical Consultants' Contract. It reported on the extent to which the terms of that contract, agreed in 1997, were being implemented in the acute hospital sector. The report found that there was a persistent disagreement over a period of ten years in regard to the time commitment of consultants and there was little monitoring of the delivery of those commitments by hospital management.

39.3 In May 2008 the Public Accounts Committee of Dáil Éireann considered the findings of the examination. In its report¹³³ the Committee recommended that

- The new consultants' contract should provide absolute transparency on the time commitment to public hospital duty of consultant staff and that those commitments should be monitored and enforced in order to ensure that value is received for the salaries paid to consultants.
- The HSE should introduce a stringent monitoring regime of public and private caseloads in hospitals and data on the level of private practice in public hospitals should be published on a consultant by consultant basis.
- The terms of the 1997 contract should be strictly enforced in respect of those consultants who do not transfer to the new contract so that those consultants are seen to deliver services in accordance with their commitments.
- The contract implementation group, that will oversee the change process, should provide six-monthly progress reports to the Minister for Health and Children.

New Contractual Arrangements

39.4 Under the new arrangements there are four contract types as outlined in Figure 143.

¹³³ Dáil Éireann Committee of Public Accounts – Third Interim Report on the 2006 Report of the Comptroller and Auditor General – Expenditure on Health Services (November 2008).

Figure 143 Types of Consultant Contract under the New Contractual Arrangements

Type	
A	Consultants who work exclusively for the public hospital and are solely remunerated by way of salary.
B	Consultants who may engage in private practice including <ul style="list-style-type: none"> ▪ new entrants who may engage in limited private practice on-site in a ratio of 80% public to 20% private. ▪ existing consultants who may engage in private practice in a ratio of 70% public to 30% private practice and retain off-site out-patient private practice.
B*	Existing consultants who may engage in private practice in a ratio of 70% public to 30% private practice and retain off-site in-patient and out-patient private practice.
C	New consultants entitled to engage in off-site in-patient and out-patient private practice. (Only to be created in exceptional circumstances where there is a demonstrable benefit to the public health system).

39.5 The HSE was voted a Supplementary Estimate, amounting to €68 million in 2008. The bulk of this (about €65 million) was intended for payment of consultant's pay arrears arising from acceptance and implementation of the new contract terms. The payments did not take place in 2008 and under cash accounting rules governing voted expenditure, the funds were surrendered to the Exchequer. Payments on foot of the contracts began in May 2009. A provision of €1 million was allocated to meet them.

Key Provisions – Consultant Contract 2008

39.6 The principal features of Consultant Contract 2008 are as follows

- The 2008 contract defines the commitment of each consultant as a scheduled 37-hour week delivered over the period 8am – 8pm Monday to Friday, an increase of four hours on the previous scheduled working week. In addition, consultants can now be rostered to work on-site for up to five hours on Saturday, Sunday or public holidays.
- The contract provides for team working which comprises the provision of diagnoses, treatments and care to patients that are under the care of other consultants on the same team. This extends to discharge and further treatment arrangements in order to facilitate a more timely discharge of patients and speedier admission of patients to hospital.
- Each consultant is required to report to a Clinical Director who will, *inter alia*, prepare a Clinical Directorate Service Plan setting out how clinical services are to be delivered, how consultant resources are to be deployed and managed through rosters (with an emphasis in the short to medium term on the move to an 8am – 8pm day and obtaining value from the additional four hours of consultant time per week).
- Each consultant while remaining clinically independent in relation to decisions on the diagnosis, treatment and care of individual patients will now also be subject to the corporate policies and procedures of their employing hospital including, *inter alia*, clinical governance and patient safety initiatives, participation in competence assurance arrangements, operation of quality and risk frameworks, maintenance of risk registers, and provision of education and training to other clinicians.
- The Consultant Contract 2008 introduces a set of measures designed to improve equity for public patients, including a 20% limit on private practice for new consultants. Consultants who were previously employed under Consultant Contract 1997 may engage in up to 30% private practice. A common waiting list is to be introduced for out-patient diagnostics (including radiology and laboratory services). These services are subject to the permitted

public : private practice ratio and the employer must be satisfied that billing for these services reflects the permitted ratio.

Audit Focus

Critical to the successful management of change in this area are the following

- conclusion of contracts with a critical mass of consultants and verification that the centrally negotiated terms are applied
- confirmation that the time commitments are being reflected in on-the-ground rosters and that there are arrangements in place to confirm adherence to public : private ratios
- ensuring that clinical directorate models are in place and, where not, that interim arrangements sufficient to guarantee delivery of the new arrangements are in place
- enforcement of the delivery of commitments by those consultants who remain on the 1997 contract.

The audit sought to ascertain the progress made in regard to each of the above.

Audit Findings

39.7 In 2009, the consultant workforce was composed of a mix of permanent, temporary and locum appointees. The whole time equivalent workforce eligible for offer of Consultant Contract 2008 comprised 1,888 permanent employees and 312 locum or temporary employees – a total of 2,200.

39.8 By July 2009, 1,688 consultants out of the 1,888 permanent consultants had opted into the new contract arrangements. The breakdown in respect of these contracts was as outlined in Figure 144.

Figure 144 Filled Consultant Posts by Contract Type

Type	Number
A	629
B	703
B*	356
	1,688

This represents an acceptance rate of around 89%.

39.9 While a large majority of locum or temporary employees accepted the offer of Consultant Contract 2008, many of these have left health service employment, due to the expiry of their contracts by 1 June 2009.

39.10 The five Universities employing Academic Consultants have – from June 2009 – begun the offer of Consultant Contract 2008 to those consultants that are in their employment. At 7 July 2009, around 50% of Academic Consultants had accepted the terms of the new contracts.

39.11 Of 326 consultant posts created by the HSE between 1 March 2008 and 1 April 2009 (a 13 month period), 76 were Type A, 250 Type B and none Type C.

Verification of Adherence to Contract Terms

39.12 The HSE informed me that its Internal Audit Unit carried out a review to verify that the 1,667 contract documents as signed at March 2009 had not been altered from the agreed standard contract.

39.13 In regard to the scope of the work carried out, the review was at a high level but examined all contracts issued and accepted by consultants employed in the HSE and HSE funded agencies. Each contract was reviewed to identify any alterations to the standard terms and conditions contained in the *pro forma* contract agreed with the medical representative bodies in July 2008.

39.14 The review found

- The vast majority of contracts signed by consultants and authorised by the employer were in accordance with the standard terms and conditions.
- A relatively small percentage of contracts had been signed as approved by the employer prior to being issued to the employee (none of these contained any anomalies).
- A small percentage of contracts were not physically signed as authorised by the employer, but these were included in the employer's records as issued contracts.
- A very small number of contracts did contain manual amendments relating to the treatment of private out-patients, however, these were not found to materially affect the standard terms and conditions.

39.15 In regard to the extent of deviations found by Internal Audit, the Accounting Officer informed me that deviations were limited to a small number of contracts signed by the consultant but not signed or authorised by the Hospital Manager or CEO and two instances where consultants had signed a contract categorised as Type C – even though Type C was not on offer to those consultants.

Rostered Time Commitments and Private Work

39.16 HSE Human Resources (HR) Directorate conducted a verification of work schedules to ensure that they reflected a 37-hour commitment and an additional four scheduled hours dedicated to clinical work including

- the service gain resulting from the increase from 33 to 37 scheduled weekly working hours
- the extent of service delivery over an extended working day as required (8am to 8pm in contrast to 9am to 5pm)
- the introduction of scheduled overtime on Saturdays, Sundays or bank holidays in place of C Factor payments¹³⁴ for duties performed by consultants on-site while on-call outside their scheduled hours, the service gain arising and cost basis for same
- measurement arrangements regarding each of the consultant's clinical activities, including in-patient, daycase, out-patient and diagnostics
- the extent to which there is compliance with the specified ratio of public : private practice
- the extent to which a single waiting list for out-patient diagnostics has been introduced.

¹³⁴ These relate to payments, on a per call-out basis, for the provision of on-site services by a consultant while on-call outside their scheduled 37-hour week commitment.

39.17 The extent to which work schedules were compliant with the agreed changes was recorded as part of the verification process. Only complete schedules were verified while incomplete schedules were set aside for revision and further review. The further review has now been completed.

39.18 The Accounting Officer informed me that the verification by HR was undertaken immediately after the deadline for acceptance of Consultant Contract 2008 in order to ensure that key elements of the contract were in place prior to payments being made thereunder. The verification exercise entailed confirming the presence of each of the elements rather than recording the extent of same.

39.19 A small number of hospitals are still dealing with data collection difficulties, particularly with the reporting of on-site private out-patient department activity and diagnostics. Consultants in these hospitals have been asked to supply details of their private practice activity but this has not been provided to date. This is being followed up by the Hospital Managers in the particular hospitals concerned. Further discussions are continuing with the Dublin Maternity Hospitals on the particular requirements of the Maternity service for the measurement of private practice.

