



Accounts of the Public Services 2009

Vote Management

Report of the Comptroller and Auditor General
Volume 2

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

September 2010

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 A10/1219.

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Chapter 19

Central Government

Vote Management

Vote Management

19.1 Dáil Éireann provides money for the ordinary services of Government departments and offices, both capital and non-capital, by

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

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

19.3 At the end of each financial year, each department and office is required to prepare an account, known as the appropriation account, for each voted service administered by it. The statutory requirement is for the appropriation account to report the outturn for the year compared with the amount provided by Dáil Éireann. Appropriation accounts are drawn up on a cash basis. By way of supplementary information, certain accrual based outturns and balances are included in notes to the accounts.

Results of 2009 Audits

Audits of the 2009 Appropriation Accounts for all votes have been completed. The accounts, together with my audit report are set out in an accompanying volume entitled Appropriation Accounts 2009. Clear opinions have been given in all cases. Vote 38, Social and Family Affairs, includes a reference to the level of payments in excess of statutory entitlement.

Appropriations for 2009

Estimate Provision

19.4 The original estimates for public services in 2009 provided for supply grants for voted services totalling €47.6 billion. In addition, they provided for departments and agencies to raise a further €6 billion through appropriations in aid and apply capital funding carried over from 2008 totalling €128 million.

Supplementary Estimates

19.5 Subsequently, Ministers requested supplementary allocations in respect of 13 votes. These provided for increases totalling around €605 million on some subheads, offset by planned savings of €267 million on others. There was a net reduction across all votes of €22 million in the expected level of appropriations in aid. Figure 98 lists the votes where supplementary estimates were granted in 2009.

Figure 98 Supplementary Estimates, 2009

Vote	Additional expenditure approved	Less		Net Supplementary supply grant
		Increases in appropriations in aid	Savings on other subheads	
	€m	€m	€m	€m
7 Superannuation and Retired Allowances	65.0	—	—	65.0
12 Secret Service	0.2	—	—	0.2
14 Office of the Director of Public Prosecutions	4.0	—	—	4.0
19 Justice, Equality and Law Reform	55.7	12.0	43.7	—*
20 Garda Síochána	77.2	25.0	22.2	30.0
22 Courts Service	8.1	6.8	1.3	—*
27 Community, Rural and Gaeltacht Affairs	1.3	—	1.3	—*
30 Communications, Energy and Natural Resources	2.9	0.5	2.4	—*
31 Agriculture, Fisheries and Food	125.4	18.4	107.0	—*
34 Enterprise, Trade and Employment	20.5	—	20.5	—*
37 Army Pensions	7.2	(1.3)	1.3	7.2
40 Health Service Executive	238.0	(83.0)	67.0	254.0
41 Children and Youth Affairs	—*	—	—	—*
Supplementary Allocations for All Votes	605.5	(21.6)	266.7	360.4

Note:

* Indicates that a supplementary sum of €1,000 was granted (referred to as a technical supplementary estimate). In the case of Vote 41, the supplementary estimate was required to provide for the introduction of the Early Childhood Care and Education Scheme.

19.6 The net impact of supplementary votes by Dáil Éireann was an increase of €360 million in the net supply grant total (a 0.8% increase). Annex A Figure 100 displays the total amount provided by Dáil Éireann under each vote for 2009.

19.7 The combined provision taking account of both original and supplementary estimates incorporating appropriations in aid and carry over of capital funding totaled €54 billion in 2009 across the 41 votes.

Expenditure Outturn

19.8 The outturn amount spent by departments and offices in 2009 was €53.1 billion. After deduction of appropriations in aid receipts totalling €5.9 billion, the net expenditure in the year was €47.2 billion as set out in Figure 99.

Figure 99 Vote Outturn 2008 and 2009

	2008	2009
	€m	€m
Gross voted expenditure	53,761	53,119
Less appropriations in aid	4,464	5,916
Net voted expenditure	49,297	47,203
Surplus allocation for the year	878	794
Amount carried over to the following year	128	126
Surplus for surrender	750	668

19.9 Departments and agencies are not permitted to spend more than the amount approved for each vote area. When the outturn expenditure in the year is less than the amount provided, the surplus amount is liable to be surrendered to the Exchequer.

19.10 The 2009 surplus provision was €794 million. Of that amount, a total of €126 million was approved for carrying over to 2010¹⁴⁴. The balance of €668 million was due for surrender. The sums liable for surrender or carried over to 2010 for each Vote are shown in Annex A Figure 101.

Conclusion on Expenditure Outturn

All departments and offices managed within their statutory allocations. Consequently no excess vote occurred in 2009. Surpluses were recorded by all votes based on their gross expenditure, and also on their net expenditure after taking account of appropriations in aid.

Disposal of 2008 Surplus Allocation

19.11 The surplus allocation in 2008 was €878 million. The amount approved for carrying over to 2009 was €128 million. The balance of €750 million was due for surrender to the Exchequer.

Conclusion on 2008 Surrenders

The balances due to be surrendered out of votes for public services for the year ended 31 December 2008 amounted to €750 million. I certify that those balances have been duly surrendered.

¹⁴⁴ Section 91 of the Finance Act 2004 allows for the carrying over to the following year of unspent capital funding, subject to the agreement of the Minister for Finance.

Exchequer Extra Receipts

19.12 Certain sums collected by Government departments and offices are directed by the Department of Finance to be credited to the Exchequer, and not treated as appropriations in aid. This includes Garda (on-the-spot) fine and court fine receipts. Windfall receipts are also usually brought to account in this way, including proceeds of significant sales of property, receipts on foot of surplus income or profits of State companies, interest, dividends or capital repayments, compensation payments and voluntary surrender of salary.

19.13 Where Exchequer extra receipts arose in 2009, the amount is shown in a note to the respective appropriation accounts. The aggregate amount of those receipts reported in each account is set out in Annex A Figure 102.

Conclusion on Exchequer Extra Receipts

The total Exchequer extra receipts by Government departments and offices in 2009 was €111 million.

The Exchequer extra receipts shown in the 2009 appropriation accounts have been paid into the Exchequer. Some of these payments occurred in early 2010.

Stock and Store Accounts

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

Conclusion on Stock and Store Accounts

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

Grants-in-Aid

19.15 In addition to covering the ordinary services administered directly by a Government department or office, a vote may contain financial provision for a particular activity or service administered by an outside body in the form of a grant or a grant-in-aid to the body. Grants are subject to all the usual restrictions pertaining to any payment from a subhead and any balance remaining unexpended at the end of the year must be surrendered. A grant-in-aid differs from other voted grants in that any unexpended end-year balance of the sums issued from the vote or subhead is not liable to surrender to the Exchequer.

19.16 Grants-in-aid generally relate to public bodies carrying out particular functions. These functions have well-defined parameters and are executed without continual reference to the granting Department. Prior to making a proposal to classify expenditure as a grant-in-aid, a

Department needs to be satisfied that the retention of unexpended end-year balances, as well as the accounting and other arrangements associated with grants-in-aid, are appropriate.¹⁴⁵

19.17 In general, each grant-in-aid is presented as a separate subhead in the relevant vote. Where issues to a number of different payees are involved, a grant-in-aid may be payable to a named fund administered by the Department concerned, from which the payments may be made in due course. Details of the account of the fund are included in notes to the appropriation account.

19.18 The total amount paid by way of a grant-in-aid may not exceed the amount specified in the Estimate subhead. Savings on other subheads cannot be used to increase the amount.

Conclusion on Grant-in-Aid Expenditure

In 2009, total issues under grant-in-aid subheads amounted to €2.86 billion. In all cases, the amount paid by way of grant-in-aid was equal to or less than the amount of the subhead provision approved by Dáil Éireann.

Charge to HSE Vote

19.19 The charge to the HSE Vote comprises expenditure recorded on an area basis and expenditure relating to nationally administered programmes. The area-based expenditure is compiled for areas that pre-dated the HSE and is derived from legacy financial systems operated in those areas. These systems are designed to produce accrual-based accounts. The cash based figures required for Vote accounting rely on substantial adjustment to the accrual figures. Ultimately, while this process produces an overall outturn that equates to the cash outlay of the Executive in the year, the charge to some individual subheads is based on apportionments. In particular

- Long Stay Residential Care (for the elderly) costs are administered locally and a portion of the charge to Subhead B.16 is based on a cost allocation model developed by the HSE which, in summary, apportions the costs of its long-stay units on the basis of beds allocated to different care groups.
- Certain expenditure currently administered centrally (eg. grants to third level institutions for nursing education) is provided for in area-based subheads and accordingly centrally administered payments have to be apportioned to those subheads on an allocation basis.

Conclusion on Charge to the HSE Vote

Chapter 39 outlines the status of the development by the HSE of a National Finance and Procurement System. While a business case for a new financial system has been completed, the project is still subject to final approval from the Department of Health and Children and the Department of Finance.

In the interim, there would be merit in

- aligning area-based subheads with HSE operational areas
- creating discrete subheads for all programmes centrally administered.

¹⁴⁵

Many of the bodies funded by grants-in-aid are also audited by the Comptroller and Auditor General.

Review of the Contingency Fund

19.20 The Contingency Fund is a non-statutory fund first formed to administer a grant-in-aid voted in 1923. The Fund is available to defray urgent or unforeseen expenditure which is not covered by the ordinary Votes and for which it may be impracticable to seek the immediate approval of Dáil Éireann e.g. during recess. By agreement with the Committee of Public Accounts, the use of the Contingency Fund is precluded when the Dáil is sitting, or for new services of a controversial nature.

19.21 The Fund is managed by the Department of Finance. A decision to use money held in the Fund is taken only by the Accounting Officer of the Department, with the prior agreement of the Minister for Finance. The Fund operates as a deposit account held in the Paymaster General's Office¹⁴⁶.

19.22 The convention is that all payments from the Fund are subsequently repaid to it either by

- a new or additional Vote if the advance is for a completely new service
- by way of a Supplementary Estimate if the service is related to an existing Vote
- from the Central Fund, which requires specific legislation.

19.23 The size of the Fund is reviewed every five years. Following a review in 2004, the amount in the Fund was increased to €1.2 million. Following a review that commenced in 2009, it was decided that the Fund should remain at that level. The next review is due in 2014.

Conclusion on the Contingency Fund

There were no transactions on the Fund in 2009.

¹⁴⁶ The procedures in relation to operation of the Fund are set out in the Department of Finance publication Public Financial Procedures (Sections C.1.5 to C.1.12).

Annex 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 100 provides a summary of the outturn on expenditure and receipts relative to the amounts appropriated for public services in 2009.

Figure 101 shows how surplus appropriations in 2009 were applied — either through deferral of expenditure to 2010, or by surrender to the Exchequer.

Figure 102 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 2008	Amounts of capital moneys not spent in 2008 and carried over for expenditure on capital services in 2009. The carry over of these sums was approved by Dáil Éireann in the Appropriation Act 2008.
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 2008 capital moneys (if any) and appropriations-in-aid.
Deferred Surrender	Amount of capital moneys not spent in 2009 which were carried over for expenditure in 2010. The carry over of these sums was approved by Dáil Éireann in the Appropriation Act 2009.
Amount to be Surrendered	Amount of money appropriated in 2009 but not spent in the year or deferred to 2010, 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 100 Summary of Appropriations for Public Services in 2009, by Vote

Vote	Service	Amount Appropriated				Outturn			Comparison of Provision and Outturn		
		Supply Grants ^a	Deferred from 2008	Appropriations in Aid	Total	Gross Expenditure	Appropriations in Aid Realised	Net Expenditure	Surplus/ (Deficit) Provision for Gross Expenditure	Excess/ (Deficit) in Receipts	Net Surplus ^b
		€000	€000	€000	€000	€000	€000	€000	€000	€000	€000
1	President's Establishment	3,422	—	87	3,509	2,896	64	2,832	613	(23)	590
2	Department of the Taoiseach	32,686	—	1,100	33,786	25,149	914	24,235	8,637	(186)	8,451
3	Office of the Attorney General	17,480	—	733	18,213	16,320	670	15,650	1,893	(63)	1,830
4	Central Statistics Office	53,640	—	2,040	55,680	50,483	1,911	48,572	5,197	(129)	5,068
5	Office of the Comptroller and Auditor General	8,271	—	5,032	13,303	12,150	5,508	6,642	1,153	476	1,629
6	Office of the Minister for Finance	68,355	—	15,130	83,485	76,260	11,086	65,174	7,225	(4,044)	3,181
7	Superannuation and Retired Allowances	333,735	—	78,250	411,985	408,932	89,926	319,006	3,053	11,676	14,729
8	Office of the Appeal Commissioner	603	—	28	631	466	28	438	165	—	165
9	Office of the Revenue Commissioners	403,255	—	57,546	460,801	460,170	66,987	393,183	631	9,441	10,072
10	Office of Public Works	468,745	5,000	27,140	500,885	478,352	31,447	446,905	22,533	4,307	26,840
11	State Laboratory	9,465	—	510	9,975	9,234	832	8,402	741	322	1,063
12	Secret Service	900	—	—	900	602	—	602	298	—	298
13	Office of the Chief State Solicitor	35,886	—	3,441	39,327	38,199	4,708	33,491	1,128	1,267	2,395
14	Office of the Director of Public Prosecutions	45,121	—	775	45,896	45,687	901	44,786	209	126	335
15	Valuation Office	11,344	—	2,238	13,582	12,093	2,788	9,305	1,489	550	2,039
16	Public Appointments Service	12,655	—	453	13,108	10,363	563	9,800	2,745	110	2,855
17	Commission for Public Service Appointments	1,204	—	39	1,243	983	32	951	260	(7)	253
18	Office of the Ombudsman	7,958	—	345	8,303	7,290	317	6,973	1,013	(28)	985
19	Justice, Equality and Law Reform	434,888	—	42,327	477,215	470,833	43,653	427,180	6,382	1,326	7,708
20	Garda Síochána	1,510,021	—	111,936	1,621,957	1,619,972	112,226	1,507,746	1,985	290	2,275

		€000	€000	€000	€000	€000	€000	€000	€000	€000	€000
21	Prisons	363,586	—	15,733	379,319	374,120	16,293	357,827	5,199	560	5,759
22	The Courts Service	77,620	—	51,172	128,792	125,772	51,358	74,414	3,020	186	3,206
23	Property Registration Authority	41,472	350	1,148	42,970	41,380	1,182	40,198	1,590	34	1,624
24	Charitable Donations and Bequests	446	—	24	470	392	13	379	78	(11)	67
25	Environment, Heritage and Local Government	2,661,735	6,277	20,999	2,689,011	2,673,582	21,688	2,651,894	15,429	689	16,118
26	Education and Science	8,921,349	—	570,353	9,491,702	9,355,736	579,521	8,776,215	135,966	9,168	145,134
27	Community, Rural and Gaeltacht Affairs	443,873	—	31,828	475,701	458,686	18,234	440,452	17,015	(13,594)	3,421
28	Foreign Affairs	206,762	—	40,386	247,148	232,173	40,481	191,692	14,975	95	15,070
29	International Co-operation	570,203	—	939	571,142	567,490	1,790	565,700	3,652	851	4,503
30	Communications, Energy and Natural Resources	262,999	15,500	249,184	527,683	473,232	240,699	232,533	54,451	(8,485)	45,966
31	Agriculture, Fisheries and Food	1,599,081	—	404,353	2,003,434	1,937,842	408,140	1,529,702	65,592	3,787	69,379
32	Transport	2,515,935	78,500	586,629	3,181,064	3,174,757	582,987	2,591,770	6,307	(3,642)	2,665
33	National Gallery	10,934	—	297	11,231	10,903	263	10,640	328	(34)	294
34	Enterprise, Trade and Employment	1,477,388	18,326	87,310	1,583,024	1,550,058	73,253	1,476,805	32,966	(14,057)	18,909
35	Arts, Sport and Tourism	524,076	1,500	5,065	530,641	526,855	4,810	522,045	3,786	(255)	3,531
36	Defence	786,253	3,000	36,330	825,583	804,301	39,434	764,867	21,282	3,104	24,386
37	Army Pensions	209,200	—	5,700	214,900	214,805	5,623	209,182	95	(77)	18
38	Social and Family Affairs	10,917,009	—	213,083	11,130,092	10,877,552	219,040	10,658,512	252,540	5,957	258,497
39	Health and Children	491,174	—	4,316	495,490	425,436	5,600	419,836	70,054	1,284	71,338
40	Health Service Executive	11,886,588	—	3,294,263	15,180,851	15,103,550	3,225,504	11,878,046	77,301	(68,759)	8,542
41	Office of the Minister for Children and Youth Affairs	441,578	—	9,850	451,428	443,884	5,240	438,644	7,544	(4,610)	2,934
Total		47,868,895	128,453	5,978,112	53,975,460	53,118,940	5,915,714	47,203,226	856,520	(62,398)	794,122

Note:

a This includes original estimates (€47.6 billion) and supplementary estimates (€0.3 billion).

b The net surplus (€794.1 million) is the excess of the net appropriations for the year (€48 billion - comprising €47.9 billion supply grants and €0.1 billion amounts deferred from 2008) over the net outturn (€47.2 billion).

Figure 101 Application of Surplus 2009 Appropriations, by Vote

Vote	Service	Net Surplus	Deferred Surrender	Amount to be Surrendered
		€000	€000	€000
1	President's Establishment	590	—	590
2	Department of the Taoiseach	8,451	—	8,451
3	Office of the Attorney General	1,830	—	1,830
4	Central Statistics Office	5,068	—	5,068
5	Office of the Comptroller and Auditor General	1,629	—	1,629
6	Office of the Minister for Finance	3,181	—	3,181
7	Superannuation and Retired Allowances	14,729	—	14,729
8	Office of the Appeal Commissioner	165	—	165
9	Office of the Revenue Commissioners	10,072	—	10,072
10	Office of Public Works	26,840	20,279	6,561
11	State Laboratory	1,063	—	1,063
12	Secret Service	298	—	298
13	Office of the Chief State Solicitor	2,395	—	2,395
14	Office of the Director of Public Prosecutions	335	—	335
15	Valuation Office	2,039	—	2,039
16	Public Appointments Service	2,855	—	2,855
17	Commission for Public Service Appointments	253	—	253
18	Office of the Ombudsman	985	—	985
19	Justice, Equality and Law Reform	7,708	—	7,708
20	Garda Síochána	2,275	—	2,275

Figure 102 Exchequer Extra Receipts 2009, by Vote

Vote	Service	Estimated Extra Receipts	Extra Receipts Realised
		€000	€000
1	President's Establishment	—	—
2	Department of the Taoiseach	—	—
3	Office of the Attorney General	—	—
4	Central Statistics Office	—	22
5	Office of the Comptroller and Auditor General	—	—
6	Office of the Minister for Finance	—	126
7	Superannuation and Retired Allowances	—	—
8	Office of the Appeal Commissioner	—	—
9	Office of the Revenue Commissioners	—	2,564
10	Office of Public Works	—	300
11	State Laboratory	—	—
12	Secret Service	—	—
13	Office of the Chief State Solicitor	—	10
14	Office of the Director of Public Prosecutions	—	129
15	Valuation Office	—	—
16	Public Appointments Service	—	—
17	Commission for Public Service Appointments	—	—
18	Office of the Ombudsman	—	3
19	Justice, Equality and Law Reform	—	—
20	Garda Síochána	23,850	21,384

		€000	€000	€000
21	Prisons	5,759	—	5,759
22	The Courts Service	3,206	—	3,206
23	Property Registration Authority	1,624	—	1,624
24	Charitable Donations and Bequests	67	—	67
25	Environment, Heritage and Local Government	16,118	3,277	12,841
26	Education and Science	145,134	79,000	66,134
27	Community, Rural and Gaeltacht Affairs	3,421	—	3,421
28	Foreign Affairs	15,070	—	15,070
29	International Co-operation	4,503	—	4,503
30	Communications, Energy and Natural Resources	45,966	15,721	30,245
31	Agriculture, Fisheries and Food	69,379	—	69,379
32	Transport	2,665	—	2,665
33	National Gallery	294	—	294
34	Enterprise, Trade and Employment	18,909	6,440	12,469
35	Arts, Sport and Tourism	3,531	—	3,531
36	Defence	24,386	1,000	23,386
37	Army Pensions	18	—	18
38	Social and Family Affairs	258,497	—	258,497
39	Health and Children	71,338	—	71,338
40	Health Service Executive	8,542	—	8,542
41	Office of the Minister for Children and Youth Affairs	2,934	—	2,934
		794,122	125,717	668,405

		€000	€000
21	Prisons	—	—
22	The Courts Service	17,300	24,172
23	Property Registration Authority	46,620	39,976
24	Charitable Donations and Bequests	—	—
25	Environment, Heritage and Local Government	—	2,935
26	Education and Science	—	325
27	Community, Rural and Gaeltacht Affairs	—	333
28	Foreign Affairs	—	—
29	International Co-operation	—	—
30	Communications, Energy and Natural Resources	—	53
31	Agriculture, Fisheries and Food	—	5,173
32	Transport	—	11
33	National Gallery	—	—
34	Enterprise, Trade and Employment	25,356	9,570
35	Arts, Sport and Tourism	—	26
36	Defence	—	3,845
37	Army Pensions	—	—
38	Social and Family Affairs	—	83
39	Health and Children	—	97
40	Health Service Executive	—	309
41	Office of the Minister for Children and Youth Affairs	—	—
		113,126	111,446

Chapter 20

Office of Public Works

National Convention Centre

National Convention Centre

20.1 In April 2007, the Office of Public Works (OPW), awarded a Public Private Partnership (PPP) contract to the Spencer Dock Convention Centre Dublin Ltd¹⁴⁷ (SDCCD) to design, build, finance, operate and maintain a new national convention centre. The convention centre is on Dublin's North Quays, adjacent to the Royal Canal. It opened on 5 August 2010.