39.20 The HSE National Hospitals Office (NHO) is currently progressing the introduction of a common waiting list in out-patient diagnostics.

Monitoring Private Practice

39.21 Since September 2008, the HSE has introduced systems for reporting public and private in-patient and daycase activity on a consultant by consultant basis. Reports from these systems – which record individual consultant public and private practice in relation to in-patients, daycases, out-patients and diagnostics are being produced. Currently, these monthly reports are five months in arrears. The HSE informed me that it will be able to report the percentage of eligible consultants operating within the limits specified by Consultant Contract 2008 in addition to overall compliance at hospital level in the second half of 2009. At that point, the information will begin to be used to inform the decisions of clinical directorates.

39.22 The report will be circulated to the Clinical Director and the Hospital Manager and an overall status report will be prepared for internal HSE monitoring and management purposes and shared with the Department and the representative associations of consultants.

39.23 The Accounting Officer stated that a key requirement for the implementation of Consultant Contract 2008 was the monitoring of private practice activity by consultants individually. Prior to, during and since the verification exercise, new measurement systems had been developed in order to fulfil this requirement in the manner set out in the Contract negotiations, i.e. measuring clinical activity adjusted for case mix. The features of the measurement system included

- The development of the measurement system in conjunction with the Economic and Social Research Institute (ESRI). This has now been introduced in the 49 acute hospitals through the Hospital In-Patient Enquiry (HIPE) System¹³⁵. The measurement system records in-patient and day case activity (as weighted for casemix¹³⁶) by consultant and reports on the level of private practice on a monthly basis.

¹³⁵ The HIPE System collects demographic, clinical and administrative data on patients in acute general hospitals nationally.

¹³⁶ Casemix provides a means for standardising data collected on activity and costs within acute hospitals, so that meaningful comparisons can be made between different areas of activity and different hospitals.

- Residual activity which is not yet captured by the HIPE system including details of on-site private out-patient activity and certain diagnostic activity is being collected manually by the hospitals as an interim measure pending the development of automated data collection systems.
- There is an inevitable time lag (minimum of 4 months) in providing reports, due to the time required for coding activity from the patient charts. The first measurement reports covering the January 2009 activity period were coming on stream in mid 2009 and have been issued to individual consultants.
- These reports are being prepared for the attention of Clinical Directors and Hospital Managers for compliance monitoring purposes.

39.24 Consultants have been receiving individualised reports each month since the beginning of 2009.

Implementation and Operation of Clinical Directorates

39.25 The revised arrangements make provision for a new service wide senior management position – that of Clinical Director. Clinical Directors are expected to

- ensure that service standards and governance requirements are met
- monitor and manage the public : private mix
- develop and manage consultants' rosters, deal with grievances and disputes
- manage the initial stages of the disciplinary process and
- help organise medical education and training.

39.26 In December 2008, the HSE commenced the appointment process for Clinical Directors. As of 1 July 2009, 46 Clinical Directors had been appointed across the hospital system from amongst those consultants who accepted the Consultant Contract 2008. The HSE expect further Clinical Director appointments to be made over the next two years as services evolve.

39.27 Clinical Directors appointed under Consultant Contract 2008 receive an allowance of €50,000 per annum.

39.28 Work has not commenced on the verification of the operation of Clinical Directorates. The terms of reference for an audit have yet to be agreed. It is intended that it will concentrate on evidence available to support increased working hours, improved flexibility in accessing theatres, improved discharge rates, compliance with agreed public : private ratios, reduced waiting times in Emergency Departments.

39.29 The Accounting Officer stated that changes are being implemented by local and regional hospital management with support and guidance from HR and the NHO. In relation to change management, the HSE is currently pursuing an integrated services programme which entails the appointment of Regional Operations Directors and Clinical Directors in key areas. The Clinical Directors – appointed under Consultant Contract 2008 are taking lead roles in aligning services to patient need, meeting care and quality standards and structuring consultant commitments accordingly. Clinical Directors function as senior managers in the larger hospitals reporting at hospital or regional level.

39.30 Prior to the introduction of Consultant Contract 2008, there were a range of Clinical Director, Medical Director and other clinical leadership posts in place, under historical local arrangements in various hospital and community settings. There was little consistency in the roles

assigned to those posts and in most instances, consultants holding them did not have a management role in relation to other consultants. Consultants who held remunerated leadership roles under Consultant Contract 1997 may retain those roles and receive payments under Consultant Contract 2008 pro-rata to their payments under Consultant Contract 1997. The number of consultants benefiting from these arrangements are not maintained centrally and were not available at the time of the review.

39.31 The Accounting Officer informed me that in many instances consultants holding Clinical Director or other leadership roles under the previous contract has either secured new appointments as Clinical Directors under Consultant Contract 2008 or has taken a different role in new management structures. Where that had not happened, management were seeking to build on the benefits associated with the consultant's existing role, align it to the new management structures and ensure maximum cost effectiveness.

Consultants who remain on Previous Contracts

39.32 Consultants who remain on Consultant Contract 1997, the Academic Consultant Contract 1998, the Consultant Contract 1991 or previous contractual arrangements will not be subject to the terms and conditions of Consultant Contract 2008. The HSE stated that they will, however, be required to work closely with Clinical Directors as senior managers in the health service. The HSE has informed me that it anticipated that approximately 200 consultants would remain on their previous contractual arrangements.

39.33 The HSE has stated that it will ensure consistency in application of the various contractual arrangements applying to consultants. In relation to Consultant Contract 1997 and the Academic Contract 1998, this will include full implementation of those provisions relating to the consultant's time commitment to the public hospital and to their entitlement to engage in private practice. The HSE has indicated that it will commence implementation of these provisions once initial payments under Consultant Contract 2008 are completed.

Conclusions

89% of permanent consultants have opted into the new contract arrangements. Work has been done to ensure that the contracts signed by hospitals accord with the standard terms and that schedules incorporate the extra time commitment negotiated.

Arrangements to monitor private practice, introduce changes associated with the Clinical Directorate model and monitor contractual compliance for consultants who remain on contractual arrangements that predate Consultant Contract 2008 have yet to be bedded in.

The HSE needs to push ahead with arrangements to verify that the envisaged gains resulting from increased resource availability and changed management processes are being realised in practice.

Chapter 40 Health Service Executive

The Dublin Ambulance Service

The Dublin Ambulance Service

40.1 Prior to 1960 the provision of health services, including the ambulance service, was the responsibility of local authorities. Under the Health Authorities Act, 1960 statutory responsibility for the provision of health services for Dublin city and county was vested in the newly established Dublin Health Authority. Agreement was reached at that time between the local authorities and the Dublin Health Authority that the local authorities would continue to provide an ambulance service in the Dublin area on behalf of the Dublin Health Authority.

40.2 The arrangement continued when the Eastern Health Board was established under the Health Act, 1970 as one of the regional health boards replacing the Health Authorities. In 1983 the arrangement ceased in the Dun Laoghaire/Rathdown area and the Eastern Health Board assumed responsibility for the ambulance service provision in that administrative area.

40.3 In 2000, the Eastern Health Board was split into three regional health areas. Following this, one of those regional health authorities – the East Coast Area Health Board – assumed a coordinating role for the ambulance service in the region. Subsequently, the Health Service Executive (HSE), on its establishment in 2005, assumed responsibility for the ambulance service countrywide.

Current Service Provision

40.4 In practice, two ambulance services provide full time, year round services in Dublin city and county - the Dublin Fire Service (DFS) and the HSE Ambulance Service.

40.5 In 1998, the Health Board and the DFS Command and Control ambulance functions were brought together in one location in a purpose built unit in Townsend Street, Dublin. The purpose of that move was to integrate both services with a view to achieving the most efficient and effective use of resources and ensuring the optimal quality of patient care.

40.6 The National Ambulance Service (NAS) was established by the HSE in 2005 and provides both emergency ambulance services and patient transport services. Its Eastern Region provides an ambulance service covering counties Dublin, Kildare and Wicklow. The Eastern Region has a staff complement of 242. This includes patient transport staff, ambulance controllers, EMTAs¹³⁷, managers and administration staff, as well as managers and administration staff of the National Ambulance Service College. Figure 145 details the allocation of the staff complement of the HSE ambulance staff Eastern Region.

¹³⁷ Emergency Medical Technician (Advanced).

Figure 145 HSE Eastern Region Ambulance Staff – July 2009

Category	Numbers
Ambulance Staff	183
Patient Transport Staff	15
National Ambulance College	12
Administration, etc. backup	11.5
Management/Supervisor	14
Vacancies	6.5
Total	242

40.7 The HSE Eastern Region provides the service with 55 ambulances including four spare vehicles. In addition, a motorcycle unit provides rapid response to emergency calls. The service also provides a dedicated national neonatal and mobile intensive care retrieval service. As well as responding to emergency calls the HSE service also provides inter-hospital transfers of patients and responses to urgent calls from doctors. Figure 146 details the deployment of the ambulances in the HSE Eastern Region.

Figure 146 HSE Eastern Region Ambulances – July 2009

Region	Maximum On Duty	Spares ^a	Total
Dublin City and County			
James's Street	7	7	14
Tallaght	1	1	2
Swords	2	1	3
Loughlinstown	4	3	7
Other Eastern Region			
Wicklow	3	3	6
Arklow	1	1	2
Baltinglass	1	1	2
Maynooth	1	1	2
Naas	4	4	8
Athy	2	2	4
National Services			
Loughlinstown ^b	2	—	2
James's Street ^c	3	—	3
Total	31	24	55

Notes:

- a The additional spare ambulances are required to allow duty commencement if existing crews have not returned to base when a shift is due to start. Routine servicing and breakdown is also accommodated within this complement by moving ambulances from one location to another when necessary.
- b Two incident response ambulances are based in Loughlinstown.
- c Two neonatal and one mobile intensive care ambulances are based in James's Street.

40.8 The DFS provide emergency response only. There is an agreed protocol that the nearest available ambulance responds to any emergency. The DFS provides its services from ten locations throughout Dublin City with eleven ambulances and three spares.

Arrangements with DFS

40.9 The HSE meets the costs of the DFS. The HSE pay the DFS for 105 personnel plus 10% for supervisory costs to provide the ambulance service. However, no formal procurement process for the appointment of the DFS to provide an emergency ambulance service has been entered into.

40.10 In June 1998, the Eastern Health Board and the Dublin Corporation Fire Brigade drew up a draft agreement on the provision of emergency ambulance services. The draft agreement gave rise to a complaint to the European Commission in which it was claimed that it should have been the subject of prior advertising in accordance with the requirements of EU Directive 92/50.

40.11 The European Commission asked the European Court of Justice to declare that, in permitting the provision of emergency ambulance services without having undertaken any prior advertising, Ireland had failed to fulfil its obligations under EU Treaties and the general principles of Community Law. The Commission claimed that the maintenance of an agreement without any prior advertising constituted a breach of the rules of the EU Treaty and thereby of the general principles of Community Law, in particular the principle of transparency.

40.12 The European Court of Justice rejected the contention of the Commission and determined that neither the Commission's arguments nor the documents produced demonstrated that there had been an award of a public contract, since it is conceivable that Dublin City Council provides emergency ambulance services in the exercise of its own powers derived directly from statute. Moreover, the mere fact that, as between two public bodies, funding arrangements exist in respect of services does not imply that the provision of those services constitutes an award of a public contract which would need to be assessed in the light of the fundamental rules of the Treaty.

Cost of the DFS Emergency Service

40.13 The HSE meets the following costs of the DFS

- the payroll costs of staff
- superannuation¹³⁸
- a 10% charge for supervision.

40.14 Dublin City Council have also sought payment from the HSE for additional cost elements. However, the HSE disputed that these should be chargeable since it never agreed to bear the cost of the items involved. The disputed areas relate to

- Swords ambulance service
- recruitment and training costs
- control room (16 staff) costs
- advanced paramedic service.

40.15 In 2006 following protracted negotiations, the HSE agreed to retrospectively pay for the disputed elements and paid Dublin City Council arrears of €2 million in that year and a further €1.09 million in 2007. At the end of December 2008, the remaining disputed amount was €2.9 million including €381,958 claimed by Dublin City Council as a cost of living increase.

¹³⁸ The superannuation charge is calculated at 1/7th of the net wages expenditure.

40.16 The payments by the HSE to Dublin City Council for the years 2004 – 2008 are detailed in Figure 147.

Figure 147 Reimbursement to Dublin City Council 2004 – 2008

Year	Payments ^a €
2004	6,833,519
2005	7,454,748
2006	9,454,748
2007	11,017,625
2008	9,306,396

Note:

a €2.9 million claimed up to 31 December 2008 is disputed and remains unpaid.

Service Framework

40.17 There is no service level agreement in place between the HSE and the DFS to provide emergency ambulance services in Dublin. The absence of a service level agreement and agreed performance indicators militates against effective measurement of the performance of the ambulance service provided by the DFS and any comparison with the service provided by its own ambulance service.

40.18 The reporting relationship for the HSE to the Department of Health and Children and Dublin City Council to the Department of Environment, Heritage and Local Government does not facilitate integrated planning. The issue is further complicated by the fact that the structure involves two separate groups of employees with different pay, terms and conditions of employment and staff representation.

40.19 The primary objective of the NAS is to provide clinically appropriate and timely pre-hospital care and transportation services. The provision of high quality ambulance services requires the NAS to operate in partnership with a wide range of statutory and private organisations. It also involves working closely with other health care providers at primary and community level in both acute and community care settings.

Communications Systems

40.20 Since the co-location in 1998 of the Health Board and the DFS Command and Control ambulance functions in the same purpose-built unit in Townsend Street, efforts have been made to establish an appropriately integrated centre with a suitable single management framework. The HSE informed me that in 1998 when the Command and Control service commenced operations, the DFS purchased a computer aided dispatch system. Its primary function was to assist in responding to fire calls. A module was purchased subsequently to deal with call tracking and dispatch of fire service ambulance vehicles. The HSE stated that this additional module had created ongoing operational difficulties in the pursuit of integration into a single system.

40.21 An independent report¹³⁹ recommended significant changes in relation to the future arrangements for the provision of a communications infrastructure in the overall ambulance services. The main recommendations were

¹³⁹ Communications in the Ambulance Services 2005, (The Mason Report).

- establish four health service call centres - one to support each HSE administrative area
- provide an integrated communications service support for multidisciplinary providers in support of holistic patient services
- deal with all health service communications needs from those centres.

40.22 It recommended that the centres provide the following services

- ambulance emergency dispatching
- inter-hospital critical care transfers
- patient transport services - stretcher based at an intermediate care level
- bed monitoring services
- patient transport services through contractors
- all out-of-hours medical on-call services
- specialist health support services such as public health nursing, social workers, etc. that are needed out of hours
- primary care centres
- patient advice and referral services.

40.23 The current HSE position in relation to the establishment of four health service call centres is that further evaluation is required in order to identify if the service can in fact be provided by two call centres. The Accounting Officer informed me that he believed the functions listed in the report should be provided as in many other countries.

Review of the Service

40.24 A Review Group on the ambulance service provision within Dublin city and county was established in October 2005 and reported in February 2007. It was a joint HSE and Dublin City Council group which also included the CEO of a UK regional ambulance service. A UK company specialising in the analysis of data for the emergency services was engaged to support the work of the Review Group.

40.25 The HSE and Dublin City Council felt there was a need to review all aspects of ambulance operations excluding routine patient transport services that are exclusively managed and delivered by the NAS. An important reason which gave impetus to the review was the fact that the response times for the delivery of emergency ambulance services in Dublin city and county were considered very low in comparison with similar cities around the UK and Europe. The eight minute response time for emergency responses in Dublin city and county is achieved in approximately 25% of cases and this compares poorly in relation to the eight minute response time in general of 75% of cases in England for dealing with life threatening calls.

40.26 The Review Group concluded that the existing ambulance service provision with services delivered by two different organisations using two differing communications systems and associated software did not align with many of the goals and aims of the requirements of all of the strategic reports¹⁴⁰ on the ambulance services and the Health Service Reform Programme.

¹⁴⁰ 1. The Review Agenda on the Ambulance Services (1993). 2. Strategic Review of the Ambulance Service (2001). 3. Quality and Fairness – A Health System for You (2001). 4. The Health Service Reform Programme (2003). 5. Mason Report on Communications in the Ambulance Service (2005). 6. Communications and IT Strategy, NAS (2006).

Significant Issues Identified by Review Group

40.27 In regard to command and control arrangements, the Review Group found that the two control centres, while located in the same room, operated and dispatched the ambulance resources in Dublin city and county as two separate entities in which there seemed to be very limited integration on the deployment of those services. While some co-ordination of 999 calls took place in the Townsend Street centre, it was the view of the HSE that this system was not sufficiently integrated to provide seamless ambulance services to the population of Dublin city and county. It was perceived that this service was fragmented and the existence of this situation undermined one of the main objectives of the Health Service Reform Programme.

40.28 The Review Group commented that the lack of a single point of contact for all ambulance calls for Dublin city and county was not a satisfactory arrangement for supporting the needs of patients or clinicians seeking the ambulance service. It noted that there was a lack of integration of control services and service delivery.

40.29 The Group also reported that the nearest ambulance resource is not always dispatched to meet the needs of the patients requesting services.

40.30 On the matter of value for money, the Review Group noted that the two separate stand-alone systems led to duplication and entailed each of the two having infrastructure and supporting systems.

40.31 In relation to clinical and financial risks, the Review Group observed that the approach to service delivery left the HSE exposed to clinical and financial risks. The absence of a Service Level Agreement for the provision of existing services was an issue that needed to be urgently addressed in order to mitigate those risks and provide a system of financial and clinical accountability.

40.32 The Review Group issued a set of recommendations in the areas of governance, operations, clinical effectiveness and quality. These are set out in Annex A.