20.2 The objectives of the convention centre are to have a centre of international standing that is capable of handling large conference and business tourism events under a single roof, in order to make Ireland a more attractive business tourism destination and thereby create additional revenues.

Project Approval

20.3 A series of reports were produced from 1991 onwards, broadly supporting the need for a national convention centre. While the reports' conclusions varied, there was general agreement on the need for a dedicated mid-size conference centre based in Dublin. An attempt to build such a centre in the Spencer Dock area in 2001, to be funded by the private sector with ERDF assistance of €33 million, was shelved when the EU withdrew support due to lack of substantive progress.

20.4 The project was revived in 2003. A Government decision in June 2003, agreed in principle to construct a national convention centre in Dublin so long as the construction cost did not impact on the General Government Balance¹⁴⁸.

20.5 In November 2003, advertisements were placed in the media seeking expressions of interest in providing the centre under a PPP arrangement. In February 2007, a contract was awarded to SDCCD. The contract provided for a unitary payment to SDCCD of €27 million¹⁴⁹ together with additional annual payments of €20 million to be made in each of the first five years to partially cover the capital costs. In return, the SDCCD would assume responsibility for the provision of the centre. It also undertook to secure a specified number of delegates over the 25-year life of the contract. The contract provides for profit sharing in circumstances where profits exceed specified levels and penalties for non-performance.

20.6 The main parties involved in the procurement of the national convention centre are

- The Department of Tourism, Culture and Sport¹⁵⁰ (the Department) – the sponsoring government department
- OPW – the project managers and contracting authority
- Department of Finance – the economic advisers to the Government
- National Development Finance Agency (NDFA) – the financial advisors on major State projects

¹⁴⁷ Company Registration Office records indicate that SDCCD is directly controlled by Spencer Dock International Convention Centre Limited, which in turn is controlled by Spencer Dock Development Company Limited. Treasury Holdings is the majority shareholder in Spencer Dock Development Company Limited with Folly Ford Limited holding the remaining shares.

¹⁴⁸ General Government Balance, also called General Government Debt (GGD) is a measure used for comparing member state indebtedness within the European Union.

¹⁴⁹ The unitary payment is €27 million for the first five years of the contract, reducing to €23 million for the remaining 20 years of the contract. 10% of this element will increase in line with changes in the Consumer Price Index, the remainder is fixed.

¹⁵⁰ Formerly known as the Department of Arts, Sport and Tourism.

- A Process Auditor – an appointee who supports the Accounting Officer’s responsibility for the project by checking on his/her behalf that the proper procedures and processes as agreed in the procurement process checklist have been followed.

Chapter Focus

The chapter set out to review

- the quality of the initial business case
- how costs and benefits were estimated
- whether the procurement was conducted in accordance with government guidelines and the bid selected provided the best value
- whether negotiations prior to the award of the contract protected the State’s position.

The Initial Business Case

Where a public body is proposing to commit resources to a project it must complete a business case in order to ensure that all the likely costs and benefits of the project are identified.

20.7 On 19 June 2003, in a Memorandum to Government, the Minister for Tourism, Culture and Sport sought approval from Government to

- agree in principle to the sourcing or leasing of a National Conference Centre in Dublin on the basis that the construction cost, if any, would not impact on the General Government Balance
- authorise the establishment of a Steering Group to advise the Minister on the specification for the new project and in the event that this could not be met from the existing OPW portfolio, to agree the parameters for an open and competitive procurement process on a design, build, finance, operate and maintain basis (DBFOM)
- request the OPW to undertake the procurement process.

20.8 Based on research that had been undertaken in 1999 and 2002 the Memorandum for Government estimated additional tourism revenues to the State at between €25 million and €50 million, per annum.

- In 1999, analysis undertaken on behalf of the Dublin Docklands Development Authority estimated additional tourism revenues at €24 million.
- In 2002, analysis conducted on behalf of the Irish Professional Conference Organisers estimated that there would be an average of 19 additional conferences per annum involving 44,000 delegates. Their total expenditure in Ireland with an allowance for accompanying persons was estimated at €49.7 million — an average of €1,129 per delegate.

20.9 The Memorandum also referred to research conducted in 2001, on behalf of Fáilte Ireland. The research concluded that there was considerable potential for Dublin to grow its potential in the European conference market and, on this basis, recommended a centre with capacity for 2,000 delegates. While it did not include an estimate of the tourism or wider economic benefits arising from an investment of this type, it did note that most such centres were publicly funded.

20.10 The Department of Finance had been consulted in relation to progressing the project to provide a national conference centre. On 5 June 2003, it informed the Department of Tourism,

Culture and Sport (the Department) that in considering the project the Minister for Finance was obliged to have cognisance of the impact on the General Government Balance¹⁵¹. It recommended that if the project were to proceed it must be via a procurement option that would not give rise to significant up front capital costs.

20.11 A Government decision on 23 June 2003 provided approval as sought. As a result, in November 2003 media advertisements were placed seeking expressions of interest. A Project Information Memorandum specified that the centre should comprise

- a main conference auditorium with a minimum seating capacity of 2,000 people and a banqueting hall to cater for 2,000 people
- an exhibition hall of minimum 2,000 square metres and additional adjacent exhibition space of 3,000 square metres
- an appropriate retail centre and parking.

Estimating Costs and Benefits

Two key processes to inform decision makers about the cost of a project are

- the development of a benchmark cost that indicates how much the project would cost if directly provided out of public resources
- an estimation of the wider costs and benefits of the project.

Development of the Public Sector Benchmark

20.12 Before a PPP project could be offered to the market, the contracting authority (OPW) was required to develop a public sector benchmark (PSB). A PSB is a benchmark against which tenders from the private sector are assessed. It is intended to be a comprehensive estimate of whole life cost, inclusive of allowances for risk, of the cost of procuring the services that the private sector is to be invited to tender for through conventional public sector procurement processes. The PSB forms the basis for the value for money (VFM) assessment of the highest-ranking bid.

20.13 In December 2004, private consultants, on behalf of OPW, prepared an estimate of the PSB. The total estimated cost of public provision, including allowances for risk, was €14.4 million in net present value terms (excluding VAT). On 19 January 2005, the Government agreed the affordability cap for the convention centre would be set at the same level as the PSB. Figure 103 outlines the elements of the PSB calculation excluding any residual value that might exist.

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Where PPP projects involve a sufficient transfer of risk to the PPP company, up-front expenditure by the PPP company does not count for GGB purposes. The subsequent annual unitary charges, however, are reckoned as public expenditure.

Figure 103 PSB - National Convention Centre Project, December 2004

Cost Element (excluding VAT)	Total Cost	Net Present Value ^a
	€m	€m
Land acquisition cost	32	32
Capital costs	206	197
Recurring costs and revenues	<u>139</u>	<u>101</u>
Pre-risk adjustment cost	377	330
Risk quantification	100	84
Benchmark Cost	477	414

Source: OPW

Note:

- a The PSB was compiled using a discount rate of 4.5% to discount all future project cash flows over a 25-year period.

20.14 The PSB included the following components

- **Land acquisition costs** — it estimated the cost of procuring an appropriate four-acre city centre site at €32.1 million.
- **Capital costs** — The PSB included all of the capital costs associated with the construction of a 24,000 square metre building at €120.6 million plus design team fees of €1 million, construction inflation buyout of €31.2 million, furniture and equipment estimated at €18.1 million and insurance and other charges of €6.7 million.
- **Recurring costs and revenue** — it estimated the operating costs such as maintenance, utilities, cleaning, insurance, facilities management, centre marketing and lifecycle costs involved in running the centre at €63.6 million. Revenues were estimated at €62.5 million over the 25 years of the PPP giving a final cost estimate of €101 million.
- **Risk** — it estimated the total costs of risk that would have to be managed at €3.6 million¹⁵². Risks workshops, comprising all key stakeholders, quantified the risk using point estimates, which combine the probability of a risk occurring with an estimate of the cost of that risk. Capital risks were estimated at €2 million and operating risks, including availability and performance risk and operating cost risk, were estimated at €1.6 million.

Inflation rates in relation to operating costs were estimated at 2.5%. All cash flows were discounted using a project specific discount rate of 4.5% as advised by the NDFA.

Estimated Costs

20.15 The cost estimate used for the purpose of cost-benefit analysis was the PSB. Based on the PSB, the estimated cost of providing the centre through traditional public procurement would have been €14.4 million in net present value terms.

20.16 The PSB is designed to be a comprehensive estimate of the cost to the sponsoring agency of procuring the project through conventional means. Since the PSB does not take account of any up-front Exchequer costs that may be associated with the project nor of indirect costs, it would tend to understate the total cost to the State of providing the facility. Indirect costs would include additional costs to the State as a result of the construction of the facility and may include, for

¹⁵²

If the contract was awarded to a private partner these risks would be borne by that partner.

example, the cost of new infrastructure required for effective operation of the asset, costs associated with capital and maintenance spending as a result of increased demand on existing infrastructure (e.g. increased road use and waste treatment) as well as costs arising from additional traffic congestion.

Estimated Benefits

20.17 In a separate exercise, consultants employed by Fáilte Ireland and the Department developed estimates of the net economic benefit to the economy using both a 20-year and 25-year horizon and using a number of scenarios in respect of delegate numbers. For the purpose of this report, reference is made only to those estimates relating to a 25-year horizon so that a like for like comparison can be made with the project as proposed.

Basis of Estimate of Benefits

Projected gross tourism revenues were estimated taking account of additional revenues from conference delegates, accompanying visitors and knock-on effects in attracting smaller conferences. A multiplier was applied to this tourism revenue to take account of indirect impacts arising out of expenditure incurred on Irish goods and services.

It was assumed that the tax contribution comprised 36% of the additional revenues with wages and profits making up the balance. These additional revenues were then discounted as follows in order to calculate the economic opportunity cost

- It was assumed that 60% of the additional tax revenues would benefit the economy. The remainder was deducted from the overall benefits.
- It was assumed that only 5% of the wages and profits should be included. This was based on full employment, externalities, including the impact of congestion and infrastructure requirements. It was assumed that these conditions would prevail over the life of the project.

20.18 Using a 25-year horizon, the report estimated net economic benefits at between €170 million and €255 million depending on the number of international delegates the centre would attract. Therefore, from a breakeven cost perspective, taking account of the value of the building at the end of the 25-year period, it was estimated that depending on delegate numbers, between €36 million and €21 million could be spent on the project. After that the costs would outweigh the benefits. The data used to arrive at these breakeven cost figures are set out in Figure 104.

Figure 104 Economic Benefit of National Convention Centre, November 2004

Number of additional visitors	20,000	25,000	30,000
Revenue	Net Present Value^a		
	€m	€m	€m
Projected gross revenue	683	854	1,025
Economic opportunity cost ^b	<u>513</u>	<u>642</u>	<u>770</u>
Net economic benefits	170	212	255
Terminal value of building ^c	66	66	66
Economic Benefit^d	236	278	321

Source: Consultants report, Estimated Economic Benefits of the Proposed National Conference Centre, November 2004.

Notes:

- a A discount rate of 5% as outlined in Department of Finance guidelines was used to discount cash flows.
- b The economic opportunity cost recognises the benefits foregone by utilising resources on this project. It assumes that if these resources were utilised on an alternative project, a significant proportion of the revenues would still accrue.
- c The terminal value is defined as the anticipated sale or continued use value of any capital items at the end of the project.
- d This is the maximum amount the State could spend on the project before the costs began to exceed the benefits.

Comparison of Cost with Estimated Benefits

20.19 The comparison of costs and benefits was conducted on the basis of relating the estimated net economic benefits with the financial cost as estimated using the PSB. As outlined earlier, the use of the PSB to estimate costs for this purpose was not appropriate.

20.20 Notwithstanding this, the difference between the projected cost and the economic benefits estimated to accrue was highlighted in a briefing note prepared for a meeting between the Minister for Tourism, Culture and Sport, and the Minister for Finance on 9 December 2004. It stated that

- The project represented good value as a stand-alone project when the gross revenues were compared against the PSB. This was based on comparing the gross revenues derived from the consultant's study of €604 million with an adjusted PSB cost¹⁵³ of €493 million. On this basis the project was estimated to create a net benefit of €111 million.
- On the other hand, the results emerging from the November 2004 consultant's analysis was suggesting that if the cost of the centre was much above €200 million in net present value terms it would represent a net economic cost to the economy. The briefing paper concluded that this was mainly due to the conservative estimates of delegate numbers and the writing down of the revenues from the project to take account of the opportunity cost attaching to the allocation of resources. It noted however, that this opportunity cost rationale mirrored the IDA approach to evaluation of large industrial projects.

¹⁵³ The PSB of €414 million was re-calculated using a 20-year horizon and project internal revenues were added back to get a full cost over a 20-year horizon.

20.21 The note went on to say that the Department was of the view that other considerations should be taken into account. These were

- that the Government had made a firm commitment in its Programme for Government to provide a national convention centre
- the Government had agreed in principle to proceed with the project
- the absence of a state of the art conference centre was a barrier to the growth of high value business tourism and might lead to the loss of existing business
- it would be irresponsible to abort the process based solely on the figures in the consultant's report, having signalled to bidders, and the wider tourism market, that tender documentation would be released.

20.22 It also stated that if the process was halted it was likely that one or more of the bidders¹⁵⁴ would seek compensation through the Courts. The Process Auditor also strongly advised releasing the tender documentation.

20.23 Approval was sought to release the tender documentation on 10 December 2004 on the basis that the PSB had been widely researched by independent financial advisors and it would serve as an appropriate comparator against which to measure the responses of those invited to tender. The tender documentation was released on that date.

20.24 The Department noted that the Government also took cognisance of the wider economic and social benefits that would derive from the project. The Memorandum for Government of 14 November 2005 noted

- The cost-benefit analysis of the project demonstrated an economic loss of the order of €166 million to €17 million – the net present value of the costs outweighed the benefits by this amount.
- Notwithstanding this, the Minister considered that the process should proceed to the next stage given his view that the development of a National Conference Centre represented an essential component of modern, international tourism infrastructure and an important addition to the civic landscape of the country's capital city.

20.25 In relation to the decision to proceed with the project, despite the apparent excess of cost over projected benefits

- The Department and the Department of Finance drew attention to the fact that nothing in either the capital appraisal or PPP guidelines should be taken as precluding Government or Ministers from deciding in the national interest to approve projects independent of the application of the guidelines.
- The Department of Finance also noted that both the capital appraisal and PPP guidance are intended to assist Ministers and their officials in carrying out their responsibilities and functions in regard to project appraisal, approval, procurement and audit. Programme evaluation and project appraisal are aids to inform decision-making and do not constitute final decisions in themselves. Nothing in the guidelines should, therefore, be taken as precluding Government or Ministers from deciding, in the national interest, to approve projects outside of these guidelines.

¹⁵⁴ Three short-listed consortia had been invited to tender but tender documentation had not been released.

Tender Evaluation

The effective evaluation of proposals is a key prerequisite to value achievement.

20.26 The project Steering Group approved the placing of advertisements seeking expressions of interest, based on the OPW's Project Information Memorandum, for the provision of the centre on a DBFOM basis with a lease (or other arrangement) to be executed upon satisfactory completion of the development. Proposals were received from four candidates.

20.27 Three of the four were short-listed for tendering on the basis of criteria set out in the Project Information Memorandum. One tenderer, subsequently, withdrew from the competition and tenders were received from the remaining two consortia.

20.28 EU procurement law allows for communication with bidders and potential bidders. During this communication phase, a bidder proposed that instead of spreading capital costs evenly over the life of the project, better value could be provided if these costs were recouped through an increased unitary payment in the earlier years.

20.29 Each tenderer submitted three bids - one base bid to reflect all the requirements as set out in the invitation to negotiate and two variant bids, one to include the payment of €100 million towards capital cost over the first five years. The NDFA, and private consultants working for the State, agreed that up-front payments to cover capital costs would allow the bidders to submit proposals resulting in lower overall costs to the State when measured in net present value terms. This is mainly due to lower financing costs for the bidder as a result of certainty of income in relation to the first five years of operation.

20.30 One bid was found to be non-compliant¹⁵⁵. The remaining five tenders were evaluated in August 2005.

Overall Tender Evaluation

20.31 In November 2004, the Steering Group decided the breakdown of marks for the individual evaluation criteria. The proposed marking system was set out in an invitation to negotiate issued in December 2004. Tenders were received in May 2005 and marks were awarded to each proposal in relation to each of the four criteria. The results are set out in Figure 105.

¹⁵⁵ The bid was deemed non compliant as it did not comply with the requirements of the invitation to negotiate.

Figure 105 Tender Evaluation Results^a

Evaluation Element	Maximum Marks	<u>Bidder A</u>		<u>Bidder B</u>		
		Base Tender	Variant 1	Base Tender	Variant 1	Variant 2
Design and Construction	40	29.60	29.60	21.20	21.20	21.20
Operation and Maintenance	30	19.80	19.80	14.40	14.40	14.40
Financial	20	8.15	11.39	17.00	18.00	19.00
Legal	10	7.2	7.2	8.23	8.23	8.22
Overall marks awarded	100	64.75	67.99	60.83	61.83	62.82
Cost (NPV)		€402.2m	€390.5m	€223.8m	€207.8m	€203.5m

Source: Comptroller and Auditor General analysis of tender evaluation

Note:

a Bidder A's Variant 1 was the winning tender.

20.32 Bidder A's proposal (Variant 1) scored highest overall and under individual evaluation criteria scored higher in design and construction and in operation and maintenance but lower on financial criteria than those submitted by Bidder B.

20.33 The design and construction element of each proposal was evaluated by reference to the impact, quality and functionality of the buildings proposed. The evaluation team awarded higher marks to Bidder A's tender, in particular based on its assessment of the quality of the building proposed and its impact.

20.34 The operation and maintenance element of proposals was ranked by reference to four criteria and included services, operability, management, as well as market positioning and impact. The evaluation team awarded higher marks to Bidder A's proposal deeming that it had placed emphasis on international conferences, had a good marketing plan and clearly defined organisation and management structures.

Financial Evaluation of Proposals

20.35 The Steering Group agreed the allocation of 20% of overall marks to the financial elements of the bid. In a meeting of the Steering Group in 2004, the Department of Finance had concerns when the financial criteria weighting was lowered from 25% to 20%, and the design and construction weighting increased to 40%. The NDFA, which was represented at the meeting, expressed a view that any weaknesses in the design/technical and operation and maintenance elements would ultimately impact on the financial sustainability over the long-term. The Chairman, noting, in particular, NDFA's comments in this regard concluded that the evaluation weightings as proposed were acceptable.

20.36 In relation to the weightings allocated in the assessment of bids, the NDFA commented that its advice regarding tender evaluation criteria is based on the priorities identified for each project and that cost may, depending on the type of project, feature to a greater or lesser degree. It noted that, for example, cost was awarded a higher percentage of marks in the evaluation of tenders for

the provision of schools through PPP than for the convention centre as it is understood that the building of schools is a more straightforward project than building a convention centre.

20.37 Within the financial criterion, 13 of the 20 marks allocated were assigned to an assessment of the cost of the deal. Most of the remainder were awarded based on evaluating the revenue sharing mechanism proposed and the financial robustness of the deal. Figure 106 sets out the scoring of the individual bids under financial criteria.