Audit Concerns

I asked the Accounting Officer what action had been taken or is proposed

- to better align the ambulance service delivery with HSE strategic aims and
- to address the concerns outlined in the Review Group report and move to an organisational structure on the line of its recommendations.

I also sought information about the value for money being achieved under current operational arrangements and the status of the disputed claims made by Dublin City Council.

Views of the Accounting Officer

40.33 The Accounting Officer informed me that the HSE would be establishing a formal Memorandum of Understanding with the DFS which would identify service delivery requirements. He acknowledged that the reporting relationship of both organisations to two different government departments did create differing priorities and impacted on integrated planning. Future service delivery options were complicated by the existence of different terms and conditions of employment, different retirement arrangements, clinical skill retention challenges and different organisational cultures coupled with the fact that both the HSE and Dublin City Council had different overall service objectives and responsibilities.

40.34 In response to my query on the 2007 review report, the Accounting Officer informed me that new thinking had emerged since the publication of the report in regard to the capacity and capability of the HSE and DFS to provide this service. This new thinking would take account of both response time performance and routine patient transport services. The core change was that the HSE was purchasing an Advanced Medical Priority Dispatch System which would identify life-threatening emergencies and identify the appropriate resource requirements. The ambulance controller would lead the caller through a series of questions which would determine the life threatening nature of the emergency. This activity internationally equated to between 5% and 15% of all emergency calls. This would provide a mechanism for the HSE to dispatch resources to the highest priority call and therefore improve response times. The Accounting Officer noted that the response time for Dublin city and county was currently 50% within 8 minutes however this reduced to 23% - 27% when Kildare and Wicklow calls were included in the reporting framework.

40.35 The Accounting Officer added that two organisations in the same building using two different computer aided dispatch systems was neither operationally, clinically nor financially appropriate. Any future service delivery arrangements agreed with the DFS would need to ensure that one computer aided dispatch system and associated technology was capturing the operational activity and dispatching ambulance resources whether they belonged to the HSE or the DFS.

40.36 In regard to command and control arrangements, the Accounting Officer stated that since 1998, there had been many attempts to integrate the two systems but this had never been achieved for a variety of reasons. The only solution was to purchase a dedicated computer aided dispatch system for ambulance related activity.

40.37 Concerning the lack of integration, he stated that departmental policy would only be realised with investment applied to ensure integration of service provision. The Accounting Officer noted that it was important to dispatch the nearest resource, which did not always happen. He stated that this was mainly due to a lack of synchronisation of resources, two computer aided dispatch systems and procedural and processing issues.

40.38 The Accounting Officer accepted that there were value for money concerns about how the ambulance service was provided in the Dublin city and county area and that a new approach to developing command and control services was required. This could be achieved by having two HSE control centres for the whole country dealing with health related issues from emergency service provision to out-of-hours social services. Such an approach would ensure a single system for emergency call receipt and dispatch irrespective of which agency was responding.

40.39 Noting that the current system had inherent risks that needed to be managed on an ongoing basis he went on to say that this management time and effort could be put to better use. The HSE needed to have an immediate and long-term plan to address these risks. The Memorandum of Understanding in relation to the services must include sound clinical governance arrangements, key performance indicators, complaint and investigation procedures and value for money targets. The long-term plan must be that there were only two command and control systems with associated technology for the country.

40.40 The Accounting Officer stated that while the core recommendations of the Review Group were never achieved, a number of the softer recommendations of the Review Group had been implemented. The main reason for this lay in the fact that both organisations were awaiting the outcome of the European Court of Justice decision on public procurement. Time had elapsed and whilst there were interim arrangements which needed to be put in place, the long-term strategy, as stated in relation to other services aspects, must be to have two command and control centres for the country dealing with all health related services of an emergency nature.

Conclusions

Currently, emergency ambulance services in Dublin city and county are made available through a mix of directly provided services administered by the HSE and services procured by the HSE from the DFS. The arrangements with the DFS have not been the subject of a formal agreement. €9.3 million was paid to Dublin City Council in 2008 in respect of the DFS ambulance service.

The limited integration of both ambulance services raises concerns about the service quality delivered as measured by response time to emergency calls. The duplication of communication and overhead costs militates against achieving value for money.

It appears necessary to review the economy and efficiency of the overall arrangements taking account of manning levels and the cost of each service.

Ultimately, if the present arrangements are maintained, better coordination or integration of the service is necessary in order to provide a transparent, measured service where costs are related to service objectives, and service levels are the responsibility of a single accountable officer.

The Accounting Officer has noted that this issue will need to be tackled in the context of a restructuring of service communication system and he summarised the steps that now need to be taken, in order to align ambulance service delivery with the HSE strategic aims, in the following terms

- interim business arrangements with the DFS need to be formally addressed through a Memorandum of Understanding
- option appraisals and cost benefit analysis need to be conducted to determine the future of the ambulance command and control services for the country which would include services for Dublin city and county based in Townsend Street
- decisions need to be taken based on analysis and project teams need to be established to deliver the objectives.

Annex A Recommendations from the Review of the Ambulance Service Provision within Dublin City and County, February 2007

The Review Group made specific recommendations. The overriding principle guiding the Review Group's recommendations was that any member of the public or health professional have a single point of contact with the emergency ambulance services serving Dublin city and county and get a response from the nearest appropriate emergency care resource in the shortest possible time period. The recommendations are grouped under three headings - organisation governance, operations and clinical issues.

Organisation Governance

- A Strategic Management Board for the Communications Unit be established to set policy and to agree strategy for the operation of the Communications Unit.
- An Operational Management Group be appointed to oversee the daily operations of the Centre.
- A Partnership Working Group be established to deal with the normal partnership issues around the operations of the Communications Unit.

Operations

- An integrated Command and Control Unit comprising of staff from the DFS and the NAS be set up to receive, prioritise and dispatch all emergency, urgent and critical care patient transfers.
- The Control Unit be located in one physical area, share common communications infrastructure and share software systems which will identify all incoming and outstanding ambulance calls and monitor all ambulance fleet resources on an ongoing basis.
- The DFS continue to do Emergency Department work, but that this should be extended to deal with urgent and inter-hospital critical care transfers as well.
- The overall ambulance fleet be required to respond to all emergency, urgent and critical care transfer work as one unit of service provision.
- All staff engaged in the delivery of ambulance services, both in the control area or on road operations, to participate in joint training programmes/exercises to ensure consistency in actions and operational responses.
- A key requirement that both services take a combined strategic and tactical approach to planning and resourcing their services to introduce effective Tactical Deployment Plans (TDP) for ambulance response. This approach is essential to ensure that response times are improved from the current level.
- There should be a realignment of ambulance resources to ensure that all resources are directly mapped against service demand.
- The patient transfer service workload be removed from the emergency vehicle resource base. Research has shown that, for each vehicle removed from this activity, an increase in response times of 1.4% to 1.8% per vehicle results.

- Further resources be allocated to the development of Community First Responder Schemes¹⁴¹.
- Further research be carried out while these recommendations are being implemented to determine if additional ambulance units are required.

Clinical

- A clinical governance group be established to oversee the quality and effectiveness of patient care from the point of call receipt to the stage where the patient is handed over to the care of another health professional.
- The NAS and DFS services subscribe to full clinical accountability, and that any identified risks are mitigated immediately and all actions in the context of the Health, Safety and Welfare at Work Act, 2005 are complied with.

¹⁴¹ The Scheme provides an initial local response to stabilise the patient until trained medical personnel arrive. This will improve the response time for those communities with a low population density which are not near the normal ambulance resource centres.

Chapter 41 National Treasury Management Agency

NTMA Functions and Performance

NTMA Functions and Performance

41.1 The National Treasury Management Agency (the Agency) borrows moneys on behalf of the Exchequer and manages Ireland's National Debt. It carries out these functions under the control and general superintendence of the Minister for Finance. In recent years it has also been given a range of other functions, the principal ones being to

- act as the Manager of the National Pensions Reserve Fund
- manage compensation claims on behalf of State agencies
- discharge the functions of the National Development Finance Agency
- purchase carbon credits required to meet Ireland's climate change obligations
- provide central treasury services for government departments and all non-commercial State bodies.

Audit of the Agency

41.2 Under the provisions of the National Treasury Management Agency Act 1990, I am required to audit the accounts of the Agency and, when making my statutory Annual Report on the Appropriation Accounts, to also make a report to Dáil Éireann regarding the correctness of the sums brought to account by the Agency in the year.

41.3 The Agency's accounts for 2008 have been audited and the accounts, including an administration account and accounts relating to the National Debt, have been presented to the Minister who has laid copies of them before both Houses of the Oireachtas.

Additional Advisory Services

41.4 Included in the Agency's administration costs for 2008 is €2.4 million in respect of consultancy services provided by the Agency on foot of a request from the Minister for Finance for advice in relation to structural issues in the financial markets. The contract was agreed by the Agency in September 2008 with an international firm of financial consultants. The consultants were asked to provide financial advice which would have regard to the position of the financial institutions in the credit markets and the outlook for liquidity options and also financial advisory services in connection with any transaction in which the Agency or the State acquired directly or indirectly any of the share capital, assets, revenues, income or business of any bank. The contract was initially agreed to the end of 2008 and this was subsequently extended.

41.5 A further payment of €4.9 million was made in 2009 on foot of advice given regarding the investment of the National Pensions Reserve Fund moneys by way of preference shares in financial institutions.

Audit Concern

I sought an explanation from the Accounting Officer as to the circumstances and rationale for the Agency entering into the contract and an explanation as to why a tender process was not conducted.

41.6 In response the Accounting Officer informed me that the Agency was directed by the Minister for Finance to enter these arrangements under section 4 of the National Treasury

Management Agency Act 1990. He went on to state that the deterioration in the international banking environment during September 2008 and especially the funding problems experienced by the Irish banks following the collapse of Lehman Brothers and AIG led the Government, through the Minister for Finance, to request the Agency to secure investment banking advisors who were not conflicted. Time constraints did not permit a full tender process, as there were only a limited number of potential advisors and these were also being sought by the Irish banks. The Agency, on the instruction of the Minister appointed Merrill Lynch as exclusive advisors to the Government. The contract expired on 30 June 2009 and the total all-in cost is estimated at €7.3 million including VAT and out of pocket expenses.

Conclusions

I am satisfied that the accounts properly present the transactions of the Agency for 2008 and its balances at year end.

Included in the accounts is €2.4 million paid to consultants for advice relating to structural issues in financial markets. Ultimately, up to 30 June 2009 when the contract expired €7.3 million had accrued. The contract was awarded without competition in the circumstances outlined by the Accounting Officer.

Chapter 42 National Treasury Management Agency

National Pensions Reserve Fund

National Pensions Reserve Fund

42.1 The National Pensions Reserve Fund was established by legislation in 2001 with the objective of providing a fund of money to meet the future costs of social welfare and public service pensions. An independent Commission (the National Pensions Reserve Fund Commission) was also established under the legislation to control and manage the Fund with the discretionary authority to determine and implement an investment strategy for the Fund.

42.2 In implementing its investment strategy the Commission seeks to maximise returns within acceptable risk levels with a focus on the long-term, given that the Fund is expected to contribute to the financing of pension costs from 2025 until 2055. In accordance with the 2001 legislation, the Minister for Finance is required to pay 1% of GNP into the Fund every year.

Financial Performance of the Fund

42.3 The market value of the Fund stood at €16.1 billion at 31 December 2008 (2007: €21.2 billion). In 2008 the Fund received an Exchequer contribution¹⁴² of €1.69 billion and earned investment income of €695 million. The market value of investments had decreased by €7.34 billion by the year end.

Figure 148 Value of National Pensions Reserve Fund from 2006 to 2008

Period End	National Pensions Reserve Fund €m (at market value)	Fund Value as a percentage of GDP
2006	18,900	10.7%
2007	21,153	11.1%
2008	16,142	8.9%

42.4 The Fund reported a negative investment return in 2008 of 30.4%, mainly due to the fall in the value of equities on international financial markets. The Commission measures the Fund's performance against a benchmark portfolio which is consistent with its strategic asset allocation. Notwithstanding the reduction in the value of its investments the Fund finished 2.4% ahead of its benchmark in 2008. The negative 2008 return has reduced the Fund's annualised return¹⁴³ at the end of 2008 to 0.5% (6.1% at the end of 2007).

42.5 The cumulative Exchequer contributions made to the Fund since its inception to the end of 2008 amounted to €16.87 billion thus exceeding the value of the Fund. The positive annualised return reported by the Fund is based on the performance measure applied.

Basis of Calculation of Annualised Return

The performance of the Fund is calculated using a time weighted return which is the industry standard for reporting performance in line with the Global Investment Performance Standards. It is calculated by stopping the clock each time a new cash flow occurs. The return on the funds invested is calculated for the period from one cash flow to the next. These subdivided returns are then accumulated to produce the total time weighted return for a given period.

¹⁴² This contribution equates to 1% of Gross National Product as estimated in the annual budget.

¹⁴³ The cumulative return reported by the Fund since its inception to 31 December 2008 is 3.5% or 0.5% annualised.

42.6 Figure 149 sets out the transactions and results of the Fund to the end of June 2009.

Figure 149 Movement in NPRF value to June 2009 (unaudited)

	€m
Value of Fund at 1 January 2009	16,142
Exchequer Contribution to Fund	3,000
Net Investment Income (less expenses)	323
Change in Value of Investments	(59)
Value of Fund at 30 June 2009	19,406
The Fund is composed of	
▪ Directed Investments	7,000
▪ Other Investments	12,406

42.7 The value of the Fund, which accounted for 8.9% of GDP at 31 December 2008, is not taken into account in determining the General Government Debt which itself represented 44% of GDP.

Directed Investment under Banking Stabilisation Measures

42.8 A major event subsequent to year end which has impacted on the investment composition of the Fund was the enactment of the Investment of the National Pensions Reserve Fund and Miscellaneous Provisions Act 2009. The Act empowers the Minister for Finance to direct the Commission to invest in listed credit institutions or to underwrite share issues by those institutions, where he decides such a direction is in the public interest. The Minister can also direct the Commission with regard to the management and disposal of those investments.

42.9 On 30 March 2009, the Minister directed the Commission to invest €3.5 billion in preference shares issued by Bank of Ireland and on 12 May 2009 he further directed the Commission to invest €3.5 billion in preference shares issued by Allied Irish Banks plc. The shares are perpetual preference shares with an annual non-cumulative fixed dividend of 8% payable in cash or, in default of payment of the cash dividend, ordinary shares in lieu.

42.10 Warrants issued with, but detachable from, the preference shares give an option to the Fund, in the case of each bank to subscribe for ordinary shares equivalent in number to 25% of the ordinary share capital of each bank¹⁴⁴. If the options were exercised in full the Fund would then own 25% of the ordinary share capital of each bank. The strike price¹⁴⁵ of the first 15% of the warrants was set at €0.975 for Allied Irish Banks plc and €0.52 for Bank of Ireland. The strike price of the balance of the warrants is €0.375 and €0.20 respectively. The warrants can be exercised between five and ten years from the date of issue of the preference shares or earlier, if another party proposes to acquire control of a bank or ownership of a substantial part of its assets or business.

42.11 Either bank can redeem the preference shares at par value within 5 years from the date of their issue, in whole or part, from profits available for distribution or from the proceeds of any

¹⁴⁴ This is calculated based on the volume of shares as enlarged by the new shares which would be required to be issued on foot of the exercise of the warrants.

¹⁴⁵ The price at which warrants to subscribe for ordinary shares of each bank can be exercised.

issue of stock or securities which would constitute core Tier 1 capital¹⁴⁶. Thereafter, the redemption price would equal 125% of the issue price. If either bank redeems up to €1.5 billion of the Fund's investment in preference shares from privately sourced Tier 1 capital prior to 31 December 2009, then the warrants will be reduced pro rata to that redemption to an amount representing not less than 15% of the ordinary shares of the bank concerned. Any redemption after this date will have no impact on the warrants.

42.12 In addition to the direction to invest €7 billion in the two banks, the Minister also directed the Commission to undertake a number of functions in relation to the investments in the banks such as monitoring their financial performance, consulting the Minister on senior executive and non-executive directors remuneration issues and reporting to the Minister on matters concerning the investment.

42.13 The two directed investments in the financial institutions taken together represented 36.1% of the value of the Fund at 30 June 2009. The Minister has directed that the preference share investments be held at cost.

42.14 The directed investments were funded by €4 billion out of the Fund's existing resources and prepayments of €3 billion provided to the Fund by way of a frontloading of the Exchequer contributions for 2009 and 2010.

Conclusions

The value of the Fund at 31 December 2008 was marginally less than the State's cumulative contribution since its inception in 2001. The composition of its assets has changed substantially with 36% of the Fund being invested in preference shares of two Irish banks at 30 June 2009. The value of these investments depends upon the outcome of asset restructuring, future trading performance and the funding of the banks.

¹⁴⁶ Tier 1 capital includes ordinary shares, retained earnings and other long-term securities subordinate to all other claims on the bank.

Appendices

Appendix A Central Government 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 150 provides a summary of the outturn on expenditure and receipts relative to the amounts appropriated for public services.

Figure 151 shows how surplus appropriations in 2008 were applied — either through deferral of expenditure to 2009, or by surrender to the Exchequer.

Figure 152 shows expected 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 2007	Amounts of capital moneys not spent in 2007 and carried over for expenditure on capital services in 2008. The carry over of these sums was approved by Dáil Éireann in the Appropriation Act 2007.
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 2007 capital moneys (if any) and appropriations-in-aid.
Deferred Surrender	Amount of capital moneys not spent in 2008 which were carried over for expenditure in 2009. The carry over of these sums was approved by Dáil Éireann in the Appropriation Act 2008.
Amount to be Surrendered	Amount of money appropriated in 2008 but not spent in the year or deferred to 2009, 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.