Figure 106 Tender Evaluation Results — Financial Criteria^a

		Bidder A		Bidder B		
		Base Tender	Variant 1	Base Tender	Variant 1	Variant 2
Cost (NPV)		€402.2m	€390.5m	€223.8m	€207.8m	€203.5m
Evaluation Element	Marks available					
Unitary charge	13	6.15	9.39	13.00	13.00	13.00
Revenue share	3	0	0	1.0	2.0	3.0
Financial robustness	2	2.0	2.0	2.0	2.0	2.0
Agreement on equity IRR ^b as discount rate for compensation on termination	1	0.0	0.0	1.0	1.0	1.0
Agreement on junior debt refinancing	1	0.0	0.0	0.0	0.0	0.0
Total	20	8.15	11.39	17.00	18.00	19.00

Source: FGS, NDFA, Financial Assessment Report, Aug 2005.

Notes:

a Bidder A's Variant 1 was the winning tender.

b Internal Rate of Return.

20.38 The differential in price between the two tenderers was significant. The bids received from one tenderer ranged from €200 million to €220 million. The bids received from the other tenderer were in the range €390 million to €400 million. The main difference was associated with the operational and marketing cost components of the bids¹⁵⁶. The unsuccessful tenderer made substantially lower cost estimates in this area. The capital costs of the bids were broadly similar.

20.39 In relation to the divergence in the cost of the proposals

- The Department of Finance noted that under the PPP guidelines, each sponsoring agency must draw up a detailed output specification, which is issued with the tender invitation. This should guide tenderers in the preparation of bids.
- OPW noted that both pre-qualified bidders were issued with comprehensive tender documentation. It stated that the wide divergence in the cost of the proposals could be attributed to commercial decisions by the respective bidders.

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Net of revenue streams.

20.40 The cheapest bid received from the unsuccessful tenderer cost some €187 million less than the successful bid. Due to the assessment weighting used and despite the large cost differential it only received an additional 3.6 marks (out of a total of 13 marks available) in the evaluation of cost.

20.41 The costs of the proposed bids were assessed not relative to each other but by comparison with a level of 90% of the PSB unitary costs. However, in making this assessment, bids costing 90%, or less, of the PSB estimate were awarded full marks irrespective of how much cheaper than the 90% they were. This had the effect of awarding relatively high marks to proposals that were much more costly in absolute terms.

Comparison – Criminal Courts Complex

The financial assessment of the PPP project in relation to the Criminal Courts Complex^a differed in two ways from that utilised in the assessment of the tenders in this project.

- A total of 30% of the overall marks were allocated to financial criteria as compared to 20% for the convention centre. 27% of the overall marks were based on the cost of the bids as compared with 13% in relation to the convention centre.
- The assessment of the cost of the bids in relation to the Criminal Courts Complex compared the cost of the bids relative to each other rather than by reference to the cost as identified in the PSB. The cheapest bid was awarded the full 27% and other bids were awarded marks by reference to their distance from the cheapest bid on the following basis

$$\text{Score} = (1-A)*27$$

Where A = (Tender NPV – NPV of lowest proposal)/(NPV of highest proposal)

Note:

- a Three tenders were received in February 2006 in relation to the project to design, build and operate the Criminal Courts of Justice complex. The contract was awarded in April 2007. A full report on an examination of this project is included in Chapter 17 of the 2008 Annual Report.

20.42 The allocation of marks to the individual evaluation elements, together with the methodology used to assess the cost of bids has a significant effect on the overall ranking of bids. In this project, 20% of the overall marks were allocated to the assessment of the financial element of the bids and in awarding marks based on cost; bids were compared to the PSB as opposed to each other. The outcome is very much dependent upon the evaluation weighting system which it is acknowledged was set in advance.

20.43 In regard to the evaluation marking scheme, OPW noted that the aim of any marking scheme is to deliver the best project outcome while seeking to balance the various components and objectives of the project within the project cost ceiling. It stated that in compiling the PSB, the significance of the cost of operating and maintaining the centre over the 25-year concession period became evident. It went on to say that the knowledge garnered from this exercise together with the experience of all members of the Project Team was instrumental in compiling the marking scheme. It stated that the Project Team gave consideration to the important elements of the project which needed to be evaluated and the marking scheme devised accurately reflected the unique aspects of the project.

Selection of Preferred Tenderer

The preferred tenderer is selected on the basis of presenting the most economically advantageous bid, as long as the cost of the bid is less than the PSB.

20.44 The PSB is developed prior to the evaluation of tenders. It is used as a reference cost for assessing the value of deals proposed. Since the cost of all tenders were lower than the PSB, the tender with the highest score was selected as a provisional preferred tender. In November 2005, the Government decided to appoint SDICC¹⁵⁷ as provisional preferred tenderer and OPW, subsequently, entered into negotiations with a view to completing a contract.

20.45 A memorandum on 31 July 2006 to Government noted the designation of SDCCD as the preferred tender.

Negotiating the Final Deal

20.46 Negotiations with the provisional preferred tenderer took place between November 2005 and August 2006. Two main issues arose in the negotiations before the provisional preferred tenderer or SDCCD, was designated the preferred tenderer. These related to

- title to the site
- the responsibility for rates.

Site Title

20.47 The invitation to negotiate documents specified a site with a free and unencumbered title. The winning bidder's site was owned by CIE with SDCCD having a master development agreement on it. There followed a period of prolonged negotiations to resolve the matter. The winning bidder secured a 500-year lease on the site that allowed it to meet the requirements of the invitation to negotiate.

Rates

20.48 The invitation to negotiate specified that any rates arising were payable by the PPP Company (SDCCD). Although they had no grounds for doing so, SDCCD assumed for the purposes of their bid, that the convention centre would not be rateable.

20.49 The negotiated solution established that the rates liability would be paid from any excess revenue generated by the convention centre above the projected revenues for each year as outlined in the contract and, in the event that there were insufficient funds in the revenue share pool¹⁵⁸, the State would pay the shortfall in the rates bill up to an aggregate maximum of €8 million in net present value terms. Should the rates liabilities exceed that level, then SDCCD would pay rates liabilities between €8 million and €13 million over the operating period. The State is liable for rates in excess of €13 million¹⁵⁹.

¹⁵⁷ Spencer Dock International Conference Centre Ltd (SDICC) later changed to Spencer Dock Convention Centre Dublin (SDCCD).

¹⁵⁸ The revenue share pool is the excess over projected revenues anticipated in the contract.

¹⁵⁹ All figures are in net present value terms.

20.50 The NDFA produced a report analysing the risk of rates movements, based on estimates from the Valuation Office. It concluded that the convention centre's annual rates are likely to be in the region of €1.5 million. Its assessment was that in all probability the States' rates liabilities would not exceed €1.5 million per annum.

The Final Value for Money Test

Prior to signing the final contract, the PSB is updated to reflect changes that have occurred during the negotiation stage. These include any change in the contract terms and changes in interest rate(s) and/or the discount rate used.

The revised PSB is compared against the cost of the final negotiated deal to ensure the PPP project still represents better value for money than traditional procurement.

20.51 At the final stage, the project was estimated to cost €416 million. The comparable PSB was €422 million. The updated calculations included inflation, extension of construction phase, the inclusion of rates costs and the discount rate decreasing from 4.5% to 4.2%.

20.52 The final Process Auditor report confirmed, inter alia, adherence to national and EU tendering and procurement guidelines and, that the process was open and transparent and that the proper levels of fairness and impartiality were observed. The Process Auditor also confirmed that the necessary financial robustness tests for the project were carried out and, the proposals as finally agreed gave value for money against the PSB. The NDFA advised that the cost of the contract could be up to €422 million in net present value terms and represent value for money by comparison with the PSB.

20.53 The Government agreed on 6 February 2007 that the contract should be awarded to SDCCD subject to the cost to the exchequer not exceeding €422 million in net present value terms.

The Final Contract

The final contract with the PPP Company needs to ensure that the company is incentivised to deliver the service as specified. This is achieved through pre-determined key performance indicators (KPI) with appropriate penalties in the case of underperformance.

20.54 The winning bid provides for a unitary payment of €27.3 million for the first five years of the contract, reducing to €23 million for the remaining 20 years of the contract. The contract also provides for additional payments of €20 million in the first 5 years of operation (10% of the unitary charge is index linked).

20.55 Deductions are provided for when predefined KPI are not achieved in relation to convention centre availability, performance and the number of international delegates visiting the centre. According to the level of under performance, deductions from the unitary charge are made in the following year, using an agreed formula, spread evenly over the 12 months.

20.56 Availability will be assessed by reference to agreed standards. Core functions within the convention centre are weighted according to importance. Failure to achieve the required standard will result in a deduction. The frequency and duration of failures will also impact on the level of deduction applied which could in extreme cases be up to 80% of the annual unitary charge.

20.57 Performance is assessed against 11 weighted service areas including health and safety, catering and customer service. Performance deductions apply when services have not been provided in accordance with contract specifications. The contract provides for deductions of up to 10% of the base unitary charge in the first five years of the contract, increasing to 15% thereafter.

20.58 International conference delegates are defined as residents from outside the Republic of Ireland. Failure to attract the requisite number of international conference delegates annually will result in a graduated payment deduction.

20.59 The first five years are perceived to be 'ramp-up years' as the convention centre builds its brand and market position and this is reflected in the international delegate thresholds for those years. No penalties will be imposed if international delegate numbers in the first year exceed 4,660. This threshold increases to 12,140 in the fourth year. The contract provides for penalties of between 0.6% and 3% of the annual unitary charge where delegate numbers fall below this threshold.

20.60 The threshold increases in the fifth year with a graduated system of penalties being applied in situations where the delegate numbers are below 34,140. Penalties of up to 5% of the annual unitary charge can be applied.

20.61 In addition, a five year rolling window will apply to delegate numbers. In the event that SDCCD defaults consecutively over a five year period it will represent an 'event default' of the entire contract.

20.62 In the event of SDCCD defaulting on the contract the senior debt holders (the banks) are responsible for the running of the convention centre on behalf of the State.

Profit Sharing Arrangements

20.63 Under the contract the State is entitled to a share of certain profits. Revenues above specific thresholds will be used to discharge the rates liability. The remaining revenues in the revenue share pool are split 45% - 55% between the State and SDCCD. The threshold in the first year is set at €6 million. It rises gradually from the fourth year until the end of the contract when a threshold of €10 million is applied.

20.64 It is projected that, over the life of the contract, the State will receive revenue share payments of €49.5 million in net present value terms.

Monitoring and Supervision of Construction

20.65 Construction of the centre commenced immediately following the awarding of the contract. OPW ensured compliance with the output specification by reviewing technical information submitted by SDCCD on a fortnightly basis. Design Certificates were submitted to OPW for approval and OPW stated that, to date, 208 such Design Certificates have been approved.

Commissioning and Handover Requirements

20.66 On completion of the building, OPW assisted by technical advisors, ensure that the building as constructed complies with the output specification. This process was completed on 5 August 2010. One yet to be resolved issue relates to sewerage facilities for the overall area. A need to increase wastewater capacity has been identified. However, OPW have informed me that the planning conditions attached to the centre did not require SDCCD to build a pumping station.

Such a development is a matter for the Spencer Dock Development Company¹⁶⁰, Dublin City Council and the Dublin Docklands Development Authority.

20.67 OPW outlined the current status of the pumping station as follows

- The pumping station has planning consent from the Dublin Docklands Development Authority, which is currently carrying out due diligence on a compliance issue attached to the planning consent.
- A Development Agreement is in place between Dublin City Council and Spencer Dock Development Company regarding the pumping station.
- Construction of the facility will take about 16 months.
- Dublin City Council is prepared to permit a further extension of the discharge licence for the convention centre during the construction of the pumping station.

Contract Monitoring and Handover

20.68 The OPW will be the primary State body responsible for convention centre performance monitoring and contract compliance. The OPW have sub-contracted a private sector firm to undertake contract monitoring and evaluation on behalf of the State. This contract currently covers a 36-month period and will cost the State about €85,000 per annum.

Performance Monitoring

20.69 The three key measures of performance are

- availability
- service performance
- the number of international delegates.

20.70 In relation to availability, the conference centre is broken down into key areas and these areas are weighted according to importance, for example the auditorium and exhibition space each have a 16% weighting. Unavailability of any area has to be logged and forwarded to the OPW. The duration and frequency of unavailability impacts on the unitary charge deduction.

20.71 In relation to service performance, it is assessed under headings such as cleaning, general services management and waste management. SDCCD are obliged to promptly inform the OPW if it becomes aware of underperformance in any area and the OPW can carry out inspections at any time to ensure contract compliance. A unitary charge deduction is applied for failure to adhere to the standards as set out in the contract.

20.72 In relation to the number of delegates, on 31 January in each calendar year, SDCCD must submit a booking report to the OPW specifying details of events held in the previous year. The booking report forms the basis for performance evaluation. Fáilte Ireland will also receive the booking report to determine which delegates properly constitute actual international conference delegates.

¹⁶⁰ The Spencer Dock Development Company is involved in the redevelopment of the wider Spencer Dock area. This includes the construction of the convention centre itself and proposed development of a hotel, office, residential and retail property.

20.73 The State have right of access to the convention centre in order to complete audits and verify the accuracy of accounts, charges and claims. The State may undertake its own performance monitoring (consistent with good industry practice) at any stage during the contract in order to ensure that the operations are being conducted in accordance with the contract between SDCCD and the State.

Handover Requirements

20.74 The major structural elements of the convention centre are expected to have a life expectancy of 75 years beyond contract completion. On contract completion SDCCD are required to hand back the convention centre in a condition that will enable the State to continue to use it after the 25-year contract has expired. Account will be taken of maintenance and purchasing records in determining the residual life of the principal elements.

Conclusion

In December 2004, a PSB was developed which estimated the cost of the convention centre at €14 million in net present value terms and in January 2005, the Government set the affordability cap at the level of the PSB. Around the same time, consultants were employed to conduct economic analysis and they estimated the economic benefits at €36 million in net present value terms.

Comparing the benefits against cost, as measured by the PSB, showed that while the project revenues would be positive, after taking account of all the economic factors, the State would be likely to have to invest more than the economic benefit of the project to the economy.

Taking account of all the available information the Government decided that the project should be offered to the market and the PSB would be used to assess the cost of the proposed bids.

Two consortia tendered for the contract to provide the national convention centre. A number of variants were proposed. Two bids provided by one of the consortia were for approximately €400 million, in net present value terms, as compared with bids in the region of €200 million to €220 million by the other bidder. While the capital costs of the bids were broadly similar, both bidders had made significantly differing estimates of the costs associated with operating and maintaining the centre.

One of the bids from the consortium with the most expensive proposal was ultimately selected. Its selection was based on higher marks awarded in relation to design, construction, operation and maintenance which more than compensated for lower marks awarded in relation to financial criteria.

The wide divergence in bids in relation to the proposals for this project would seem to suggest either a lack of clarity (on the part of the bidders) in relation to what was required or a wide divergence in the cost assumptions underpinning the respective proposals.

In order to facilitate bidders in proposing a cost-effective solution there may be merit in making the value of the PSB known to the bidders, in appropriate cases. This is done in some jurisdictions and is decided on a case-by-case basis. The publication of the PSB, in appropriate cases, could give greater clarity about the scope of the project allowing tenderers to balance the quality of their offerings with an effective State affordability limit. At the assessment stage, it would also allow for deeper consideration of the value of what was offered in proposals. In the event, in this case, the selected option was close to the affordability limit.

The Department of Finance commented that a decision to release the PSB would represent a significant departure from current guidance in relation to PPPs. It noted that the main risk in revealing the amount that the State is willing to pay is that it may give tenderers an opportunity to increase their asking price above what they might otherwise seek. The Department went on to say that it plans to consult further on this issue with the NDFA and will seek to learn from the experience in other jurisdictions.

The evaluation of tenders in PPP projects combines an assessment of a range of criteria in order to arrive at a composite score. Financial factors accounted for only 20% of the available marks in this case and within this component, the cost of the bid accounted for 13% of the overall marks.

Despite the fact that it was almost double the cost of some of the other bids available, the winning bid ultimately selected secured 72% of the available marks in the financial component.

The current methodology used to evaluate tenders combines cost and other criteria in order to arrive at a combined score. There could be merit in evaluating bids, initially on the basis of non-financial criteria. Thereafter, bids that satisfy the minimum output requirements could be evaluated on a compare and contrast basis, weighing the relative cost of additional benefits proposed in the more expensive bids.

The Department of Finance noted that it has not, to date, issued guidance relating to how individual tenders should be evaluated and stated that the possible implications of issuing specific guidance on tender evaluation would have to be considered in detail by the relevant authorities, particularly taking account of EU procurement law.

The final contract concluded with SDCCD, provides for payments of about €47 million per annum for the first five years reducing to €23 million per annum for a further 20 years.

The total outflows over the life of the project are estimated at €725 million after allowing for projected inflation. VAT of €29 million was payable in 2010 in respect of construction costs. In net present value terms, the contract as finalised, is estimated to cost the State €416 million over its life. The comparable PSB — the cost of procuring the project by conventional means was €422 million.

The State succeeded in maintaining reasonable competitive tension during negotiations with SDCCD. It assumed responsibility for a proportion of the rates payments which could cost up to €1.5 million per annum, but also succeeded in altering the level at which reduced unitary payments would apply. This will have the effect that the full unitary payment will only be made if higher international delegate throughput is achieved. Annual targets are now set at 4,660 delegates in the first year rising to 34,140 delegates in the fifth year.

Up to 5% of the unitary payment can be deducted if the required delegate numbers are not secured. A cumulative penalty rate of 15% over five years would represent a default on the entire contract.

The contract incentivises performance since penalties of up to 80% of the annual unitary payment can be imposed for non-availability, with further provisions to ensure performance across a range of areas including health and safety and customer service.

A comprehensive system of performance monitoring has been devised to assess performance across the three key areas — availability, performance and delegate numbers. In addition, the contract provides for increased penalties where non-performance in any area is not reported by SDCCD and is discovered by OPW (who are managing the contract).

Chapter 21

Office of Public Works

Decentralisation

Decentralisation

21.1 Almost 11,000 civil and public servants were to decentralise from Dublin to 95 locations across the country. By April 2010, following a decision by the government to defer some of the moves the status of the programme was as set out in Figure 107.

Figure 107 Status of the Programme – April 2010

Staff	Decentralisation proceeding	Decentralisation deferred	Total
Number of locations^a	34	61	95
Posts moved	2,430	718	3,148
Posts to move	1,191	-	1,191
Move of posts deferred	-	6,583	6,583
Total planned staff moves	3,621	7,301	10,922

Note:

- a The original decision provided for the movement of 75 organisations or divisions to 53 locations. Some phases of projects have taken place with the second phase deferred. As a result, the number of projects involved is 95.

21.2 The decision to defer a significant portion of the decentralisation programme pending a review in 2011 took account of progress in transferring staff, commitments already made, the costs involved and the business readiness of organisations to move and in the case of State agencies, an Implementation Group report to the Minister for Finance¹⁶¹.

21.3 By April 2010, 3,148 staff were in place in decentralised locations

- 2,430 of these are in locations where arrangements in relation to permanent accommodation had been progressed. There is provision for a further 1,191 staff to move to these locations to bring staff numbers up to the full complement, once permanent accommodation is in place.
- 718 staff have moved to locations where advance offices had been established but the full decentralisation programme has now been deferred. It was planned to move a further 260 staff to these locations.

21.4 Overall the decentralisation of 6,583 posts has been deferred. About 5,000 of these posts are in respect of locations where the decentralisation move has been fully deferred and the balance relate to locations where the number of staff currently approved to move is limited to those already in place.

¹⁶¹

This report on the State Agencies due to relocate under the Public Service decentralisation programme completed in July 2008 and published in October 2008 examined progress to date, identified factors impacting on progress and assessed the scope for advancing the planned moves on an agency basis.

Chapter Focus

This chapter examines property management associated with the decentralisation programme. The programme was substantially curtailed from October 2008. The audit sought to review

- the implications for OPW's property management in the now prevailing market conditions and
- taking account of the conditions prevailing at the time property transactions were effected to review the value achieved in the acquisition of property for the programme.

In doing so the audit relied on both internal OPW benchmarking and an independent review by property consultants engaged by my Office.

21.5 Figure 108 sets out the outlays on property, the stage of completion of the transfers and the number of locations involved.