Figure 150 Summary of Appropriations for Public Services in 2008, by Vote

Vote	Service	Amount Appropriated				Outturn			Comparison of Provision and Outturn		
		Supply Grants	Deferred from 2007	Appropriations in Aid	Total	Gross Expenditure	Appropriations in Aid Realised	Net Expenditure	Surplus/ (Deficit) Provision for Gross Expenditure	Excess/ (Deficit) in Receipts	Net Surplus
		€000	€000	€000	€000	€000	€000	€000	€000	€000	€000
1	President's Establishment	3,535	—	—	3,535	3,066	—	3,066	469	—	469
2	Department of the Taoiseach	42,206	—	100	42,306	33,121	224	32,897	9,185	124	9,309
3	Office of the Attorney General	19,551	—	8	19,559	18,110	4	18,106	1,449	(4)	1,445
4	Central Statistics Office	51,130	—	740	51,870	50,188	535	49,653	1,682	(205)	1,477
5	Office of the Comptroller and Auditor General	10,164	—	4,285	14,449	13,038	5,207	7,831	1,411	922	2,333
6	Office of the Minister for Finance	96,360	800	8,550	105,710	95,356	8,208	87,148	10,354	(342)	10,012
7	Superannuation and Retired Allowances	265,159	—	69,000	334,159	333,647	82,533	251,114	512	13,533	14,045
8	Office of the Appeal Commissioner	671	—	—	671	479	—	479	192	—	192
9	Office of the Revenue Commissioners	444,818	—	42,800	487,618	484,879	49,202	435,677	2,739	6,402	9,141
10	Office of Public Works	659,017	35,650	21,808	716,475	634,861	25,528	609,333	81,614	3,720	85,334
11	State Laboratory	10,488	—	150	10,638	10,251	525	9,726	387	375	762
12	Secret Service	818	—	—	818	608	—	608	210	—	210
13	Office of the Chief State Solicitor	41,283	—	500	41,783	41,352	708	40,644	431	208	639
14	Office of the Director of Public Prosecutions	44,522	—	15	44,537	44,362	117	44,245	175	102	277
15	Valuation Office	12,096	—	1,638	13,734	11,970	2,572	9,398	1,764	934	2,698
16	Public Appointments Service	15,162	—	150	15,312	14,187	241	13,946	1,125	91	1,216
17	Commission for Public Service Appointments	1,437	—	—	1,437	1,155	—	1,155	282	—	282
18	Office of the Ombudsman	8,773	—	5	8,778	7,816	7	7,809	962	2	964
19	Justice, Equality and Law Reform	480,410	—	27,917	508,327	505,893	29,174	476,719	2,434	1,257	3,691
20	Garda Síochána	1,577,538	—	53,539	1,631,077	1,619,003	53,726	1,565,277	12,074	187	12,261

		€000	€000	€000	€000	€000	€000	€000	€000	€000	€000
21	Prisons	404,167	—	2,179	406,346	404,375	2,057	402,318	1,971	(122)	1,849
22	The Courts Service	107,261	—	38,935	146,196	138,038	39,018	99,020	8,158	83	8,241
23	Property Registration Authority	46,820	500	—	47,320	46,216	—	46,216	1,104	—	1,104
24	Charitable Donations and Bequests	481	—	1	482	375	—	375	107	(1)	106
25	Environment, Heritage and Local Government	3,183,750	—	14,517	3,198,267	3,168,531	14,217	3,154,314	29,737	(300)	29,437
26	Education and Science	9,068,952	—	249,843	9,318,795	9,295,040	265,364	9,029,676	23,755	15,521	39,276
27	Community, Rural and Gaeltacht Affairs	508,595	—	48,480	557,075	540,421	49,941	490,480	16,654	1,461	18,115
28	Foreign Affairs	233,437	—	39,000	272,437	255,660	38,165	217,495	16,777	(835)	15,943
29	International Co-operation	814,050	—	150	814,200	768,575	997	767,578	45,625	847	46,472
30	Communications, Energy and Natural Resources	289,037	2,047	247,024	538,108	487,853	237,245	250,608	50,255	(9,779)	40,476
31	Agriculture, Fisheries and Food	1,699,921	31,413	413,367	2,144,701	2,104,574	404,650	1,699,924	40,127	(8,717)	31,410
32	Transport	3,226,494	—	610,889	3,837,383	3,719,338	609,587	3,109,751	118,045	(1,302)	116,743
33	National Gallery	12,610	—	1	12,611	12,467	12	12,455	144	11	155
34	Enterprise, Trade and Employment	1,492,917	23,428	95,439	1,611,784	1,536,946	79,638	1,457,308	74,838	(15,801)	59,037
35	Arts, Sport and Tourism	700,162	25,181	1,765	727,108	718,762	1,522	717,240	8,346	(243)	8,103
36	Defence	875,111	3,000	13,015	891,126	879,836	14,471	865,365	11,290	1,456	12,746
37	Army Pensions	196,803	—	6,900	203,703	203,676	6,995	196,681	27	95	122
38	Social and Family Affairs	9,447,217	—	184,530	9,631,747	9,518,091	190,051	9,328,040	113,656	5,521	119,177
39	Health and Children	529,282	4,100	1	533,383	501,690	4,014	497,676	31,693	4,013	35,706
40	Health Service Executive	12,752,045	—	2,255,275	15,007,320	14,893,139	2,222,552	12,670,587	114,181	(32,723)	81,458
41	Office of the Minister for Children and Youth Affairs	675,396	—	20,283	695,679	644,614	25,291	619,323	51,065	5,008	56,073
		50,049,646	126,119	4,472,799	54,648,564	53,761,559	4,464,298	49,297,261	887,006	(8,500)	878,506

Figure 151 Application of Surplus 2008 Appropriations, by Vote

Vote	Service	Net Surplus	Deferred Surrender	Amount to be Surrendered
		€000	€000	€000
1	President's Establishment	469	—	469
2	Department of the Taoiseach	9,309	—	9,309
3	Office of the Attorney General	1,445	—	1,445
4	Central Statistics Office	1,477	—	1,477
5	Office of the Comptroller and Auditor General	2,333	—	2,333
6	Office of the Minister for Finance	10,012	—	10,012
7	Superannuation and Retired Allowances	14,045	—	14,045
8	Office of the Appeal Commissioner	192	—	192
9	Office of the Revenue Commissioners	9,141	—	9,141
10	Office of Public Works	85,334	5,000	80,334
11	State Laboratory	762	—	762
12	Secret Service	210	—	210
13	Office of the Chief State Solicitor	639	—	639
14	Office of the Director of Public Prosecutions	277	—	277
15	Valuation Office	2,698	—	2,698
16	Public Appointments Service	1,216	—	1,216
17	Commission for Public Service Appointments	282	—	282
18	Office of the Ombudsman	964	—	964
19	Justice, Equality and Law Reform	3,691	—	3,691
20	Garda Síochána	12,261	—	12,261

Figure 152 Exchequer Extra Receipts, 2008

Vote	Service	Estimated Extra Receipts	Extra Receipts Realised
		€000	€000
1	President's Establishment	—	4
2	Department of the Taoiseach	—	—
3	Office of the Attorney General	—	—
4	Central Statistics Office	—	4
5	Office of the Comptroller and Auditor General	—	—
6	Office of the Minister for Finance	—	179
7	Superannuation and Retired Allowances	—	—
8	Office of the Appeal Commissioner	—	—
9	Office of the Revenue Commissioners	—	2,000
10	Office of Public Works	—	7,100
11	State Laboratory	—	—
12	Secret Service	—	—
13	Office of the Chief State Solicitor	—	1,209
14	Office of the Director of Public Prosecutions	—	448
15	Valuation Office	—	—
16	Public Appointments Service	—	—
17	Commission for Public Service Appointments	—	—
18	Office of the Ombudsman	—	122
19	Justice, Equality and Law Reform	—	2
20	Garda Síochána	23,250	22,246

		€000	€000	€000
21	Prisons	1,849	—	1,849
22	The Courts Service	8,241	—	8,241
23	Property Registration Authority	1,104	350	754
24	Charitable Donations and Bequests	106	—	106
25	Environment, Heritage and Local Government	29,437	6,277	23,160
26	Education and Science	39,276	—	39,276
27	Community, Rural and Gaeltacht Affairs	18,115	—	18,115
28	Foreign Affairs	15,943	—	15,943
29	International Co-operation	46,472	—	46,472
30	Communications, Energy and Natural Resources	40,476	15,500	24,976
31	Agriculture, Fisheries and Food	31,410	—	31,410
32	Transport	116,743	—	116,743
33	National Gallery	155	—	155
34	Enterprise, Trade and Employment	59,037	18,326	40,711
35	Arts, Sport and Tourism	8,103	1,500	6,603
36	Defence	12,746	3,000	9,746
37	Army Pensions	122	—	122
38	Social and Family Affairs	119,177	—	119,177
39	Health and Children	35,706	—	35,706
40	Health Service Executive	81,458	—	81,458
41	Office of the Minister for Children and Youth Affairs	56,073	—	56,073
		878,506	49,953	828,553

		€000	€000
21	Prisons	—	—
22	The Courts Service	14,900	21,799
23	Property Registration Authority	74,140	65,596
24	Charitable Donations and Bequests	—	—
25	Environment, Heritage and Local Government	—	556
26	Education and Science	—	530
27	Community, Rural and Gaeltacht Affairs	—	664
28	Foreign Affairs	—	—
29	International Co-operation	—	—
30	Communications, Energy and Natural Resources	—	1,015
31	Agriculture, Fisheries and Food	—	3,365
32	Transport	—	204
33	National Gallery	—	—
34	Enterprise, Trade and Employment	22,461	13,653
35	Arts, Sport and Tourism	—	45
36	Defence	—	10
37	Army Pensions	—	—
38	Social and Family Affairs	—	2,962
39	Health and Children	—	—
40	Health Service Executive	—	4,023
41	Office of the Minister for Children and Youth Affairs	—	—
		134,751	147,736

Appendix B Account of the Receipt of Revenue of the State collected by the Revenue Commissioners in the year ended 31 December 2008

Statement by Accounting Officer on Internal Financial Controls

Responsibility for system of Internal Financial Control

As Accounting Officer I acknowledge my responsibility for ensuring that an effective system of internal financial control is maintained and operated by the Office. This responsibility is exercised in the context of the resources available to me and my other obligations as Head of Office. Also, any system of internal financial control can provide only reasonable and not absolute assurance that assets are safeguarded, transactions authorised and properly recorded, and that material errors or irregularities are either prevented or would be detected in a timely manner. Maintaining the system of internal financial controls is a continuous process and the system and its effectiveness are kept under ongoing review.

The position in regard to the financial control environment, the framework of administrative procedures, management reporting and internal audit is as follows:

Financial Control Environment

I confirm that a control environment containing the following elements is in place:

- financial responsibilities have been assigned at management level with corresponding accountability
- reporting arrangements have been established at all levels where responsibility for financial management has been assigned
- formal procedures have been established for reporting significant control failures and ensuring appropriate corrective action
- there is an Audit Committee to advise me in discharging my responsibilities for the internal financial control system.

Administrative Controls and Management Reporting

I confirm that a framework of administrative procedures and regular management reporting is in place including segregation of duties and a system of delegation and accountability and, in particular, that

- there are regular reviews by senior management of periodic and annual financial reports which indicate financial performance against forecasts
- a risk management system operates within the Office
- there are systems aimed at ensuring the security of the ICT systems.

Internal Audit

I confirm that the Office has an internal audit function with appropriately trained personnel, which operates in accordance with a written charter which I have approved. Its work is informed by analysis of the financial risks to which the Office is exposed and its annual internal audit plans, approved by me, are based on this analysis. These plans aim to cover the key controls on a rolling basis over a reasonable period. The internal audit function is reviewed periodically by me and the Audit Committee. I have put procedures in place to ensure that the reports of the internal audit function are followed up.

Josephine Feehily

Accounting Officer

Office of the Revenue Commissioners

31 March 2009

Account of the Receipt of Revenue of the State collected by the Revenue Commissioners in the year ended 31 December 2008

Report of the Comptroller and Auditor General

I have examined the financial statements relating to the receipt and disposal of Revenue of the State during the year 2008 collected by the Revenue Commissioners set out on pages 445 to 451 under Section 3(7) of the Comptroller and Auditor General (Amendment) Act, 1993.

The financial statements, which have been prepared under the accounting policies therein, comprise the Accounting Policies, the Account of the Receipt of Revenue of the State collected by the Revenue Commissioners and the related notes.

Respective Responsibilities of the Revenue Commissioners and the Comptroller and Auditor General

The Revenue Commissioners are responsible for preparing the financial statements and for ensuring the regularity of transactions.

My responsibility is to examine the financial statements in accordance with the relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

I report my opinion as to whether the financial statements are properly presented in accordance with the Accounting Policies. I also report whether in my opinion proper books of account have been kept. In addition, I state whether the financial statements are in agreement with the books of account.

I report any material instance where the transactions do not conform to the authorities governing them.

I also report if I have not obtained all the information and explanations necessary for the purposes of my examination.

Basis of Opinion

In the exercise of my function as Comptroller and Auditor General, I conducted my examination of the financial statements in accordance with International Standards on Auditing (UK and Ireland) issued by the Audit Practices Board and by reference to the special considerations that attached to State bodies in relation to their management and operation. My examination was conducted on a test basis that reviewed evidence relevant to the amounts and disclosures and regularity of the financial transactions included in the financial statements. It also included an assessment of the significant estimates and judgements made in the preparation of the financial statements, and of whether the accounting policies were appropriate, consistently applied and adequately disclosed.

I planned my examination so as to obtain all the information and explanations that I considered necessary in order to provide me with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming my opinion I also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In my opinion, the financial statements properly present the receipt and disposal of the revenue collected for the year ended 31 December 2008 and the residual balances at that date.

In my opinion, proper books of account have been kept by the Revenue Commissioners. The financial statements are in agreement with them.

A handwritten signature in black ink, appearing to read 'John Buckley', with a stylized flourish at the end.

JOHN BUCKLEY
Comptroller and Auditor General
25 August 2009

Account of the Receipt of Revenue of the State collected by the Revenue Commissioners in the year ended 31 December 2008

Accounting Policies

1. These accounts present the collection and allocation of taxes and duties by the Revenue Commissioners, and the transfer of the proceeds to the Exchequer. The accounts have been prepared pursuant to Section 3(9) of the Comptroller and Auditor General (Amendment) Act, 1993.
2. No charge is included in these accounts for the administration or operational costs of the Office of the Revenue Commissioners. Funds for this purpose are voted by the Oireachtas and accounted for in the annual Appropriation Account for Vote 9 - Office of the Revenue Commissioners.
3. Amounts received in respect of penalties and interest imposed by the Revenue Commissioners are brought to account with the related tax and duty settlements. Court fines and penalties are brought to account as Appropriations-in-Aid of Vote 9.
4. These accounts also present the receipts collected by the Revenue Commissioners for other Government departments and agencies as follows:
 - Department of Social and Family Affairs (PRSI Contributions).
 - Health Service Executive (Health Levy & Tobacco Levy).
 - Department of Environment, Heritage and Local Government (Environmental Levy on Plastic Bags).
 - Department of Enterprise, Trade and Employment (Employment and Training Levy).
 - Commissioners of Irish Lights (Light Dues).
 - Department of Transport (Marine Fees).
 - Fee Stamps in respect of Registry of Deeds, Arbitration Fees and Fee Stamps in respect of Companies Registration Fees (paid to the Department of Finance).
5. A charge is levied by the Revenue Commissioners for the collection of PRSI Contributions, the Environmental Levy on Plastic Bags and Light Dues. Amounts received in respect of those charges are not included in these accounts but are accounted for as Appropriations-in-Aid of Vote 9.
6. These accounts have been prepared on a cash basis in accordance with the principles of Government Accounting. Except where described at paragraph 7, the accounts show the actual amounts received and paid in the year. Where further amounts of taxes, duties, etc. are received in subsequent years or where amounts received in the current or earlier years are repaid, such items are recorded in the year of receipt or repayment.
7. Certain customs and excise duties and VAT on imports are accounted for on an accruals basis in that they are recorded as receipts in the year to which they relate even though they are not received until after the year-end. The corresponding asset is included in accrued income in the Statement of Balances.
8. The gross receipts and repayment figures for each taxhead include offsets i.e. cases where the repayment is not directly paid to the taxpayer but offset against other outstanding taxes.