Figure 108 Staff Moves and Planned Property Costs, April 2010

	Property Transactions finalised	Approval to proceed granted	Advance party in place but full move deferred	No advance party in place - move deferred	Total
Number of locations	27	7	17	44	95
	€m	€m	€m	€m	€m
Capital Costs					
Site purchases	12.9	14.6	19.8	24.0	71.3
Building Cost ^a	133.9	56.6	-	-	190.5
Fit-out costs of leased buildings ^b	20.5	0.1	7.0	-	27.6
Total	167.3	71.3	26.8	24.0	289.4
Recurrent Costs					
Annual temporary lease costs ^c	0.7	0.5	2.0	-	3.2
Annual long-term lease costs	3.8	-	-	-	3.8
Total	4.5	0.5	2.0		7.0

Source: Property Costs: Office of Public Works, Staff position: Department of Finance.

Notes:

- a This includes 12 buildings constructed (€180 million) and one building purchased at a cost of €10 million.
- b €26.5 million was expended by OPW with the balance expended by two authorities who procured their own accommodation.
- c Three leases accounting for annual lease payments of €452,824 were procured by decentralising organisations, the balance were procured by OPW.

Impact of Curtailment

21.6 The decision to defer implementing the balance of the programme pending a review in 2011 has a number of financial implications.

21.7 12 sites valued at €43.8 million were purchased in locations where the decentralisation programme is not being progressed.

21.8 Occupancy levels in buildings constructed or leased in order to accommodate staff in individual locations are less than originally planned.

- Occupancy levels in five of the buildings leased in relation to decentralisation are less than 75% of that originally planned. The combined annual lease cost of these buildings is €801,296. The five buildings were scheduled to accommodate 320 staff and currently accommodate 190 staff.
- Two recently constructed buildings, where staff transfer is still under way, are also under-occupied. A building constructed for the Department of Environment in Wexford, costing €19 million, was designed to accommodate 270 staff and has a current occupancy of 175. A building constructed for the OPW in Trim, costing €32 million which was designed to accommodate 334 staff and currently accommodates 232 staff.

Property Portfolio Restructuring

21.9 One objective of the decentralisation programme was that over time, the costs of property procured for the purpose of decentralisation would be met by the disposal of excess property in Dublin and elsewhere. This section examines

- OPW's property disposals between 2004 and 2009 and the extent to which disposals have been attributed to the vacation of space in Dublin as a result of the decentralisation programme
- the effect of the changing property market on OPW's rationalisation efforts.

Property Disposals

21.10 OPW stated that property savings through portfolio rationalisation effected by OPW as a result of the decentralisation programme are being achieved through disposal of both leasehold and freehold property.

21.11 Between 2004 and 2009, OPW disposed of freehold property which yielded €374 million in total. The bulk of this was received before 2007. Almost all of those disposals were in Dublin. Leases surrendered in Dublin resulted in annual lease savings of €10 million. The annual receipts in relation to property disposals in Dublin as a result of the decentralisation programme are set out in Figure 109.

Figure 109 Dublin Property Disposals since 2004

Year	Dublin Property Disposals	Annual Value of Leases Surrendered
	€m	€m
2004	83.6	
2005	54.3	1.4
2006	217.2	0.6
2007	0.8	0.5
2008	0.1	2.6
2009	—	1.9
2010 ^a	—	3.0
Total	356.0	10.0

Source: OPW

Note:

- a OPW initiated a further Dublin property rationalisation strategy for the core Dublin office portfolio in 2009 and it hopes to surrender leases with annual lease payments of between €6 million and €8 million in 2010.

21.12 In regard to progress in rationalisation, OPW stated that it had been envisaged that its Dublin office portfolio requirement could be substantially reduced, on the assumption that all decentralising posts would come from Dublin. It was a further policy objective that rationalisation in Dublin would be achieved by consolidating the functions remaining in Dublin into a reduced number of offices, and that as a priority the leasehold portfolio would be targeted for disposal by way of surrender in order to leave Dublin-based staff accommodated, as far as possible, in the best quality State-owned and long-term leasehold accommodation.

21.13 In practice the experience to date has been that space freed up is spread throughout the office portfolio in small pockets of space in various buildings. Given the changing staff numbers and the uncertainty likely to prevail until 2011 in relation to deferred decentralisation, the OPW is finding it difficult to frame definitive decisions in relation to the whole Dublin office portfolio.

21.14 OPW stated that, in these circumstances, it is approaching the restructuring of its property portfolio on a case-by-case basis, dealing with individual properties and their occupancy as opportunities arise. While it has adopted a broad strategy of rationalisation for the next four years, many rationalisation or consolidation decisions cannot be confirmed until it has certainty in relation to future staff numbers and consequent space requirements in each Department/Office in Dublin after 2011. Accordingly, it is likely to take a number of years to generate potential rental savings as opportunities arise to surrender expiring leases.

21.15 OPW has stated that a stronger more directive role on its part would enhance rationalisation outcomes by compelling Departments and Offices to co-operate fully with the OPW property strategy, in terms of downsizing or sharing State-provided accommodation or relocation to more efficient buildings.

Impact of Property Market Conditions on Rationalisation

21.16 During the initial years of the decentralisation programme (2004-2007) OPW found that the market was receptive to early surrenders of some city centre properties, mainly for re-development. Likewise, OPW initiatives to dispose of high value State-owned properties were successful at that time.

21.17 However, the property market has altered and the early surrenders, that might have been attractive to landlords who had funds for redevelopment of key properties, are not now on offer to OPW, at a time when some Dublin offices are being vacated by civil service staff. In these circumstances, OPW has no option but to await lease expiries or break options and avail of opportunities for rationalisation as they occur.

21.18 While surrenders of leased premises are planned over the next five years as leases reach expiry or when lease break options occur the environment in which it is trying to rationalise its portfolio has altered significantly. In cases where surrenders are now being contemplated by OPW, some landlords are reacting by using whatever impediments are available to them, under their lease terms and conditions, in an attempt to dissuade OPW from effecting surrenders including making substantial dilapidations claims and strict interpretation of 'time is of the essence' clauses.

21.19 In regard to its overall approach, OPW noted that while the Government had decided to postpone a number of moves pending a review in 2011, it has to position itself to give effect to decentralisation moves should the Government decide to proceed with elements of the programme.

Property Acquisition Costs

21.20 Property for the programme was acquired under a range of measures

- the acquisition of sites for office development
- the construction of office premises on those sites
- leasing of property under both short-term and long-term arrangements.

Site Acquisition

21.21 Where a trawl of State-owned property did not identify suitable sites, potential sites were located by a number of mechanisms

- through proposals submitted by interested parties as a result of a December 2003 advertisement
- through consultation with local authorities
- where no suitable proposals were submitted, OPW approached local estate agents to identify suitable available property in the area.

21.22 OPW stated that the initial site selection process involved an examination of approximately 1,000 sites by its architects. A shortlist of approximately 250 potentially acceptable sites and buildings was drawn up and then further refined for negotiation purposes.

21.23 In the first instance, potential sites were shortlisted based on three criteria, site location, site characteristics and site size, with each criteria given equal weighting in the ranking process. Thereafter, site ownership and cost, as well as client preferences were taken into account in selecting sites from those shortlisted.

21.24 OPW ultimately procured 22 sites and one State agency, FÁS, procured its own site.

Cost of OPW Procured Sites

21.25 Property consultants were engaged by my Office to provide benchmark costs for sites acquired. The benchmark set out lower and higher levels for categories of location. A derived average is also used to evaluate the outlay by the State. While the benchmark levels are useful as broad indicators they could have limitations in individual cases because

- the benchmarking exercise on market value was a desk-top exercise
- benchmark values are by definition averages taken over a large number of transactions in a wide range of locations.

21.26 Overall, 15 of the 22 sites were acquired at prices below the average benchmark level while in seven cases the price paid exceeded that level. The 22 sites were acquired for €69.7 million, which, in aggregate, was lower than the lower benchmark levels. The results of the benchmarking exercise are set out in Figure 110.

Figure 110 Comparison of Site Cost with Benchmark Cost for sites procured by OPW, 2005-2008

Relationship to benchmark	Below lower benchmark	Above lower benchmark but less than average	Above average benchmark but less than higher benchmark	Above higher benchmark	Total
Number of sites	8	7	1	6	22
Number purchased from private ownership	1	3	1	5	10
Total acres purchased	32.4	30.1	3.1	21.2	86.8
	€m	€m	€m	€m	€m
Total Cost	29.4	15.3	2.9	22.1	69.7
Lower benchmark cost	55.2	11.1	1.6	5.8	73.7
Average benchmark cost	75.4	25.7	2.3	10.5	113.9
Upper benchmark cost	95.5	40.4	3.1	15.2	154.2

Source: Lisney — Examination of Property aspects in the implementation of decentralisation, December 2008.

21.27 11 of the 15 sites where the purchase price was less than the average benchmark price were purchased from local authorities and other State agencies¹⁶². By comparison, five of the six sites where the price paid was higher than the upper benchmark level were purchased from private owners.

¹⁶² These sites were mainly purchased from local authorities with one site in Portlaoise purchased from the IDA.

21.28 In relation to these six sites where the price paid exceeded the upper benchmark level, four were in the environs of small towns and two were in provincial towns. The total cost of these six sites was €22.1 million as compared with an upper benchmark level of €15.2 million. Details in relation to those six sites are set out in Figure 111.

Figure 111 Sites Acquired above Upper Benchmark Levels, 2005 to 2008

Location	Upper benchmark	Total Outlay	Excess over benchmark
	€m	€m	€m
Mullingar	5.3	8.2	2.9
Newbridge	4.0	5.5	1.5
Claremorris	1.3	2.5	1.2
Roscommon	2.1	3.0	0.9
Thomastown	1.5	1.8	0.3
Buncrana	1.0	1.1	0.1
Total	15.2	22.1	6.9

21.29 OPW stated that in all cases sites were acquired at a rate that was within the range of values being achieved for commercial sites in the area. OPW provided the following comments in relation to the individual sites purchased.

- Mullingar — Three alternatives were identified, one was rejected due to zoning restrictions and the other on the basis that it was not as well located. The remaining site was purchased.
- Newbridge — While three sites were initially short listed by OPW, none were deemed suitable. The local authority subsequently put forward a suitable site. OPW also drew attention to the specific requirements of the client to erect a four-metre perimeter wall and noted that the site purchase facilitated significant community benefits.
- Claremorris — Four sites were shortlisted, three in ownership of a development company that was not able or prepared to provide the required site.
- Roscommon — 21 proposals were received, two were shortlisted but deemed too expensive. A further site was identified and purchased.
- Thomastown — Three sites were shortlisted. One was outside the town and only suitable for the client if nothing else was available. A further site was too big. The remaining site was purchased.
- Buncrana — OPW noted that two other sites on offer were more expensive and inferior.

Results of OPW Benchmarking

21.30 OPW employed consultants to review the cost of sites purchased for the decentralisation programme. Two different bases were used

- A review of the price paid in each individual transaction by reference to the consultant's opinion of the likely land value appropriate for that transaction in the period 2004-2008. Using this method the consultants concluded that OPW had paid in excess of the market value in three cases.

- The second basis of comparison was by reference to average land prices outside Dublin in the period 2004-2008. Transactions were categorised between large urban centres and small urban centres. Using this method of evaluation the consultants concluded that the price paid exceeded the benchmarks in six cases, was below the benchmarks in 15 cases and was within the benchmark in one case.

Cost of FÁS Site

21.31 In December 2004, the Board of FÁS approved in principle a proposal to purchase a 5.59 acre site at a cost of €1.5 million (€275,000 per acre) for a new head office.

21.32 In August 2004, property consultants had been employed by FÁS to evaluate the value of the site proposed. They concluded that given the particular characteristics of the site its market value would be approximately €700,000 equating to €140,000 per acre. The site was landlocked with the vendor entering into an agreement to provide road access within a specified time period after contract agreement. In response to its property consultant's evaluation, FÁS put forward a revised offer of €50,000 per acre. The vendor rejected this offer. FÁS entered into a period of protracted negotiations with the site owner and finally purchased the site for €1.5 million or €275,000 per acre.

21.33 FÁS stated that although the property consultants had given an indicative value of €140,000 per acre in August 2004, they subsequently raised this valuation to €300,000 per acre as a result of further work and analysis and recommended a price of €275,000 per acre in November 2004.

21.34 FÁS have stated that full planning permission has been obtained for the road access. However, no site works have been undertaken pending the review of decentralisation to be conducted in 2011.

Construction of Buildings

21.35 Contracts totalling €180 million have been awarded in respect of buildings in 12 locations¹⁶³. The two types of arrangements used for procurement of buildings were

- Design/Build — In these instances, information on the output specification, the standards for the building (function, form, sustainability and accessibility) was provided by OPW and its expectations were conveyed to the construction firms. The firms tendering proposed the full designs of the building including all structures, car parking, site development and full internal layouts including furniture configurations.
- Traditional procurement — In these cases, OPW provided tender firms with full sets of contract documentation. Here construction firms were required to complete buildings detailed in the drawings supplied by OPW.

¹⁶³

The total value of the contracts awarded in relation to the 12 buildings was €191 million. In one location while the total contract value was €17.6 million, only €7 million related to decentralisation. Only the decentralisation element is included for the purpose of this report.

Design and Build Procurement

21.36 Nine contracts were procured on a design and build basis. Tenders in the case of design and build procurement were evaluated, with 65% of the marks being awarded in respect of the design and technical aspects of the buildings and the balance in relation to cost. Contracts were awarded to the firm with the highest score using this evaluation process subject to the cost of the project being less than a Public Sector Benchmark (PSB) developed by OPW to assess the cost effectiveness of proposals.

Traditional Procurement

21.37 Three projects were procured through traditional procurement methods. In these cases, OPW provided the building design and estimated the cost of the building based on pricing the relevant Bills of Materials. Overall, in these cases, OPW estimated the cost at €25.8 million. The lowest cost tenders proposed (which were selected in all three cases) amounted to €3.2 million in aggregate.

OPW Benchmark

21.38 The relevant benchmarks set by OPW are displayed in Figure 112.

Figure 112 The OPW Construction Benchmark

Building procurement method	Benchmark cost per square metre	
	Lower Benchmark	Upper Benchmark
Design & Build including fit out	€3,477	€4,103
Traditional	€2,985	€3,553

21.39 The PSB was derived from a financial model based on earlier work done by OPW using construction industry cost norms. The benchmark allowed for the evaluation of proposals using a number of cost comparators, including basic building cost per square metre and total project cost per square metre.

21.40 The application of OPW's benchmark varied

- In two cases, the benchmark was computed by reference to the actual gross floor area proposed by the tendering firm.
- In a further six cases the cost per square metre was calculated on the basis of an indicative gross floor area estimated by OPW.
- In one case (Roscommon) no reference to a benchmark cost per square metre could be located on the file. The tender was selected on the basis of securing the highest marks in the tender evaluation process.

21.41 OPW noted that in all cases where buildings were procured by way of design/build, the size of the buildings proposed by all tenderers was greater than the area indicated by OPW in its output specifications. OPW stated that this was due to differing design solutions devised to address the specific spatial and user requirements in the output specification. OPW is of the view that many of the tenders with larger floor areas had devised design solutions, which would contribute to reduced life cycle costs.

Cost per Square Metre

21.42 Irrespective of the process used to evaluate the tender or the procurement method used, the audit compared the aggregate contract cost with OPW's aggregate benchmarks for the same projects¹⁶⁴.

21.43 Contracts were concluded for a total cost of €180 million in relation to the construction of buildings required for decentralisation. Overall, the costs in relation to 12 buildings were less than OPW's benchmark cost. A comparison of the actual costs incurred and the benchmarks, by type of arrangement is set out in Figure 113.

Figure 113 The OPW Construction Benchmark Compared to Actual Project Cost

	Design and Build including Fit Out	Traditional
Number of buildings	9	3
Total square metres	49,824	7,624
Actual cost	€157m	€23m
Cost based on lower benchmark	€173m	€23m
Cost based on higher benchmark	€204m	€27m

Source: Analysis by the Comptroller and Auditor General

Note:

- a Cost was calculated by reference to the total gross floor area which is the total of all enclosed floor space measured to the internal face of the enclosing walls.

Public Private Partnership Procurement

21.44 Three decentralisation projects in Carlow, Portlaoise and Mullingar were bundled and advertised as one PPP project. The project included the provision of three buildings totalling 35,900 square metres.

21.45 In 2009, the Department of Finance decided not to proceed with the project based on value for money and affordability grounds. Expenditure of €598,000 had been incurred in respect of legal and financial advice procured in order to progress the project.

21.46 OPW stated that the Department of Finance has directed that the building in Portlaoise should progress by way of traditional procurement. The remaining elements have been deferred.

¹⁶⁴ The comparison was based on actual floor areas.

Leasing Arrangements

21.47 37 leases were entered into as part of the programme. 12 of these were long-term lease with terms ranging from 20 to 25 years. The majority had break clauses. The short-term leases had lease terms of between one and seven years.

- In total, OPW procured leases in respect of 34 buildings comprising 38,400 square metres of office space.
- In relation to the three remaining leases, the procurement was conducted by the decentralisation organisation.

Leases Procured by OPW

21.48 The property consultants engaged as part of the audit provided reference benchmark values. Taking account of the location and size of the buildings leased, the property consultants concluded that annual lease costs should be between €6.4 million and €8.5 million. The annual lease costs of property acquired, as part of the programme was €6.6 million.

21.49 However, a further €26.5 million was spent fitting out the buildings. The real cost of a leased property comprises annual lease payments and amounts expended on fitting out properties¹⁶⁵ for occupation. For purposes of this audit fit-out costs have been included with the lease cost for the purpose of evaluating the value for money obtained. The fit-out costs have been written down over ten years or over the expected length of the lease whichever is shorter. The results are set out in Figure 114.

Figure 114 Comparison of Lease Costs with Benchmarks, 2004 - 2008

Location	Number of Leases	Area	Annual Cost ^a (incl fit-out)	Benchmark ^b Lower Band	Benchmark ^b Upper Band
		m ²	€	€	€
Satellite commuter town to Dublin city	2	5,415	1,538,200	1,283,300	1,570,400
Provincial city	5	7,896	2,148,200	1,697,600	2,131,900
Large provincial town	15	13,503	2,949,600	2,174,000	2,903,100
Small town	12	11,560	3,205,900	1,248,500	1,861,200
Total	34	38,374	9,841,900	6,403,400	8,466,500

Source: Analysis by the Comptroller and Auditor General.

Notes:

- a Fit-out costs have been included in the annual lease cost based on write down over ten years or the length of the lease whichever is shorter.
- b The benchmarks were developed on the basis of the cost of procuring modern office accommodation with locations classified into four categories small town, large provincial town, provincial cities and satellite commuter towns to Dublin City.

21.50 When account is taken of fit-out costs, the annualised cost of acquiring leasehold property is approximately €9.8 million. The adjusted annual cost exceeds the upper benchmark cost estimated by the property consultants in relation to these buildings of €8.5 million. The prices

¹⁶⁵ These costs were provided by OPW or the decentralising agency.

paid (taking account of annual rental costs and annualised fit out costs) exceeded the benchmarks set in 19 of the 34 leases. The excess over the benchmark costs in these cases was just under €2 million per annum.

21.51 OPW has contested the inclusion of fit-out costs in calculating a ‘real’ rental cost on the following basis

- It stated that premises are offered to the market in a full spectrum of conditions, ranging from ‘shell’ (grey concrete floors, walls and ceilings) to fit-outs in near walk-in condition and/or anything in-between.
- It noted that buildings offered with advanced fit-outs can be misleading in terms of value, as a “one size fits all” standard rarely matches individual client requirements.
- It also noted that OPW has statutory compliance obligations over and above private sector standards particularly as regards universal access. OPW states that much available modern office accommodation is not compliant with current regulations and standards. Accordingly, expenditure on fitting out premises, by OPW, for use as public offices, even for a relatively short period can appear high.

21.52 Consultants employed by OPW assessed the cost of leased property using different criteria. Leased transactions were split between those in large urban centres and those in small urban centres. A benchmark was identified for a variety of building types to take account of the state of the building. The rental costs were compared against the benchmarks developed. In that evaluation, no account was taken of fit-out costs. The consultants concluded that OPW paid in excess of the benchmark rental costs in seven of the 36 leases examined¹⁶⁶.

21.53 In relation to procuring short-term leases, OPW stated that, the criteria used for decisions to proceed with the provision of advance accommodation were drawn up by the Implementation Group. Effectively, the decision to proceed was based on the ‘cost per job’ per annum. This figure was comprised of annual rent plus once off fit-out costs per person, for the estimated duration of the short-term lease.

21.54 It went on to say that the estimated costs of temporary accommodation were weighed against the business case made by the client department to have a presence in the host location for operational reasons, in advance of permanent decentralisation. Thus, the final decision to proceed or not with expenditure on short-term advance offices was made by the Department of Finance and the Implementation Group on the basis of expenditure estimates submitted by OPW and the business case made to them by the decentralising client department.

¹⁶⁶ Some leased properties comprised more than one lease. The total leases examined by the property consultants differs slightly from the numbers of leases referred to earlier in the report.

Cost of Leases Procured by Decentralising Organisations

21.55 Three State bodies, FÁS, Pobal and the Health and Safety Authority (HSA), procured leasehold accommodation for staff decentralising.

FÁS

21.56 In 2007, FÁS entered in to a ten-year lease¹⁶⁷ in respect of a 708 square metre building in Birr at an annual cost of €99,000. It was planned that 40 staff would move to these offices. 20 staff have moved to date.

21.57 In December 2006, FÁS entered into a contract valued at just over €1 million for the fit-out of the leased building. Only one firm, the landlord's building company were asked to provide quotes for the fit-out contract. FÁS stated that the fit-out tender provided by the contractor compared favourably with a cost plan developed by the quantity surveyor employed by FÁS.

21.58 The total cost of a lease would have to take account of amortisation of fit-out costs as well as the annual lease payments. Using a ten-year timeframe to write down the fit-out costs incurred, the annual cost of the lease is just over €200,000 per annum — 77% higher than the upper benchmark for leased offices in that area.

Pobal

21.59 In February 2007, Pobal entered in to a five-year lease in respect of a 349 square metre building in Clifden at an annual cost of €81,893. Pobal also entered into a contract valued at €60,611 for fit-out of the building. It was planned that 42 staff would move to these offices. 25 staff have moved to date.

21.60 Using a five-year timeframe (the duration of the lease) to write down the fit-out costs incurred, the annual cost of the lease is €94,000. Over the term of the lease the annual cost will exceed the benchmark by 25%.

21.61 Pobal noted that suitable available office space in Clifden was limited and only two potential offices had been identified.

Health and Safety Authority

21.62 In 2008, the HSA entered in to a ten-year lease in respect of a 905 square metre building in Kilkenny at an annual cost of €271,924. It was planned that 50 staff would move to these offices. 29 staff have moved to date.

21.63 The annual cost of the lease is 11% higher than the upper benchmark for leased offices in that area.

¹⁶⁷

The lease contained a five-year break clause.

Views of OPW in relation to Property Acquisition Costs

21.64 OPW stated that the economic and market context in which the decentralisation programme was undertaken, had a significant impact on the outcomes in terms of property acquisitions. Some of the factors that influenced the cost were

- a public announcement of Government policy that specific government departments or agencies were to locate in designated provincial towns, and within a challenging time frame of 3 years
- a rapidly inflating property market
- the programme represented a major national objective and as a result the expectations of potential vendors on prices were increased
- the State's lack of compulsory acquisition powers for the decentralisation programme.

21.65 OPW stated that from the outset, one of its primary objectives was to achieve the best overall value for money for the State by selecting well located sites, which were fit for purpose. However, in the circumstances of the decentralisation programme, the Commissioners would be seen as 'special purchasers' and in some cases might have been expected to pay a premium over the generally accepted "*Market Value*¹⁶⁸" benchmark to get the most appropriate site on time to enable the programme to proceed.

21.66 OPW noted that the commitment to specific locations meant that the State had to deal with a limited pool of potential vendors who were well aware of its need to acquire a site or building in each of the 53 locations. This prior knowledge could impact its bargaining position. In those circumstances, the Commissioners were unable, without Government approval, (unlike, for instance, an expanding retail chain) to relocate to an adjoining town, when faced with a difficult market in a particular location.

21.67 OPW noted that property consultants had highlighted this problem in February 2004 in a report prepared to advise on an Implementation Plan. The consultants then stated "*it has to be accepted that the opportunities for achieving the most cost effective solution are limited, due to the information now in the market, and the knowledge of a tight time-scale needed for delivery. The property cost will depend on the number of opportunities presented in each location, and the timing for their availability.*"

21.68 OPW sought the updated views of the property consultants originally employed on the decentralisation project in relation to this examination. They are of the view that Market Value/Market Rent are not, on their own, appropriate measures of Value for Money in the decentralisation programme. They point out

- Either the landlord/landowner or the purchaser/tenant may have acted "with compulsion". For example, a Local Authority that was motivated to secure the decentralised office for the local town might be prepared to dispose of a property or rent a property to the OPW on very attractive terms to the occupier in order to ensure that the office was delivered and the planned decentralised jobs were delivered to the town.
- In other circumstances, the OPW may have been under some compulsion to deliver accommodation and landlords or landowners were aware of this and therefore were in a position to seek a price above Market Value and the OPW were in some instances required

¹⁶⁸ Market value is defined as the estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arms length transaction after proper marketing wherein the parties each had acted knowledgeably, prudently and without compulsion.

to agree to this level in order to ensure that the property was secured on time, particularly where the preferred option was the only realistic solution in that town.

- The most appropriate definition of value in the context of the decentralisation programme is 'fair value' or 'worth' defined as a situation where the party is willing to pay a figure above market value or market rent for a property in order to ensure that it is secured and delivered within a particular timescale. This is particularly the case where it is recognised that only one property is available.

21.69 In addition, OPW drew attention to the difficulty in procuring leased accommodation in relation to advance office space in small towns. It stated that most of these towns had very limited options for suitable office accommodation. The norm in many cases would be one or two-roomed first floor offices over shops. Much of the speculative development, then on the market, was commercial, retail or industrial type space in shell condition and in some cases planning permission for change of use to offices was necessary to convert retail or industrial space prior to any agreement to let to OPW.

Conclusion

Following the deferral of elements of the decentralisation programme, pending a review in 2011, the movement of approximately 6,600 staff from Dublin to locations across the country has been deferred. 3,148 staff had moved by April 2010 and current arrangements allow for the decentralisation of a further 1,191 staff.

Twelve sites costing €43.8 million have been acquired in locations where the decentralisation programme is not currently being advanced.

The general property environment has altered making it unlikely that, in the medium term, OPW can effect early surrenders in advance of expiry or lease break dates.

In acquiring the property for the programme

- Six of 22 sites were acquired at prices above a higher benchmark set by property consultants engaged by my Office. On the other hand, eight sites were acquired below a lower benchmark.
- Most of the sites acquired at low cost were already owned by local authorities and, in one case, by a State body.
- FÁS paid more than double the initial valuation placed by its own property consultants on a site at Birr.
- Most building work came in at less than OPW benchmark costs.
- In aggregate, the all-in cost of leased premises exceeded even the highest benchmark cost.

Overall, while benchmarks are useful in gauging whether the State got value in these transactions, account would also need to be taken of the motivation of the vendors

- Local authorities may have pitched prices at levels that would attract jobs to their areas
- Private vendors with property in town centre locations would be able to demand a premium based on the need for OPW to implement the decentralisation decision.

Rationalisation of the State property portfolio has not occurred to the extent envisaged. OPW reports that space freed up is spread throughout the office portfolio in small pockets across a number of buildings. It noted that it would need a stronger more directive role to drive effective rationalisation.

Chapter 22

**Department of Environment, Heritage and Local
Government**

Central Government Funding of Local Authorities

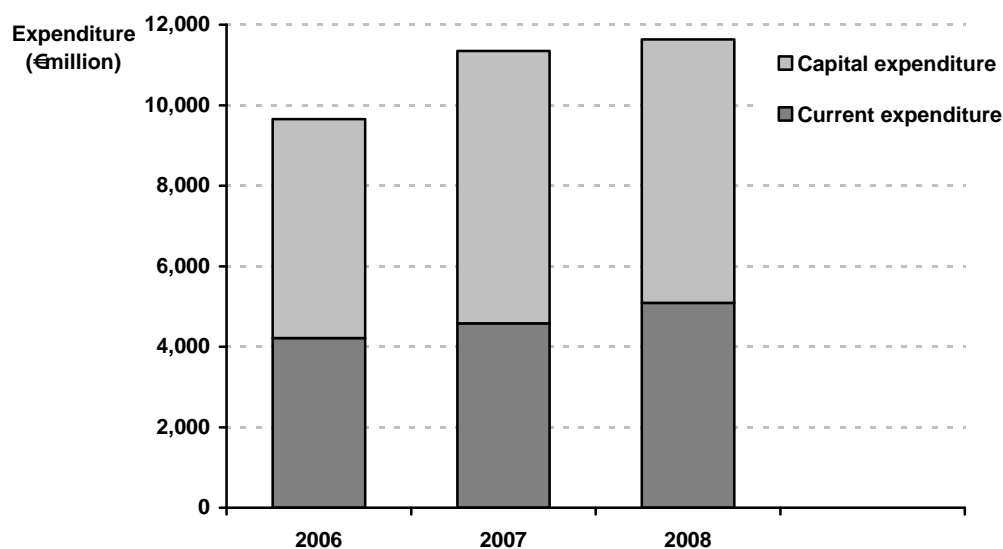
Central Government Funding of Local Authorities

22.1 Aggregate expenditure by local authorities in 2008 is estimated at €1.6 billion. This comprised around €6.5 billion in capital expenditure, and around €5.1 billion in current expenditure.

- Capital expenditure results in the creation or acquisition by a local authority of an asset that has a use beyond the year in which that asset is provided e.g. road construction, building or purchase of houses, swimming pool, library, etc. Local authority capital programmes are financed largely by State grants from a variety of sources, with some funding from development levies, borrowings, own internal resources and property sales. Some projects (e.g. construction or acquisition of local authority offices) may be funded entirely by local authority own resources and borrowing.
- Current expenditure (sometimes referred to as revenue expenditure) covers the day-to-day running of local authorities, including staff salaries, housing maintenance, pensions, operational costs of treatment plants, etc. Current expenditure is funded from a variety of sources, including Exchequer and Local Government Fund grants (about 45% of the total in 2008), local authority rates (about 28%) and charges for goods and services such as commercial water charges, housing rents, parking charges, etc (about 27%). The Non Principal Private Residence charge (€200 per dwelling) was introduced in 2009 to broaden the revenue base of local authorities.¹⁶⁹

22.2 Figure 115 shows how expenditure by local authorities changed over the period 2006 to 2008.

Figure 115 Expenditure by local authorities by type, 2006 to 2008



Source: Department of the Environment, Heritage and Local Government

¹⁶⁹ The specific contribution to current expenditure from the different income sources varies between authorities.

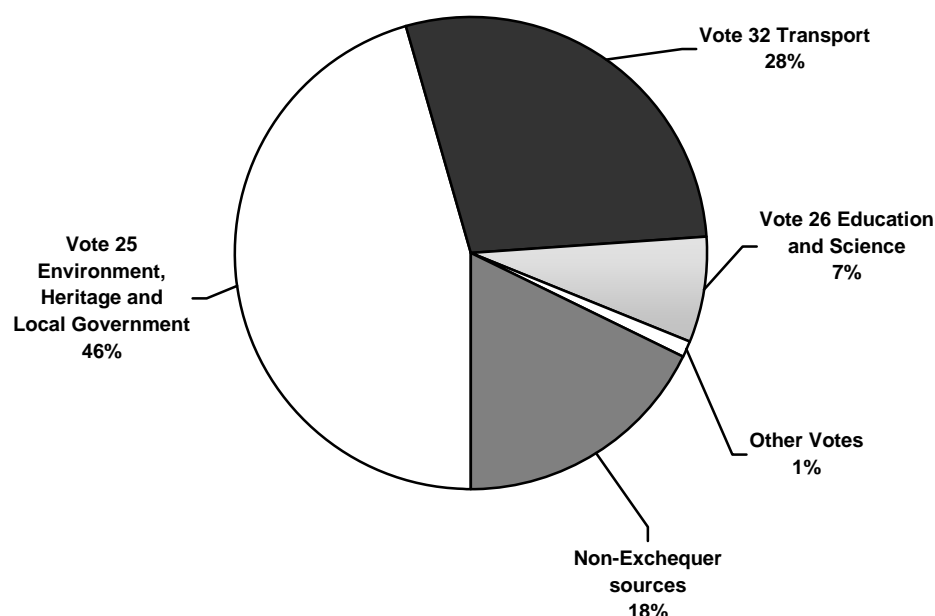
Chapter Focus

The objective of this chapter is to provide an overview of the 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

22.3 Transfers of funding from central government sources to local authorities in 2009 totalled almost €5.3 billion. Around 82% of this originated as Exchequer funding provided through the Votes for Government departments. The non-Exchequer sourced funding (18% of the total) was provided from the Local Government Fund and the Environment Fund. See Figure 116.

Figure 116 Sources of central government financing for local authorities, 2009



22.4 The Local Government Fund was established in 1999 under the Local Government Act 1998. It is financed by the proceeds of motor tax and an annual Exchequer contribution paid into the Fund from Vote 25. The resources in the Fund are used mainly to provide local authorities with funding for their day-to-day activities and for the up-keep of non-national roads.¹⁷⁰ A small amount of the Fund is used to support certain other local government initiatives.

22.5 The Environment Fund is used primarily to support environmentally-oriented initiatives, campaigns and programmes organised at local or regional level under the auspices of local

¹⁷⁰

Motor tax revenues are initially collected by local authorities and through the Motor Tax Online website, and are paid into the Local Government Fund. Since 2007, part of the Fund allocation has been paid each year to the Minister for Transport in the form of appropriations-in-aid under Vote 32. This is related to grants paid by the Minister to local authorities to assist them with the upkeep of regional and local roads.

authorities. The proceeds of the plastic bag levy collected from retailers by the Revenue Commissioners are paid into the Fund. Landfill levies paid by landfill operators to local authorities are also paid into the Fund. Disbursements from the fund are used to assist projects on the basis of their capacity to protect or enhance the environment.

22.6 Figure 117 sets out the sources of funding for expenditures from central Government sources to local authorities each year from 2007 to 2009.

Figure 117 Sources of central government financing for local authorities, 2007 - 2009

Source of Funds	2007	2008	2009
	€m	€m	€m
<i>Exchequer Funds</i>			
Vote 25 — Environment, Heritage and Local Government	2,584	2,804	2,401
Vote 26 — Education and Science	272	301	379
Vote 27 — Community, Rural and Gaeltacht Affairs	49	64	36
Vote 32 — Transport	1,476	1,374	1,488
Vote 35 — Arts, Sport and Tourism	32	26	17
Vote 41 — Children and Youth Affairs	—	—	5
	4,413	4,569	4,326
<i>Other Funding Sources</i>			
Local Government Fund (non Exchequer element) ^a	1,049	1,102	905
Environment Fund ^b	40	39	30
	1,089	1,141	935
Funding from all central Government sources	5,502	5,710	5,261

Notes:

a Comprises mainly motor tax receipts and interest earned. The Exchequer contribution to the Fund is included in the Vote 25 expenditure reported above.

b Includes plastic bag levy and landfill levy receipts and interest earned.

Application of Funding

22.7 Most of the central government-sourced funding provided to local authorities must be used by them for specific local authority services. These can be grouped into six broad programme categories.

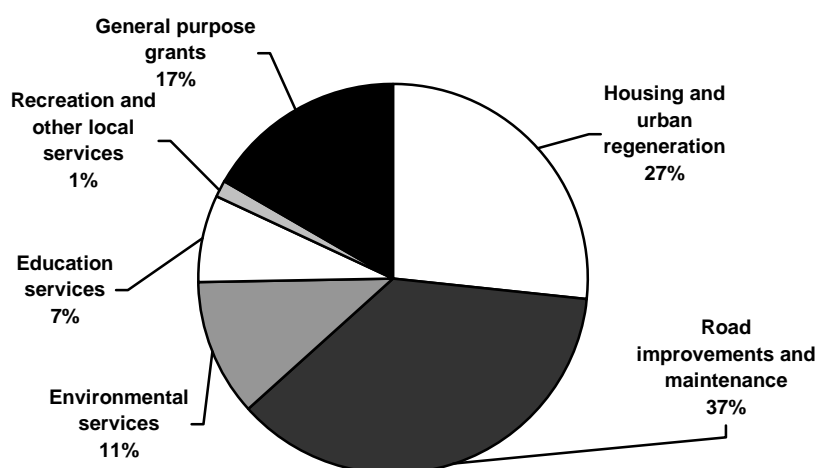
- **Housing and Urban Regeneration** – The bulk of funding for housing and urban regeneration is provided directly to local authorities by the Department of the Environment, Heritage and Local Government. The funding is used by local authorities for the provision of local authority housing, regeneration and remedial work, Traveller accommodation, voluntary and cooperative housing, the Rental Accommodation Scheme, housing adaptation grants, and accommodation for homeless people.
- **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. Central funding in the form of grants for the upkeep of regional and local roads are paid directly to local authorities by the Department.

- **Environmental Services** – Around 91% of the central funding provided to local authorities in support of environmental services is directed towards investment in water services, funded primarily by the Department of the Environment, Heritage and Local Government. The remaining funding for environmental services comes from the Department of Community, Equality and Gaeltacht Affairs and the Environment Fund.
- **Education Related Payments** – The Department of Education and Skills 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 of 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.

22.8 Figure 118 presents a breakdown of the central government transfers to local authorities in 2009 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 17% of the total amount provided.

Figure 118 Application of central government financing for local authorities, 2009



22.9 Figure 119 presents a more detailed breakdown of the fund transfers to local authorities for 2007, 2008 and 2009, showing the programme and the schemes being supported.

Figure 119 Central government transfers to local authorities, by expenditure programme, 2007 – 2009

Expenditure Category	2007	2008	2009
	€m	€m	€m
Housing and Urban Regeneration			
Social housing provision	1,382	1,571	1,297
Affordable housing etc	64	89	94
Other housing supports	6	7	4
Urban regeneration	20	5	1
	1,472	1,672	1,396
Environmental Services			
Water and sanitary services	529	544	538
Waste management	28	27	8
Recycling	12	22	14
Other environmental measures	11	15	29
	580	608	589
Road Improvement and Maintenance			
National roads	1,476	1,374	1,488
Non-national roads	623	616	455
	2,099	1,990	1,943
Education Services			
Higher education grants	126	137	160
Superannuation of retired teaching staff	146	164	219
	272	301	379
Recreation and other local services			
Swimming pools	25	20	11
Library service	17	15	9
Sports Grants, playgrounds and cultural projects	9	7	10
Fire and emergency services	24	24	20
Heritage services (architectural heritage)	7	8	6
Disability services	15	15	12
Miscellaneous capital services	19	31	2
Miscellaneous services	15	20	6
	131	140	76
General purpose grants	948	999	878
Total funding provided to local authorities	5,502	5,710	5,261

Service Indicators

22.10 Since 2005, annual reports have been published on the performance of local authorities across a range of service indicators¹⁷¹. Following a review in 2008, the number of indicators was increased from 42 to 46. The service indicator data include a range of statistical information but do not cover all aspects of local authority performance.

22.11 The Local Government Efficiency Review Group¹⁷² believes that the service indicators would be improved through the substitution of a number of the existing indicators with additional key financial indicators that would be reported on and monitored each year and that

- service indicators should be more firmly embedded and used as part of an efficiency agenda to drive change
- the potential exists for service indicators to be used to guide the allocation of central government resources at local level in future
- local authorities should make greater use of the data and analysis in terms of local decision-making, including in relation to the allocation of resources.

Conclusion

A significant level of annual expenditure from the Exchequer and from other centrally managed funds is administered at the point of delivery by local authorities. In effect, the money is being spent on national programmes, such as social housing provision, construction and upkeep of the road network and sanitary services infrastructure. It is important to ensure that there is effective accountability at national level for that spending, independent of the role of local government as a layer of government with its own audit service and local accountability.

Formal service level agreements between the central government departments and agencies providing the funding and the respective local authorities could potentially give a clear focus to the spending and help in setting relevant objectives and targets.

Development of a set of relevant and timely performance measures and indicators for each national programme, as recommended by the Local Government Efficiency Group, would help in making allocation decisions and in supporting efficient and effective service delivery and accountability.

¹⁷¹ Service Indicators in Local Authorities, annual reports to the Minister for the Environment, Heritage and Local Government by the Local Government Management Services Board.

¹⁷² The Local Government Efficiency Review Group was established to review the cost base, expenditure of and numbers employed in local authorities. Its report was published in July 2010.