Account of the Receipt of Revenue of the State collected by the Revenue Commissioners in the year ended 31 December 2008

Account of the Receipt and Disposal of Revenue Collected

	Notes	2008 €000	2007 €000
Gross Receipts			
Taxes and Duties Collected	1	50,251,063	56,639,866
Receipts Collected on Behalf of Other Departments/Agencies	2	9,809,999	9,508,543
Total Gross Receipts of Revenue Collected		60,061,062	66,148,409
Repayments			
Repayment of Taxes and Duties	3	(9,177,659)	(9,137,372)
Repayment of Receipts Collected on behalf of Other Departments/Agencies	6	(71,020)	(74,677)
Total Repayments		(9,248,679)	(9,212,049)
Net Receipts			
Taxes and Duties Collected	4	41,073,404	47,502,494
Receipts Collected on behalf of Other Departments/Agencies	6	9,738,979	9,433,866
Total Net Receipts of Revenue Collected		50,812,383	56,936,360
Disposal of Net Receipts			
Taxes and Duties Transferred to the Exchequer	5	(40,776,164)	(47,246,851)
Transfer of Tobacco Levy to Health Service Executive	5	(167,605)	(167,605)
Transfer of Receipts to Other Departments/Agencies	6	(9,741,943)	(9,432,944)
Total Disposal of Receipts of Revenue Collected		(50,685,712)	(56,847,400)
Net Receipts retained at Year End		126,671	88,959
Opening Balance on the Account of Receipt and Disposal of Revenue at 1 January		(314,958)	(403,917)
Closing Balance on the Account of Receipt and Disposal of Revenue at 31 December		(188,287)	(314,958)

Any apparent discrepancies in totals are due to rounding of constituent figures

The Accounting Policies and Notes 1 to 12 form part of these Accounts

Liam Irwin

Accountant General

Office of the Revenue Commissioners

31 March 2009

Josephine Feehily

Accounting Officer

Office of the Revenue Commissioners

31 March 2009

Account of Receipt of Revenue of the State collected by the Revenue Commissioners in the year ended 31 December 2008

Statement of Balances

	Notes	2008 €000	2007 €000
Assets			
Cash at Bank and in Hand	7	120,200	40,132
Accrued Income	8	14,523	20,367
Advances for Revenue Purposes	9	82	146
Amounts due from Government Departments	10	3,159	3,465
Total Assets		137,964	64,110
Liabilities			
Amounts Awaiting Receipt and Allocation	11	(111,075)	(83,732)
Deposits Held	12	(215,176)	(295,336)
Total Liabilities		(326,251)	(379,068)
Net Liabilities		(188,287)	(314,958)
Represented by:			
Closing Balance on the Account of Receipt and Disposal of Revenue			
Balance of Taxes and Duties owing from the Exchequer	5	(199,417)	(329,052)
Balance of Receipts Collected and due to other Departments/Agencies	6	11,130	14,094
		(188,287)	(314,958)

Any apparent discrepancies in totals are due to rounding of constituent figures

The Accounting Policies and Notes 1 to 12 form part of these Accounts

Liam Irwin

31 March 2009

Accountant General

Office of the Revenue Commissioners

Josephine Feehily

31 March 2009

Accounting Officer

Office of the Revenue Commissioners

Account of the Receipt of Revenue of the State collected by the Revenue Commissioners in the year ended 31 December 2008

Notes to the Accounts

Note 1. Gross Taxes and Duties Collected

	2008	2007
	€000	€000
Value Added Tax	17,991,949	19,248,495
Income Tax	16,592,722	16,788,418
Corporation Tax	6,046,034	7,329,215
Excise Duty	5,702,770	6,126,508
Stamp Duties	1,812,685	3,308,864
Capital Gains Tax	1,493,984	3,160,762
Capital Acquisitions Tax	350,536	397,482
Customs Duty	260,383	280,123
	50,251,063	56,639,866

Note 2. Gross Receipts Collected on Behalf of Other Departments/Agencies

	2008	2007
	€000	€000
Department of Social and Family Affairs	9,612,279	9,291,349
Health Service Executive	166,037	187,655
Department of Environment, Heritage and Local Government	26,287	22,499
Commissioner of Irish Lights	4,306	4,760
Department of Enterprise, Trade and Employment	958	1,838
Department of Finance (Miscellaneous Revenue)	129	427
Department of Transport (Marine Fees)	3	15
	9,809,999	9,508,543

Note 3. Repayment of Taxes and Duties

	2008	2007
	€000	€000
Value Added Tax	(4,559,883)	(4,729,677)
Income Tax	(3,397,711)	(3,206,246)
Corporation Tax	(974,569)	(935,822)
Excise Duty	(103,206)	(123,141)
Stamp Duties	(49,272)	(64,860)
Capital Gains Tax	(70,052)	(63,384)
Capital Acquisitions Tax	(7,765)	(6,860)
Customs Duty	(15,201)	(7,381)
	(9,177,659)	(9,137,372)

Account of the Receipt of Revenue of the State collected by the Revenue Commissioners in the year ended 31 December 2008

Notes to the Accounts

Note 4. Net Receipts of Taxes and Duties

	Gross Receipts	Repayments	Net Receipts	Net Receipts
	2008	2008	2008	2007
	€000	€000	€000	€000
Value Added Tax	17,991,949	(4,559,883)	13,432,066	14,518,817
Income Tax	16,592,722	(3,397,711)	13,195,011	13,582,172
Corporation Tax	6,046,034	(974,569)	5,071,465	6,393,392
Excise Duty	5,702,770	(103,206)	5,599,564	6,003,366
Stamp Duties	1,812,685	(49,272)	1,763,414	3,244,004
Capital Gains Tax	1,493,984	(70,052)	1,423,932	3,097,378
Capital Acquisitions Tax	350,536	(7,765)	342,771	390,623
Customs Duty	260,383	(15,201)	245,183	272,742
	50,251,063	(9,177,659)	41,073,404	47,502,494

Note 5. Taxes and Duties Transferred to the Exchequer

	Balance at 1 January 2008	Net Receipts	Total Transfers	Balance at 31 December 2008
	€000	€000	€000	€000
Value Added Tax	30,070	13,432,066	(13,429,602)	32,533
Income Tax	(24,810)	13,195,011	(13,176,857)	(6,657)
Corporation Tax	1,318	5,071,465	(5,065,894)	6,889
Excise Duty	(157,846)	5,599,564	(5,610,943) ^a	(169,225)
Stamp Duties	(176,793)	1,763,414	(1,650,792)	(64,171)
Capital Gains Tax	5,503	1,423,932	(1,430,080)	(644)
Capital Acquisitions Tax	(10,695)	342,771	(331,600)	476
Customs Duty	4,201	245,183	(248,001)	1,382
	(329,052)	41,073,404	(40,943,769)	(199,417)

a The amount of €5,610,943,000 includes €167,605,000 which was paid from the proceeds of Tobacco Excise Receipts to the Health Service Executive under Section 3 of the Appropriation Act, 1999, as amended by the Appropriation Act, 2005.

Account of the Receipt of Revenue of the State collected by the Revenue Commissioners in the year ended 31 December 2008

Notes to the Accounts

Note 6. Transfer of Receipts to Other Departments/Agencies

	Balance at 1 January 2008 €000	Net Receipts €000	Total Transfers €000	Balance at 31 December 2008 €000
Department of Social and Family Affairs ^a	8,357	9,541,289	(9,542,633)	7,012
Health Service Executive	4,853	166,037	(167,677)	3,214
Department of Environment, Heritage and Local Government ^b	421	26,279	(26,181)	520
Commissioner of Irish Lights	129	4,306	(4,196)	239
Department of Enterprise, Trade and Employment	218	958	(1,032)	145
Department of Finance (Miscellaneous Revenue) ^c	101	107	(210)	(2)
Department of Transport (Marine Fees)	15	3	(15)	3
	14,094	9,738,979	(9,741,943)	11,130

a The amount shown of €9,541,288,595 is net of repayments of €70,990,151

b The amount shown of €26,279,453 is net of repayments of €7,611

c The amount shown of €106,720 is net of repayments of €22,028

Note 7. Cash at Bank and in Hand

	2008 €000	2007 €000
Balance in Revenue Accounts at Central Bank	28,038	21,613
Cash in Hand	92,162	18,519
	120,200	40,132

Cash in hand represents amounts held in Revenue accounts in commercial banks pending completion of processing through Revenue's accounting systems.

Note 8. Accrued Income

Accrued Income represents amounts due to Revenue which are proper to 2008 for which payment was received after the year end. These amounts are recorded as the cash amounts received in 2009.

Note 9. Advances for Revenue Purposes

Advances for Revenue Purposes arise due to the operation of a local accounting procedure in Districts for Customs and Excise Duties whereby a shortfall in the collection of monies arising from items such as an unpaid cheque is temporarily met through the mechanism of an 'advance' drawn on a Revenue account. These 'advances' are subsequently cleared when payment is received from the trader.

Account of Receipt of Revenue of the State collected by the Revenue Commissioners in the year ended 31 December 2008

Notes to the Accounts

Note 10. Amounts Due from Government Departments

Where a liability arises as a result of the importation of goods by Government Departments, the goods are released without immediate payment of duties or taxes and the Department is subsequently charged for the amount due.

Note 11. Amounts Awaiting Receipting and Allocation

	2008	2007
	€000	€000
Unallocated Tax Deposits	(28,038)	(21,612)
Tax Receipts awaiting Transfer and Allocation	(82,872)	(61,998)
Miscellaneous	(165)	(122)
	(111,075)	(83,732)

Unallocated Tax Deposits (UTD) comprise mainly of payments made on account during tax audits and audit settlements for which accounting instructions have not been completed. Consequently, the payments cannot be allocated to the appropriate taxheads and are held by Revenue in a UTD account in the Central Bank.

Note 12. Deposits Held

	2008	2007
	€000	€000
Stamps	(76,032)	(160,199)
C&E Collectors	(6,340)	(25,924)
AEP Collector	(132,804)	(109,213)
	(215,176)	(295,336)

Deposits held represent amounts paid by taxpayers for transactions not yet processed through Revenue's accounting systems.