Chapter 23

**Department of Environment, Heritage and Local
Government**

Leasing of Social Housing

Leasing of Social Housing

23.1 The Department of Environment, Heritage and Local Government (the Department) is responsible for the formulation and implementation of policy and for the preparation of legislation in relation to housing, including the State's affordable and social housing.

23.2 The overall objective of its housing policy is to enable every household to have available an affordable dwelling of good quality, suited to its needs, in a good environment and as far as possible at the tenure of its choice. A variety of schemes are in operation in order to fulfil this objective. 88 housing authorities operating under the aegis of 34 local authorities administer most of the schemes.

23.3 The State currently provides in the region of 152,000 social housing units. These are made up of 120,000 units provided by local authorities, 20,000 by the voluntary and co-operative housing sector and 12,000 units provided through the Rental Accommodation Scheme.

23.4 In addition, rent supplementation has been used to assist persons on low incomes in need of accommodation. The total cost of rent supplement in 2009 was €510 million for 93,030 recipients.

23.5 A target to deliver 27,000 new social housing units in the period 2006-2015 was set in the ten year Social Partnership Agreement '*Towards 2016*'. Historically, social housing was provided through the construction or procurement of housing by local authorities and voluntary and co-operative housing bodies. More recently, social housing is also provided through the rental and leasing of properties.

The Leasing Scheme

23.6 As part of its provision of social housing the Department introduced a new procurement approach in early 2009. It involved leasing property from the private sector to meet social housing need¹⁷³.

23.7 This scheme represented a further shift, away from the traditional approach to social housing delivery based on 100% capital funding by the State, to one of long-term leasing. The Rental Accommodation Scheme, introduced in 2004, had introduced new arrangements for the provision of social housing to persons who had been in receipt of rent supplement for 18 months or more and had a long term housing need through the sourcing by local authorities of accommodation from the private rented market. By contrast, the new leasing approach involves local authorities and approved housing bodies entering into lease arrangements with property owners. The leases are normally for periods of between ten and twenty years. The scheme has developed in two stages

- Initially, it provided for the leasing of properties from the private sector to accommodate households from local authority waiting lists.
- These arrangements were later extended to include approved housing bodies¹⁷⁴.

23.8 The intention is that leases will be funded as part of the Social Housing Investment Programme and will be the 'first call' for funding under that programme in future years. In 2009, €20 million was set aside for this purpose and €25 million has been provided in 2010.

¹⁷³ The statutory basis for the provision of social housing through leasing rests in the Housing Act, 1996 and has been updated in the Housing (Miscellaneous Provisions) Act, 2000.

¹⁷⁴ Such bodies include Cluid, Helm and Respond.

23.9 While the aim of the leasing initiative, in its early stages, was to procure bundles or multiples in larger units, this was later extended to allow for the procurement of single units.

Chapter Focus

When the new approach was introduced in 2009, it was envisaged that the use of leasing would allow for more efficient and effective use of available public resources in meeting housing output targets.

This chapter examines the arrangements to lease social housing units from private owners. It does not examine the use, by local authorities, of unsold affordable homes for social housing or the procurement of units by approved housing bodies using private finance remunerated on the basis of lease payments, both of which the Department also classifies as part of its wider Social Housing Leasing Initiative. The chapter reviews

- the procedures underpinning the operation of the scheme by local authorities and approved housing bodies
- the uptake of the scheme since its inception and the average cost of units procured
- the rationale underpinning the decision to adopt a leasing-based approach to the delivery of social housing
- the controls in place in the Department over the use of the scheme by local authorities and approved housing bodies.

Social Housing Provision

23.10 Prior to the inception of the leasing initiative local authorities provided housing through two main mechanisms under the Social Housing Investment Programme

- They purchased or constructed housing using capital funding from the Department.
- They provided housing through a Rental Accommodation Scheme initiated in 2004.

23.11 The new leasing initiative is similar to the Rental Accommodation Scheme in that it uses private rented dwellings to meet housing need but differs in that, in general

- it uses a longer-term lease arrangement rather than a short to medium term availability agreement used in the Rental Accommodation Scheme
- the local authority or approved housing body takes over landlord responsibility under the leasing initiative and generally assumes responsibility for insurance, non-structural maintenance and general repair of the property.

The scheme is open to all persons eligible for social housing support, not just those who are 18 months or more in receipt of rent supplement.

Leasing of Social Housing

23.12 As currently structured leasing arrangements may be entered into with private house owners either by local authorities or by approved housing bodies¹⁷⁵. The term of the lease agreements negotiated may range from ten to twenty years. The local authority or approved housing body is responsible for the insurance, non-structural maintenance and general repair of the properties.

Approved Housing Bodies

Approved housing bodies are non-profit organisations established by a voluntary management board and are usually created to deal with a specific housing need¹⁷⁶. In December 2008, there were over 700 housing bodies approved by the Department.

Heretofore, approved housing bodies received capital under two funding mechanisms

- A Capital Assistance Scheme, set up in 1984, is a funding stream that approved housing bodies can avail of to provide special needs housing such as housing for the elderly, people with disabilities or homeless persons. 95% of the funding costs of projects, subject to certain maximum limits is provided. The scheme is administered by local authorities who submit an application for funding to the Department on behalf of the approved housing body undertaking the project. As work is carried out on the project, the Department makes payments to the approved housing body through the local authority.
- A Capital Loan and Subsidy Scheme (CLSS), introduced in 1991, is predominantly used to provide for general needs or family type housing. 100% of the costs of the project are provided by way of a mortgage loan from the local authority who accesses finance from the Housing Finance Agency. An annual management and maintenance allowance is paid to the relevant housing body. The Department has stated that there has been a decline in CLSS funding due to the current economic climate and it does not expect to provide additional funding for new works under this mechanism in the future.

23.13 The rent payable under the lease is guaranteed to the private house owner (the lessor) for the whole lease period, is subject to rent reviews and may be revised upward or downward depending on market conditions. When introducing the new arrangements, the Department set out its expectation that the rent should reflect the strength of the rental income guarantee, the lease duration, the transfer of maintenance and management responsibilities and special terms and conditions of the lease. The Department indicated that a discount of 20% on prevailing market rents would be expected based on a discount for voids¹⁷⁷ of 8% and a 12% discount in relation to management and maintenance.

23.14 Under the arrangements the owner generally retains responsibility for the management company fee and structural repairs. At the end of the term, properties have to be returned to the landlord in the same general condition having regard to fair wear and tear.

¹⁷⁵ Approved housing bodies can also undertake to purchase/construct units using private finance. They are remunerated based on lease payments calculated by reference to prevailing market rates, discounted generally by 20%, together with an additional amount of 12% of lease payments to cover cyclical maintenance.

¹⁷⁶ The statutory basis for approved housing bodies is Section 6 of the Housing (Miscellaneous Provisions) Act, 1992.

¹⁷⁷ Voids are periods in which there is no tenant. The lessor is paid regardless of whether the property has a tenant or not and a discount on the rent agreed is sought in exchange for this guaranteed income stream.

23.15 The approved housing bodies are required to liaise with the relevant housing authority in relation to the allocation of leased units. The Department enters into a payment and availability agreement with the approved housing bodies to make these properties available for social housing purposes.

23.16 The local authority then allocates the house to an individual on the social housing list and rent is collected as appropriate. Rents are retained by the local authority or the approved housing body to cover ongoing maintenance costs.

Housing Units Provided to Date

23.17 By end June 2010, the Department had approved funding for the leasing of 175 social housing units. Of these, 47 are operational and a further 128 units have received full funding approval and are at the point where legal agreements and negotiations are being finalised. A further 468 units are at 'approval in principle' stage. Progress to June 2010 is summarised in Figure 120.

Figure 120 Leased Housing Units, June 2010

Type Leasing	Operational	Funding Approved	Provisional Approved	Total
Local Authorities	17	93	137	247
Approved Housing Bodies	30	35	331	396
Total	47	128	468	643

Source: Department of Environment, Heritage and Local Government

23.18 Despite the large number of properties available on the market, the new leasing scheme has had a slow uptake. A number of examinations have been conducted to estimate the level of properties available for sale.

- A report completed by Affordable Homes Partnership in June 2009, estimated that there were approximately 11,400 newly built housing units available for sale in the greater Dublin area¹⁷⁸.
- A report produced in July 2010¹⁷⁹ estimated the potential over-supply on a national basis at between 103,300 and 171,200 housing units.

23.19 The Department believes the slow uptake is due to uncertainty in the property market and the inclusion of a large number of property owners in the NAMA process. It expects that by the end of 2010 an increased supply of suitable properties will become available for leasing through NAMA. It also suggested that

- many local authorities have concentrated on dealing with their unsold affordable stock as priority
- there is natural lead-in time for any new initiative, which involves putting in place a range of regulatory, contractual and policy processes and procedures
- while there is a recognised over-supply of property in the market not all units are suitable for social housing purposes

¹⁷⁸ Report made to the Affordable Homes Partnership Board in June 2009 of unsold market stock in the Greater Dublin area during the period March – May 2009

¹⁷⁹ National Institute for Regional and Spatial Analysis, NUI Maynooth, Working Paper 59, July 2010.

- there have been uncertainties in the financial markets leading to reluctance of lending bodies to agree to longer-term contracts.

Cost of Units

23.20 The cost of units approved under the leasing arrangements was examined in the course of audit. The breakdown by unit type is set out in Figure 121.

Figure 121 Cost of Privately Owned Housing Units either Operational or Approved for Funding under Leasing Arrangements, June 2010

Type of Unit	Local Authorities		Approved housing bodies	
	Number of units	Average cost per month	Number of units	Average cost per month
1 bedroom	18	€390	-	-
2 bedroom	35	€470	46	€670
3 bedroom	57	€494	19	€610
Total	110	€470	65	€652

23.21 Of the actual 175 units operational or at funding approved stage, 34 units are leased for a period of twenty years with the remaining units leased for ten years or less.

Rationale and Cost Effectiveness

23.22 In relation to the rationale underpinning the decision to acquire social housing units by way of leasing, the Department stated that no formal cost-benefit analysis was carried out. It stated however that the findings of an appraisal¹⁸⁰, which compared the cost of leasing with the cost of direct provision in the voluntary and co-operative housing sector, supported the adoption of leasing as a procurement mechanism. However, this review was completed in September 2009 and post-dated the introduction of the scheme. Its focus was limited to housing provision through approved housing bodies. The appraisal concluded that a lease option resulted in lower costs over a 30-year time scale.

¹⁸⁰ Strategic Review of the Capital Funding Schemes for Voluntary and Cooperative Housing, September 2009.

Appraisal of Options

The Centre for Housing Research^a commissioned a strategic review of the capital funding schemes for voluntary and co-operative housing, seeking recommendations for future funding arrangements and the role of the voluntary and co-operative sector in the provision, maintenance and operation of social rented accommodation in Ireland.

In carrying out the appraisal the following assumptions were made in relation to the options considered

Construction of Housing Units

- The purchase or construction cost would be €250,000 with a residual value, after 30 years of €33,626. This equated to a real rate of increase in property value of 33% over the 30-year period or 1% per annum.
- Annual maintenance expenditure was estimated at €2,800 based on the most recent data available from local authorities. In developing the estimate, it was assumed that buildings provided would comply with current building standards.
- It was estimated that an amount of €30,000 would be required over the 30-year period to cover occasional more significant expenditure.
- A provision of €60,000 was made to cover extensive refurbishment of the dwelling at the end of the 30-year period.
- Annual rent receivable from the tenant was estimated at €2,400 based on an average rent paid by tenants in 2007 of €2,363. It acknowledged that actual rental income varied across local authorities.

Leasing of Units

- The costs included were limited to the lease payments on the basis that it assumed that the State would be responsible for day-to-day maintenance and the owner would take responsibility for the periodic maintenance and refurbishment.
- Lease costs were estimated at €7,700 per annum. This was based on the owner seeking a real rate of return of 4% and taking a 30-year 100% mortgage for the cost of the dwelling (estimated at €250,000).

Source: Strategic Review of the Capital Funding Schemes for Voluntary and Co-Operative Housing.

Note:

- a The aim of the Centre for Housing Research is to improve the management of the social and affordable housing sectors through research, training and policy advice. The Department of the Environment, Heritage and Local Government and local authorities fund its work.

Results of Appraisal

23.23 The appraisal commissioned by the Department compared the cost of providing social housing through capital expenditure, provision of a house by way of a 30-year mortgage and the option of leasing dwellings. The cash flows over a 30-year period under each option were discounted using a 4% real discount rate. The cost when calculated on a net present value basis estimated the cost of providing a housing unit using up-front capital provision at €180,315 and the cost of leasing was put at €139,681. On this basis, the review concluded that the analysis supported the policy of the Department to promote leasing of dwellings. The results of the appraisal are set out in Figure 122.

Figure 122 Comparison of Provision Options, September 2009

Funding Mechanism	Net Present Value
	€
Capital Expenditure to purchase/construct property	180,315
Housing unit supplied by way of mortgage	146,996
Lease Option	139,681

Source: Strategic Review of the Capital Funding Schemes for Voluntary and Cooperative Housing, September 2009.

Review of Department Appraisal

23.24 As a basis for the appraisal of options, the appraisal was limited in a number of respects

- The lease costs were based on an expected rate of return for the owner. No account was taken of prevailing rates in the rental market, which had fallen by approximately 18% in the period July 2008 to July 2009¹⁸¹. It also did not take account of the requirement for lease payments agreed to be discounted at a rate of 20% to take account of the certainty of the rent.
- The cost of the leasing option did not take account of maintenance costs as it assumed that the owner would take responsibility for the periodic maintenance and refurbishment. This is not in accord with the proposed arrangements, which specify that the local authority or approved housing body is responsible for the insurance, non-structural maintenance and general repair of the properties while the owner retains responsibility for the management company fee and structural repairs. At the end of the term, properties have to be returned to the landlord in the same general condition having regard to fair wear and tear.
- The comparison was done over a 30-year time frame, whereas the leasing arrangements provide for lease terms of between ten and twenty years.
- The residual value of the property (in the case of up-front capital expenditure) has a significant impact on the cost of the leasing option. No substantiation was available in respect of this value, which assumes a 33% real increase in the value of the property over the 30-year time horizon.
- The report is based on leasing by an approved housing body whose focus can differ from that of a local authority.
- Sensitivity analysis was not conducted to examine the extent to which the results were dependent on key cost elements, in particular, the residual value of the purchased property.

23.25 For the purpose of this examination, after adjustment for the cost of the leasing option the relative costs were re-calculated using the same assumptions in relation to the cost of maintenance as those used in relation to the option where the property is purchased or constructed. The cost of the leasing option is increased when account is taken of the difference between annual maintenance costs and rent received estimated at €400 per annum, periodic maintenance of €30,000 and refurbishment at the end of the period of €60,000. The cost of the leasing option in net present value terms taking account of maintenance costs is approximately €178,000 as compared with €180,000 where the property is constructed or purchased — the difference in cost is marginal. Reworking based on ten, fifteen and twenty year horizons also suggested that using

¹⁸¹

Source: The Daft.ie Rental Report Q2, 2009.

similar assumptions the differences were marginal with the purchase option being less expensive in all cases. Figure 123 outlines the results.

Figure 123 Cost of Lease and Purchase Options over Three Time Periods

Lease Term	Leasing Option	Purchase Option ^a	Excess of Lease Cost over Purchase Cost
	€	€	
Ten-year	90,700	83,700	8%
Fifteen-year	122,300	117,300	4%
Twenty-year	143,800	141,600	2%

Note:

- a Leasing option based on rent of €7,700. Purchase Option based on initial cost of €250,000 and residual value of €273,421 after 10 years, €287,369 after 15 years and €302,027 after 20 years. Assumptions in relation to annual periodic and end of term maintenance were the same as those used in Figure 122, adjusted to take account of the reduced timescale.

Comparison Based on Current Market Conditions

23.26 For the purpose of this review, the cost of the leasing and the purchase option were recalculated based on the latest available information in relation to house prices and rent costs. The result of this review has to be subject to the caveat that current conditions in the property market are not stable. In a normal property market the relationship between rent and property prices would be expected to remain stable. The price an investor is prepared to pay for a house would reflect expected rents and capital gains and the cost of borrowing. Given current economic conditions, rent prices may settle at a rate somewhat lower than this, due to the availability of large numbers of properties and a stagnant market.

- The cost of purchasing a property was assumed at €226,500 based on data published by the Department for prices at the end of 2009.
- Lease costs were estimated at €6,280 based on the prices agreed in relation to the 76 three bedroom units where approval had been granted, to local authorities or approved housing bodies, to enter into lease agreements.

The results are set out in Figure 124.

Figure 124 Cost of Lease and Purchase Options (Net Present Value)

Lease Term	Leasing Option ^a	Purchase Option ^b
	€	€
Ten-year	78,700	78,200
Fifteen-year	105,800	109,400
Twenty-year	123,700	131,500

Source: Analysis by Office of the Comptroller and Auditor General

Notes:

- a Assumes lease payments of €6,280 per annum.
b Assumes purchase price of €226,500.

23.27 The results would suggest that, using up-to-date information in relation to house prices and the rental rates agreed in relation to the properties progressed under the leasing arrangements, the cost of the leasing and purchase options are broadly equivalent with slightly better value being provided by the leasing option over longer time horizons.

23.28 However, the result is very sensitive to a number of factors

- For example, if the rate of increase in the value of properties is estimated at 0.5% per annum as opposed to the 1% used in the review, the cost of the purchase option increases to €85,800 over the ten-year time frame and €143,200 over the twenty-year period.
- The cost of the leasing option is heavily dependent on rental levels. If rent was €7,000 per annum as opposed to the €6,280, the cost of the leasing option increases to €84,800 over ten years and €143,300 over twenty years.
- The cost of the leasing option is not as sensitive to reinstatement costs. For example, if the costs of reinstating lease properties was 33% more expensive than similar refurbishment of owned properties, the cost of the leasing option increases to €83,400 over ten years and €129,900 over twenty years.

Observations of the Department – Rationale and Cost Effectiveness

23.29 The Accounting Officer stated that, the key objectives of housing policy are to broaden the range of programmes, diversify delivery methods and deliver a graduated system of flexible supports that are capable of being tailored to take specific account of the particular needs of households at whatever point they are in the life-cycle. The life-cycle concept allows the degree of support provided to be adapted according to the changing needs of a particular household over time, with the greatest degree of support provided in times of greatest need, and lesser supports as circumstances improve.

Evaluation of Leasing as a Procurement Mechanism

23.30 In relation to cost-benefit analysis, the Department outlined a number of calculation difficulties

- it noted that developing financial models underpinning a range of social housing delivery mechanisms is difficult, especially in a period where market conditions are in a state of flux.
- the Department also stated that, as the terms and conditions of the different funding models under the leasing initiative were being developed and negotiated over a period of time, it was not possible to provide a single economic study.

23.31 The Department stated that it has commenced a formal study (as part of the Government's Value for Money and Policy Review Initiative) on the broader issues of government policy on capital investment in social housing with expected completion in early 2011. This study will examine the use of alternative delivery mechanisms including leasing and will consider the role and cost of rent supplement and the wider social consequences of allowing for any deferral in meeting housing need.

23.32 It maintains that preliminary work carried out would suggest that leasing provides a cost-effective delivery mechanism for providing social housing support.

23.33 The Department provided the following comments in relation to maintenance costs.

- It is currently undertaking a review of maintenance, cyclical repair and reinstatement costs in social housing. Previous studies have indicated that significantly different amounts are spent on these costs across the local authorities due to the different types, age and size of units. Notwithstanding these difficulties, it estimates that reinstatement costs of the order of €30,000 at the end of a 20-year period would be a reasonable cost to assume for social housing.
- In relation to an appropriate provision for leased properties, the Department noted that it has no practical examples or experiences to provide an estimate of potential reinstatement costs. It noted however, that a cost of less than €30,000 must be considered appropriate for reinstatement of a lease unit since the State is not liable for structural repairs and the unit needs only to be reinstated to its condition at the commencement of the lease less fair wear and tear.

Wider Effectiveness Issues

23.34 The Department provided data showing the increased number of housing units that can be provided using leasing as opposed to up-front capital investment. This showed that, in any year with an investment of €25 million, the Department could procure approximately 100 housing units as compared with approximately 3,500 using leasing.

23.35 The Department noted that there is a wider rationale for the scheme than the purely economic (lowest cost). It stated that the move to leasing reflects the evolution of housing policy over a period of time towards the development of a more flexible and graduated system of housing supports.

Oversight by the Department

23.36 Eight projects comprising 125 units were examined to establish

- whether the contractual arrangements complied with the scheme requirements
- whether the Department had sufficient evidence that expected discounts on the rent payments had been secured
- the clarity of the arrangements in relation to relative responsibilities of the lessor and the local authority or approved housing body at the end of the lease term.

Types of Contractual Arrangements

23.37 The initial schemes provided for the housing authority to enter into a lease arrangement with a property owner for periods of between ten and twenty years for unfurnished and vacant properties. This entailed concluding a full 'repair and insure' lease with the housing authority responsible for insurance, maintenance and upkeep, except where there is a management company in place that has responsibility for insuring certain aspects of the properties.

23.38 The arrangements in place in six projects involved leases between property owners and local authorities or approved housing bodies.

23.39 The audit noted that one local authority project classified under this leasing arrangement comprised, in fact, two Rental Accommodation Scheme arrangements consisting of one unit each. The agreements were tenancy agreements. The Department and the local authority do not classify these as part of the Rental Accommodation Scheme since it does not have authorisation to enter into rental arrangements for tenants other than for those in receipt of rent supplement. Where

rental arrangements are put in place for tenants, other than those in receipt of rent supplement, these are included under the Social Housing Leasing Initiative.

23.40 A further project, comprising a retirement village, sanctioned in relation to an approved housing body was unusual in that the property was in receipt of tax incentives, arising out of a previous lease arrangement. The ensuing arrangement was a tenancy agreement between the developer and the tenant.

23.41 This project involved payment and availability agreements, management agreements and Rental Accommodation Scheme type agreements designed to allow the continuation of the tax incentives for the property owner.

23.42 Due to tax designation restrictions the tenants must sign their tenancy agreement with the landlord and all tenants must be qualifying occupants as defined in the Taxes Consolidation Act 1997, which requires certification by a General Practitioner.

23.43 The Department noted that the inclusion of Rental Accommodation Scheme type arrangements as part of the leasing initiative are designed to allow local authorities more flexibility in their negotiations and approach to leasing. It stated that in terms of statistics produced on the leasing initiative, in general, it is satisfied that the different categories of housing and funding are correctly identified. However, the Department intends to review the way in which those statistics are presented.

Lease Payments

23.44 The Department stated that in approving projects for funding it seeks evidence that the appropriate discount on rent payments has been secured by way of formal valuations by appropriately accredited individuals.

23.45 The evidence on file in relation to prevailing market rents for the eight projects examined was as follows

- Auctioneers reports were on file in seven cases. In these cases, the agreed lease payment had been reduced by the appropriate amount by reference to the valuation reports on file.
- The file in relation to the remaining project did not contain an independent valuation supporting the agreed rent payments. However, this agreement was not a lease but a Rental Accommodation Scheme type agreement and involved less than five units and in such cases the Department has delegated authority to the local authority to enter into the lease agreement without specific sanction.

Termination Arrangements

23.46 The Department will reimburse the local authority or the approved housing body in respect of up to 50% of the reinstatement costs at the end of the term. The Department has not developed estimates of the likely level of reinstatement costs.

23.47 The lease template issued by the Department provides that the local authority or approved housing body will keep the unit in good repair, order and condition except for fair wear and tear. The Department sought advice from the Housing and Sustainable Communities Agency¹⁸² on what constitutes fair wear and tear. The advice stated that when determining fair wear and tear, consideration should be taken of the number of tenants that reside in the property, the term of the tenancy and the age of the fixtures and fittings. It went on to state that in order to mitigate future risks, a detailed condition survey should be agreed between the lessor and the lessee at the start of the term.

23.48 Three of the eight files examined showed evidence of such surveys. The Department does not seek evidence that a survey has been conducted and is of the view that this as a matter for individual authorities and approved housing bodies.

Conclusion

The mechanisms used to provide social housing have changed in recent years. The traditional approach based largely on acquisition and construction has been expanded to include rental, leasing and rent supplementation.

This chapter looked at a new scheme to lease property from private owners for social housing provision. To date, uptake under the new leasing arrangements has been slow. By June 2010, the leasing of 175 units had been approved by the Department of which, only 47 were fully operational. The Department has attributed the slow uptake to a concentration by the local authorities on the sale of their existing stock of affordable homes, the lead-in time for any new initiative and the fact that not all available units are suitable as social housing. The Department has also stated that the depressed financial markets together with the inclusion of a large number of property developments in the NAMA process has militated against uptake of the leasing arrangements.

The economic justification of leasing by comparison with up-front capital investment is based on analysis conducted in September 2009, at the request of the Department. This compared the cost of up-front capital investment with leasing using a 30-year time horizon and concluded that the cost of a single housing unit funded using up-front capital investment was €180,000 as compared with leasing of a property, which cost €138,000. In practice, lease terms in respect of leases concluded fell into two categories – one fifth of leases were for terms of 20 years and the balance were for terms of 10 years or less.

The appraisal conducted by the Department when reworked to ensure like-for-like treatment of costs would have suggested that the cost of the two main options were broadly equivalent, with leasing, in current market conditions, providing slightly better value over the longer term.

¹⁸²

The Agency was established in May 2010 by the Department of the Environment, Heritage and Local Government. It is replacing a number of existing housing related agencies, namely the Affordable Homes Partnership, the Centre for Housing Research, the Homeless Agency and the National Building Agency. The Agency works with and assists local authorities, approved housing bodies and the Department in the delivery of housing, planning and related services.

From an appraisal viewpoint, in order to inform government policy and provide an evidence base for its decision-making, ongoing evaluation of options conducted in a two-stage process would be useful.

- The cost comparison between lease and buy options should be made taking account of all the cost components associated with each option. Testing should make comparisons based on units of different sizes and different lease terms as well as the differences in lease conditions concluded by local authorities and approved housing bodies.
- Thereafter, the decision should weigh wider effectiveness criteria and any cost premium arising out of the selection of a dearer option should be justified in terms of the wider effectiveness payoffs including the need to eliminate redundant housing units and minimise borrowing costs.

Given the volatility in the property market this analysis should be conducted on a frequent basis using the most up-to-date information available in relation to the cost of houses and rent prices.

From an administration perspective, since reinstatement costs will fall to be borne by the State, the Department needs to position itself to validate future claims by ensuring local authorities and approved housing bodies confirm the completion of condition surveys.

In regard to the effectiveness of procurement arrangements the Department is preparing a Value for Money and Policy Review. As part of this study it is examining the long-term cost of providing social housing through a range of different delivery mechanisms, including long-term leasing. The Department recognises that this type of evaluation will need to be revisited regularly as market conditions change.

Overall, the Department needs to better classify social housing outputs and, in particular, cease the practice of including Rental Accommodation Scheme type arrangements within leasing statistics and report on the numbers of units leased under each type of arrangement separately. It should also consider separating or clearly distinguishing instances where it is providing assistance for the leasing of property from the private sector and those under which existing State-subsidised property is being leased onwards.

General Observations of Accounting Officer

23.49 The Accounting Officer stated that the Department's objective at all times is to ensure that the housing investment programme provides value for money while at the same time meeting the Department's social housing objectives.

23.50 The introduction of the leasing initiative, in addition to the earlier Rental Accommodation Scheme, represents an important change in the direction of housing policy and is key to addressing the challenge of ensuring an adequate supply of social housing over the next number of years. Leasing has an important role to play in furthering the goal of providing social housing accommodation to meet the needs of individual households within a life-cycle model.

23.51 The Department stated that in reviewing information from a number of sources, it had concluded that using standard discounting methods, reasonable assumptions about future trends and the best available information on costs and prices that leasing, in its different forms, represents a cost-effective and socially progressive approach to meeting housing need in current and likely future market conditions.

23.52 It stated that preliminary work completed on a Value For Money and Policy Review currently underway has strengthened the earlier conclusion that leasing of private dwellings

provides a cost-effective way of meeting housing need. This review will examine a number of different scenarios but the Department expects that as a variety of economic and social risks are considered, the study findings will strengthen the economic case for leasing over most other forms of housing support.

23.53 It also stated that in advancing leasing as one element within the social housing investment programme, it has to be cognisant of the constraints on available capital funding and of the opportunity costs associated with using capital monies for the acquisition of social housing rather than leasing. It added that any reduction in the number of households being provided with social housing support in a given year as a result of using capital investment rather than leasing is not without its social and economic costs.

Chapter 24

**Department of Community, Equality and Gaeltacht
Affairs**

Managing Cohesion and Integration

Managing Cohesion and Integration of Local Community Development Structures

24.1 Social inclusion measures are delivered through a complex network of local structures including local development companies, urban partnerships, regional and local drugs task forces, joint policing committees, community development projects, family resource centres and city and county childcare committees.

24.2 At the core of this extended network are City and County Development Boards of which there are 34 - one in each county and city area. The boards provide a measure of coordination for integrated service delivery through the development and implementation of agreed strategies for economic, social and cultural development in their city/county area. Several government departments have roles in supervising the measures.

Local and Community Schemes Review

Arising from a review process in 2003, initiated by the Minister for Community, Equality and Gaeltacht Affairs, in conjunction with the Minister for Environment, Heritage and Local Government and the Minister for Justice and Law Reform, agreement of Government was sought and given to a number of proposals at structural, institutional and programme level for the improvement of service delivery of local and community development schemes.

Proposals for structural change included varying requirements on groups across provincial, Gaeltacht and large urban areas to advance improvements in linkages, cohesion and sharing of resources and a requirement on Departments/public bodies to look to existing local or community development bodies and or local authorities for delivery of any further initiatives in this area.

Programme level changes approved included

- conferring responsibility on City and County Development Boards for endorsement of plans by community and local development agencies and overseeing and promoting an integrated approach to service provision at local and community level
- improved alignment of community development structures through, for example,
 - further convergence of LEADER^a groups and partnership companies in rural areas
 - a review of multiple sources of finance with a view to simplification, transparency and improved value for money
 - new requirements on sharing of facilities, such as accommodation and administrative supports to the greatest extent practicable and
 - a review of the membership of local and community development bodies.

Note:

- a LEADER is the EU Community Initiative for Rural Development that provides approved Local Action Groups with public funding (EU and National) to implement multi-sectoral business plans for the development of their own areas.

24.3 The focus of this report is on the cohesion process led by the Department of Community, Equality and Gaeltacht Affairs (the Department).

24.4 The process was based on the following principles

- the need to improve on the ground services
- the need to streamline structures so as to avoid overlaps, duplication and undue administrative overheads
- the objective of bringing transparency, coordination and improved control to the funding and operation of local and community development measures
- the need to strengthen the democratic accountability of agencies and service providers.

24.5 To support the cohesion process almost €16 million was provided by the Department over the years 2004 to 2009 inclusive. The funding was administered on behalf of the Department by the City and County Development Boards. Financial support for the cohesion process was provided over three phases as outlined in Figure 125.

Figure 125 Funding for the Cohesion Process 2004 – 2009

Year	Focus ^a	Funding €
2004	Improved linkage	3,248,600
2005 – 2007	Improved coverage/integration	10,327,027
2008 – 2009	Supporting cohesion	2,126,151
Total		15,701,778

Source: The Department of Community, Equality and Gaeltacht Affairs

Note:

a This focus is outlined in more detail below.

24.6 The funding in 2004 was aimed at improving linkages between local agencies, supporting multi-agency actions and promoting the sharing of resources in order to maximise the impact of available funding.

24.7 The core objectives of the 2005 – 2007 funding round was to achieve

- full city and county coverage by local development structures
- the integration of LEADER and partnership groups (including community partnerships) so that local and rural development programmes are delivered by one body in each area
- alignment of the boundaries of the new bodies with city and county boundaries (or local authority electoral areas) as far as is practicable, and
- promotion of volunteering at a local level in the context of preserving voluntary participation in local development structures.

24.8 Allocations from 2008 onwards were aimed at supporting actions or activities designed to facilitate cohesion. The cohesion process involved in general, the winding down of activity conducted through existing companies and the creation of a lesser number of new companies with expanded capacity. In some cases, there was no need to establish a new company – staff of the entities being subsumed came together under an existing structure. It also involved the adoption of revised governance arrangements, the transfer of State contracts and undertakings in relation to staff and assets and liabilities to the new entities.

Outcome of Cohesion Process

24.9 The outcome of the cohesion process has been that from 1 January 2009, the number of companies delivering rural development and/or social inclusion programmes has been reduced from 94¹⁸³ to 52¹⁸⁴ local development companies¹⁸⁵ providing full coverage within counties and across the country. In addition, the plans of each local development company and companies delivering the Community Development Programme (CDP)¹⁸⁶ are submitted to the relevant county/city development board for endorsement.

Next Steps in Integration

24.10 In a further phase the Department sought to redesign its community development/social inclusion programmes – in particular the Local Development Social Inclusion Programme (LDSIP) administered on its behalf by an intermediary body, Pobal¹⁸⁷ and the CDP which it administered itself. Both were being delivered through different local delivery structures.

24.11 Assisted by the Centre for Effective Services (CES)¹⁸⁸, a re-designed programme (LCDP¹⁸⁹) commenced from January 2010 at which stage the LDSIP and the CDP came to an end. The new programme aims to tackle poverty and social exclusion through partnership and engagement between government, its agencies and people in disadvantaged communities. It is underpinned by four high level goals to

- promote awareness, knowledge and uptake of a wide range of statutory, voluntary and community services
- increase access to formal and informal educational, recreational and cultural development activities and resources
- increase work readiness and employment prospects
- promote engagement with policy, practice and decision-making processes on matters affecting local communities.

24.12 The second phase aims to have the new programme delivered through an integrated delivery structure incorporating the CDPs into the local development companies. The number of entities administering the programme is expected to fall from approximately 216 (approximately 164 CDPs and 52 local development companies) to 52 local development companies by the end of 2010.

¹⁸³ 56 partnership companies, 2 employment pacts, 24 rural development (or LEADER) companies and 12 integrated local development companies (companies which were delivering both rural development and social inclusion programmes).

¹⁸⁴ 53 on foot of the cohesion process. Subsequently, Dublin Inner City Partnership closed bringing the number to 52.

¹⁸⁵ The term 'local development company' is used throughout this report to refer to both urban partnerships and integrated local development companies.

¹⁸⁶ The abbreviation 'CDP' is used interchangeably throughout this report to refer to both the community development programme itself and the companies delivering the programme in the local communities. Also commonly referred to as community development projects.

¹⁸⁷ Pobal is a not-for-profit company with charitable status that manages programmes on behalf of the Irish Government and the EU.

¹⁸⁸ An independent centre set up in partnership between the Government and Atlantic Philanthropies to promote evidence-based policy and practice in child, family and community services.

¹⁸⁹ Local Community Development Programme.

Chapter Focus

The chapter, based on local reviews outlines

- any residual factors emanating from the cohesion efforts of the Department
- other challenges arising from the implementation of the new LCDP and the further consolidation of delivery structures.

Cohesion Process – Local Development Companies

24.13 In the case of local development companies, the audit noted that considerable progress had been made on achieving cohesion. Some areas where improvements or further work was necessary included

- ensuring that the new LCDP entities operate under a strategic plan
- identifying any surplus assets arising out of cohesion
- managing emergent unintended effects of winding up
- providing for enhanced output reporting.

Strategic Planning

It is important especially in the case of new entities that there be role clarity. A strategic plan is desirable in order to ensure that there is clarity and coherence in relation to the goals and objectives of the new local development companies and the enlarged companies that will emerge after CDP integration.

24.14 The LDSIP has been in transition since 2006. As a result, no strategic planning has taken place at the local level. The practice has developed, that based on the amount of funding allocated by the Department, the local development company prepares an annual programme of activities and a budgeted expenditure profile. The planned programme of activities is in general, rolled on from one year to the next without formal evaluation.

24.15 The LCDP, which came into effect at the start of 2010, has recently requested strategic plans to be prepared by local development companies by end 2010.

Strategic planning and review should become a regular feature of the governance and management of local development companies. Close liaison is required with City or County Development Boards to ensure proper coordination and integration with strategic and action plans of those bodies.

Surplus Assets

It would be expected that some scope for asset consolidation would arise from the cohesion / integration process.

24.16 The audit noted that due diligence had been carried out in 2008 on three companies whose operations were being subsumed into a new company - Louth Leader Partnership - under the cohesion process. While the due diligence exercise had regard to property and freehold or leasehold interests, it did not identify other assets such as office furniture and equipment, ICT equipment and software which were owned by those companies. The report recommended that a complete review take place of all equipment and resources available within the companies being cohosed and that specialist advice be taken on the integration of ICT systems.

24.17 The examination at Westmeath Community Development Limited noted that one company which was to form part of the cohesion process, - Athlone Community Task Force - continued in existence with only its operations under the LDSIP funding transferred to Westmeath Community Development Limited. The staff continued to work from the Athlone premises which remained in the ownership of Athlone Community Task Force. Rent became payable for office space from Westmeath Community Development to Athlone Community Task Force.

24.18 The Accounting Officer stated that the Department has strongly advised companies who have wound up, or are in the process of winding up, that where there are net assets, they are likely to be due directly or indirectly to the fact that the company was in receipt of State funding over several years. The Department has made clear its position that net assets (e.g. cash, property) should be transferred to the relevant new integrated company. The Department has pointed to the fact that this would be a legal requirement in many cases.

There is a need for a thorough asset identification process to ensure that State assets are not lost in the cohesion/integration process. It would be desirable to put arrangements in place to confirm that

- the interests of the State in property and other assets are appropriately protected under the cohesion/integration process, and
- where it is not proposed to transfer assets of the companies being subsumed to the new company, that those assets are being dealt with in an acceptable manner taking account of any State funding and the community objectives for which they were acquired.

The Department is in the process of following up outstanding matters in this regard and a review will commence shortly on wind up issues and associated matters.

Implications of Winding Up

Apart from difficulties relating to property there can also be implications for funding claims. There is a need to ensure that companies under cohesion are not prematurely wound up leaving the State exposed to financial risk due to inability to enforce conditions attached to grants, including funding recoupment in certain circumstances.

24.19 During a review at Louth Leader Partnership it was noted that an issue had arisen over whether the new company - Louth Leader Partnership, would be entitled, should the situation arise, to pursue recoupment of grants awarded by one of the companies being wound up under cohesion. Personal guarantees had been sought as a condition of the grants and in the event of the business being dissolved within five years, the directors would be personally liable for repayment of the grants in full.

24.20 Legal advice was sought in relation to the implications of winding up the company that had given the grants and whether Louth Leader Partnership could legally pursue those grants in the event of default. The advice indicated that the old company would need to remain in existence in order to pursue this debt.

The Department needs to identify the financial exposure which currently exists for the State under conditions attached to grants given by companies being wound up.

The Accounting Officer stated that in those cases where a company wished to wind up but found it was not possible to complete the orderly transfer of its rights and obligations, it remained a matter for the existing board to continue to exercise its responsibilities until matters had been satisfactorily resolved. As of July 2010, the Department has confirmed that 32 companies have wound up definitively.

Output Reporting

In order to demonstrate the application of State funds for the purposes intended and the extent of achievements, output reporting needs to be well defined and a system put in place that captures the required data for subsequent project and programme evaluation.

Without adequate output reporting and monitoring, there is a risk that the programme will fail to fully achieve the objectives for which it was established.

24.21 Under the LDSIP, local development companies set target outputs in their annual programme of activities. Generic output indicators were used and data captured in a database system - SCOPE¹⁹⁰.

24.22 A value for money examination of the LDSIP in 2007 made a number of recommendations to improve the monitoring, evaluation and the definition of LDSIP performance indicators. For example, in relation to the SCOPE system, it proposed

- A greater focus on outcomes and impact rather than process.
- Relating national indicators to baseline positions.
- A focus on progression, with a small number of indicators tracked over time.
- Regular common follow-up surveys of LDSIP beneficiaries to examine their status. Useful indicators in this regard would be people's employment status, their levels of third-level access, overall quality of life indicators, health standard indicators, participation in education, reduced dependency on social welfare and literacy levels.
- A cross-checking of SCOPE data against national data (for example, CSO¹⁹¹ data) on the same target group to, *inter alia*, gain an understanding of the extent of LDSIP interaction with priority groups.

¹⁹⁰ System for Coordinated Programme Evaluation.

¹⁹¹ Central Statistics Office.

24.23 In 2008, the Department engaged the CES to assist with the redesign of the LDSIP and the CDP including the specification of outcomes that would facilitate effective programme evaluation. While key output indicators have been defined for the new programme, impact indicators have yet to be fully established. Examples of output indicators are

- Number of actions promoting awareness/knowledge of local statutory, voluntary and community services.
- Number of beneficiaries and local community groups participating in and engaging with all local services.
- Number of beneficiaries and local community groups participating in educational recreational and cultural actions.
- Number of action/employment interventions to prepare people for the labour market.
- Number of beneficiaries and local enterprise/employers participating in labour market actions.
- Level of funds leveraged from other organisations to deliver social inclusion activities.

24.24 While output indicators have been specified, associated targets have not been set for 2010. It is intended that the 2010 output data when captured, will form a baseline and be used for the setting of future targets.

24.25 However, there is currently no system capturing the baseline data. The SCOPE system that was used to capture output data under the old programme was suspended in 2010 pending the introduction of a new system. Notwithstanding the absence of a system to record and analyse the data, it is understood that documentation underlying the realisation of outputs is available for data input. In this context, the SCOPE system is being re-introduced as an interim measure pending a procurement competition for the development of a new system.

24.26 In the area of output reporting, there would appear to be a lack of coordination between the CES, the Department and Pobal in relation to proposed evaluation mechanisms. While Pobal appear to be charged with ensuring that systems are in place to capture the output and impact data established by the CES, there did not appear to be guidance on mechanisms by which this might be done.

24.27 It is not clear whether consideration has been given to the 'duplicate' reporting that occurs where activities are jointly funded by LCDP and other sources. In general, the same outputs will be reported to the separate sponsoring departments. For example, the number of individuals receiving training through the Flexible Training Unit of the Dodder Valley Partnership have been reported both as an output of the LCDP to the Department of Community, Equality and Gaeltacht Affairs and as an output of the Department of Education and Skills where it has part-funded training programmes under the Back-to-Education Initiative.

24.28 A key milestone established for the CES in October 2008 was to have independent external evaluators appointed by the second quarter of 2011 in order to evaluate delivery of the LCDP. The continuing validity of this milestone however is not clear, given that 2010 is now being seen as a baseline year only.

24.29 The Accounting Officer stated that Pobal, with the agreement of the Department, is tendering for a new planning and monitoring system for the LCDP. This new model will involve the collection of a wide range of data, which will support greater clarity of output and outcomes from the programme and its overall evaluation. It will also allow for integration of planning, monitoring, and reporting systems to support direct linkages through each step of the programme cycle.

24.30 In relation to the proposed evaluation of the LCDP, the Accounting Officer stated that the CES is drafting a tender brief for a feasibility study to be completed before the end of 2010. This will establish the nature, extent and quality of national/local data currently being collected under the LCDP. It will also establish what activities are currently taking place under the programme's goals and objectives and their consistency across the different companies. The findings from the study will then be used as baseline information from which the formal evaluation of the LCDP will be undertaken. Subject to budgetary considerations, the Department anticipates having external evaluators appointed by the end of the first quarter 2011.

It is important that a system be put in place to adequately capture the required outputs from 2010 onwards. Finalisation of impact indicators should be speeded up so that processes can be introduced to ensure the required information is captured and evaluation facilitated.

A greater level of coordination between the CES, Pobal and the Department is desirable in the area of information capture and monitoring.

Consultation should take place with other funding providers prior to a decision on a new performance monitoring system in order to establish if there is a case for developing a system which caters for their reporting needs also. The acquired system should also meet the internal management reporting requirements of the local development companies.

Conclusion – Cohesion

At this juncture, the benefits of cohesion have yet to be realised in terms of fully integrated service delivery, rationalisation of property, staff redeployment and savings. The current phase of cohesion has focussed largely on the realignment of structures and schemes. While it is accepted that it may be appropriate to focus, initially, on the formal integration of agencies from the viewpoint of governance structures, it would be desirable in order to ensure value for the State, that opportunities for increased synergies and greater efficiencies be thoroughly examined at an early stage. With the forthcoming integration of CDPs, the local development companies will become more complex and attention to process rationalisation may become more pressing. The next phase should seek to capitalise on these critical potential benefits.

Future Challenges

24.31 Based on reviews in the course of audit the following challenges were noted for the integration process

- achieving operational coherence following integration
- ensuring that all viable activities are retained and overlaps minimised
- ensuring synergy in the operations of integrated entities
- implementing recommendations of a value for money and policy review of the LDSIP carried out in 2007 insofar as it is applicable to the LCDP
- addressing financial management and control.

Achieving Operational Coherence

24.32 A particular challenge derives from the fact that the size of some CDPs may present difficulties for both the CDP and the local development company into which they are expected to be subsumed. For example, the audit noted one particular CDP which employs 45 staff. CDP funding represents only approximately 17% of its total income. The integration process proposes that the local development company incorporate this larger entity within its structure.

24.33 In general, the examination noted that considerable resistance exists from the community development projects to the proposed integration. There is also a lot of uncertainty surrounding the process and what its impact will be.

24.34 From a governance viewpoint, CDPs are governed by voluntary boards of management. These may not always have the necessary expertise to ensure proper governance and financial control.

24.35 Inspections carried out at five CDPs as part of this examination noted issues such as

- A lack of documented financial procedures and policies.
- Weak controls over expenditure. In one particular CDP, control over expenditure was entirely vested in two employees of the company with no board approval. In another CDP, there was a lack of control over credit card and electronic funds transfer payments.
- Expenditure on items that did not appear to fit with the aims of the programme. For example, coach hire and leaflet distribution in protest at proposed cuts in funding, Christmas gifts for staff, overnight trip away for three members of staff.
- The non-existence of a lease agreement to support payments for rent of premises in one CDP as well as the absence of a lease agreement to support the subletting of part of the premises.
- Staff contracts not signed and in one instance, no contract in existence.
- A failure to document board approval of increases in staff salaries.

24.36 Taking account of the bottom-up nature of the CDPs, their location across the most disadvantaged communities in the State and the voluntary nature of their boards, the audit reviews would suggest a need to significantly strengthen output setting and reporting. Inspection work noted a lack of back up to support outputs reported in the annual output statements.

24.37 It was noted that three cases of fraud involving the misappropriation or misapplication of funds by staff in three community development projects had been reported to the Department's audit committee in 2009. A Garda investigation into one case had concluded that there was not enough evidence for a criminal prosecution but that the project could pursue a civil action. The project does not have the funds to pursue a civil action and has in fact been declared insolvent. It is in the process of being wound up. In a second case, an amount of €24,000¹⁹² deemed to have been misappropriated was returned and the company continues to exist. In the third case, the company continues to exist and a file has been sent to the Director of Public Prosecutions.

¹⁹²

The amount repaid by the ex-staff member was €26,237 (This included interest).

24.38 The Department acknowledged the management and control issues arising. It drew attention to the fact that its services had uncovered and reported the fraud cases referred to. The Department also indicated that, since taking responsibility for the CDP earlier this decade, it has undertaken a number of initiatives to tackle issues arising, including

- closure of a number CDPs where serious governance issues arose
- strengthening of the departmental inspection services into a single function across programmes, including CDPs
- provision of guidance and training support to boards of CDPs and
- extensive ongoing support and advice to CDP staff.

24.39 The Accounting Officer stated that the Department has processes in place to satisfactorily address these matters, and has in the past suspended payment to the CDPs involved or removed funding entirely.

24.40 It has also been the practice of the Department to periodically issue instructions to CDPs on political impartiality and abstaining from relating activities.

24.41 The Department regards integration as essential to further strengthen management processes, control and outputs in this regard.

The Department needs to address the issues which hinder the completion of the integration process as quickly as possible so that the risks associated with funding a large number of small entities are reduced. In this respect, given their variability in size and function, it may be necessary to review each CDP on a case-by-case basis.

Issues such as governance, management, staff roles and lines of reporting, property, budget and activities should all be addressed promptly to ensure that the synergies expected from the process are achieved.

Viability, Overlaps and Leverage

24.42 Towards the end of 2009, the Department carried out a review of all CDPs (180 projects at that point) with the aim of identifying the potential for achieving improved efficiencies in the delivery arrangements and identifying projects that represented a poor fit with programme objectives. The key criteria under which projects were assessed were

- fit with objectives of the programme
- relevance
- need for the project within the community and value for money
- governance.

24.43 Following the initial review, 29 CDPs (16%) were deemed non-viable. Following an appeals process, ten were successful in having the decision reversed bringing the percentage deemed non-viable to 10.5%.

24.44 It was noted that there was a large concentration of CDPs in a particular area of Dublin and all within close proximity to each other. In addition, it was evident that greater value is leveraged where the CDP is engaged in delivering additional activities funded by other State sources. However, two of the five CDPs visited as part of this examination had limited other sources of

funding. Thus, those CDPs were not driving wider service provision (CDP funding is for staff salaries and overheads).

In examining the justification for continued future funding for the integrated set of local development and social inclusion activities the extent to which other community services are being delivered should be taken into account.

Achieving Synergy

24.45 A formal process exists whereby the plans of the CDPs or local development companies are submitted to the City or County Development Boards for endorsement in advance of submission to the Department.

24.46 A similar type process was introduced for CDPs as part of the new LCDP and in advance of full integration. This required CDPs, prior to receipt of any funding for 2010, to develop a work plan setting out planned activities, outputs and outcomes for approval by the designated local development company with which they would be integrating.

24.47 The examination noted that in general, this approval process by the designated local development companies was little more than a signing exercise. It did not involve any detailed examination of work plans for coherence with the local development companies own work programme. In one instance, the work plan was received from the relevant CDP only hours before it was required to be submitted to the Department. Staff at one local development company observed that for 2010 the local development company appeared to have all of the responsibility in relation to CDPs but none of the authority.

24.48 The Department has advised that under the revised programme it is developing a process whereby both long-term strategic plans and annual work plans of the local development companies will be developed and submitted to the City and County Development Boards. City and County Development Boards will be required to ensure coherence of the local development strategic plan with the City or County Development Board plan and to examine for potential duplication of effort and synchronisation of priorities with other State agencies. The City or County Development Board will be asked to comment and confirm conformity of the local development companies' annual work plan with its strategic plan.

24.49 Local Development Companies were asked to prepare by end-June 2010, a plan and implementation strategy including timelines for integrated service delivery.

24.50 The examination noted little progress in this regard with some CDPs not engaging in the process.

The Department needs to ensure that the local development companies and CDPs engage fully with the process and address the need for coherent strategies and plans as a priority and a condition of funding in 2011.

24.51 The Accounting Officer stated that at this juncture all companies – both local development companies and CDPs – currently funded through the programme have signed up to

- implement the new programme in the context of the Department's integration strategy
- meet the specified deadline dates (submission of work plans by 26 March 2010 and of integration plans by 30 June 2010). The integration plans outlining the next steps

(including provision for transfer of undertakings, transfer of assets etc.) between now and end 2010 have been submitted and are currently being assessed by Pobal.

24.52 In addition, the Accounting Officer stated that the LCDP integration model will reduce the administrative burden on City and County Development Boards through the submission, by each local development company, of a single plan for each area which will include the community development element of the LCDP.

Value for Money Review

24.53 In 2007, Fitzpatrick Associates were commissioned by the Department to undertake a value for money and policy review of the LDSIP. The results are likely to be equally applicable to the LCDP.

24.54 Of the 26 recommendations made by the consultants, the Department has confirmed that

- five of the recommendations have been completed or implemented
- in six cases the recommendations are in the process of being implemented and
- the balance are under consideration.

24.55 The recommendations still under consideration include

- The respective roles of the Department and Pobal regarding policy and implementation, need to be clarified in a robust service level agreement.
- The Department should consider putting Pobal's role out to tender.
- A need for the Department and Pobal to develop a more proactive communication strategy for the programme in terms of engagement with other departments and agencies about the role of cross-cutting programmes.
- A national Liaison Committee should be established to improve the relationship between the programme and mainstream providers at national level.
- Mainstream service providers should provide better and more coordinated support to their representatives on local boards and committees.
- New local structures need to develop an overall strategy that integrates the programme into a wider suite of activities.
- The Department or Pobal should provide one-off central support to new entities to examine their HR issues and ensure that the critical local leadership and management skills needed are available in the new structures.

The Department should review the applicability of the recommendations in the context of the new LCDP and ensure that the relevant ones are fully addressed in the new programme.

Addressing Financial Management and Control

24.56 Audits by Pobal noted a range of financial management and control issues in the course of work during the past two years. These included instances where

- Internal financial procedures documents were not sufficiently comprehensive and internal review procedures were not evident.
- Timing differences with regard to reported expenditure were identified as a result of transfers into internal bank accounts and cheques written at year-end but not issued until the

following year. It was also noted that several local development companies had significant cash reserves relating to unspent grant funding.

- Project files were incomplete.
- The procedures for conducting third party audits were unsatisfactory and some partnerships did not fulfil the minimum requirements.
- Insurance policies did not indemnify the Department and Pobal.
- Internal control risks were identified with regard to the use of internet banking/electronic funds transfer systems.
- Apportionment policies were not always satisfactorily documented or formally approved.
- Prompt payments legislation was not fully complied with.
- Centralised cash receipts books were not maintained.

These issues need to be addressed by increased monitoring in the particular areas highlighted, issuing best practice letters by Pobal and providing additional supports and training.

24.57 The Accounting Officer stated that Pobal has carried out, and continues to carry out, a range of actions in response to issues identified during audits. In the case of each individual audit, the identified issues are individually followed up with the company to ensure resolution.

24.58 Pobal's audit unit also routinely checks whether recommendations arising from any previous audits have been implemented, as committed to by the relevant local development company and reports on this.

24.59 Where audit issues are not resolved, this can result in a series of sanctions ranging from restrictions on the funding (where the company is confined to core costs pending the resolution of the issues on hand) to the ultimate sanction (termination of the contract).

24.60 Pobal has also carried out a range of actions to rectify weaknesses identified as a result of the audit process and to learn and relay the lessons from the audit process.

Conclusion

The number of local development companies has been reduced from 94 to 52 on foot of the cohesion process. In a further phase, the Department assisted by CES redesigned the LDSIP and the CDP. This redesigned programme (LCDP) commenced in January 2010. The next phase aims to deliver the new programme through an integrated structure incorporating the CDPs into the local development companies by the end of 2010.

In the case of local development companies, considerable progress had been made in achieving cohesion. Some areas where improvements or further work are necessary include – ensuring new LCDP entities operate under a strategic plan, the identification of any surplus assets arising out of cohesion, managing emergent unintended effects of the winding up of entities and providing for enhanced output reporting.

The report sets out some issues that need to be addressed so that the follow-on integration process is completed efficiently and effectively

- moving to delivery based on a strategic approach to local development and social inclusion initiatives funded through the LCDP
- addressing any remaining barriers to integration
- maximising the extent to which other community services are delivered or levered and the impact of local networks optimised
- implementing relevant recommendations from a 2007 value for money review of the predecessor programme.

Chapter 25

International Cooperation

Official Development Assistance

Official Development Assistance

25.1 Official development assistance (ODA) comprises transfers by official agencies of resources — either in cash or in the form of commodities or services — to developing countries or territories, or to multilateral development institutions. Transfers only qualify for inclusion in estimates of ODA if they are directed towards the promotion of the economic development and welfare of developing countries¹⁹³.

25.2 Irish Aid is the division within the Department of Foreign Affairs set up to administer the Government of Ireland's programme of ODA.

25.3 Most Irish ODA expenditure is accounted for under Vote 29: International Co-operation. In 2009, this represented 79% of the total. The rest of the expenditure is made up mainly of Ireland's contribution to the EU development co-operation budget, payments to international bodies by the Department of Finance and the Department of Agriculture, Fisheries and Food (accounted for on their respective votes) and payments by the Revenue Commissioners in respect of the Tax Deductibility Scheme for donations to relevant charities.

Chapter Focus

This chapter has been compiled to present the full expenditure on ODA in one statement. It also considers the systems in place for evaluation of elements of the ODA programme.

Overall Expenditure

25.4 Irish ODA totalled €718 million in 2009, down from €921 million in 2008. This represented a decrease of €202 million or 22%.

25.5 A breakdown of how Irish ODA funding was applied is presented in Figure 126. 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.

¹⁹³

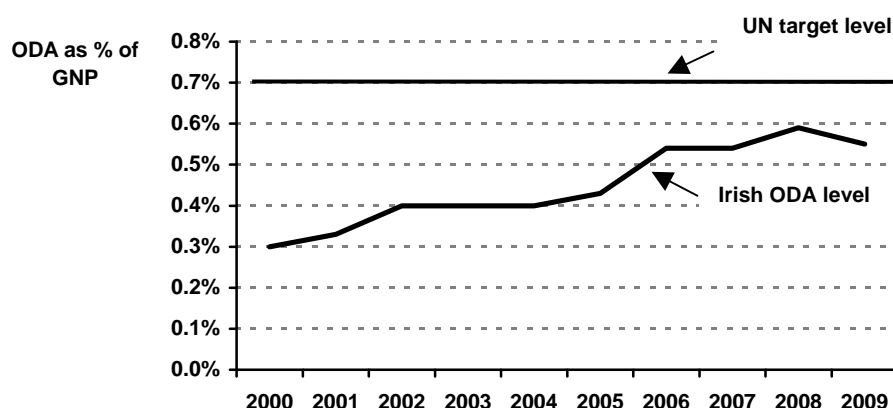
See OECD Development Assistance Committee factsheet, *Is it ODA?* (May 2007) for an explanation of the criteria that are applied in estimation and recording of ODA. Loans may be included in estimates of ODA if they involve interest rates below market levels, and involve a grant element worth at least 25%.

Figure 126 Official Development Assistance, by Type, 2007 to 2009

	2007 €m	2008 €m	2009 €m
Bilateral Assistance	576.0	614.8	454.9
Multilateral Assistance	264.8	270.7	231.1
Administration Costs (Vote 29)	30.1	35.1	32.2
Total Gross Expenditure	870.9	920.6	718.2

25.6 The decrease in expenditure affected bilateral assistance programmes most — the decline in expenditure on those programmes was 26%, compared to a 15% decrease in multilateral aid expenditure, and an 8% drop in administration costs.

25.7 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 year¹⁹⁴. As Figure 127 indicates, Ireland's ODA increased from 0.3% of GNP in 2000 to 0.59 % in 2008, before falling back to 0.55% in 2009.

Figure 127 Irish Official Development Aid as a Percentage of GNP, 2000 to 2009

Source: Department of Foreign Affairs

25.8 Only five donor countries exceeded the UN target in 2009: Sweden (1.12%), Norway (1.06%), Luxembourg (1.01%), Denmark (0.88%) and the Netherlands (0.82%). Luxembourg reached the target level in 2000, and has continued to meet the target since then. The other four countries have consistently met the target since the 1970s.

25.9 Ireland's ODA contribution was seventh highest among OECD countries, jointly with Finland's¹⁹⁵. The Government has extended the time period for achieving the 0.7% target level from 2012 to 2015, bringing Ireland in line with the EU commitment.

¹⁹⁴ UN General Assembly Resolution 2626 (XXV), 24 October 1970.

¹⁹⁵ OECD, Net Official Development Assistance in 2009, April 2010.

Bilateral Development Assistance

25.10 Almost two-thirds (63%) of Irish ODA is provided through bilateral cooperation programmes. Figure 128 presents a breakdown of bilateral transfers.

Figure 128 Bilateral Official Development Assistance, by Type, 2007 to 2009

	2007 €m	2008 €m	2009 €m
Vote 29 International co-operation expenditure			
Assistance to programme countries	185.0	218.6	195.0
Assistance to other countries	29.4	38.2	24.5
Civil Society Support, including co-financing with NGOs	117.6	134.2	107.6
Global Health and education initiatives	96.5	67.6	21.2
Emergency and humanitarian assistance	120.8	108.4	67.7
Other programmes	17.8	39.5	31.8
Bilateral ODA by other government agencies	8.9	8.3	7.2
Total bilateral ODA	576.0	614.8	454.9

Assistance to Target Countries

25.11 A total of €195 million was spent on partner country assistance programmes in 2009. 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 such 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, NGOs and other organisations involved in development in these countries.

25.12 Assistance totalling €24.5 million was also provided in 2009 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 predominantly through NGOs. Assistance was also provided for a partnership programme for certain countries of Eastern Europe and Central Asia. That programme was discontinued in 2010.

Civil Society Support

25.13 The Civil Society budget includes various schemes designed to provide NGOs, missionary groups and other civil society partners with funding for development interventions. Expenditure in this area fell by 20% in 2009. 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 2009, approximately 100 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 87 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's 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.

Global Health and Education Assistance

25.14 There was a reduction of two thirds in the expenditure under the global health and education initiatives category, which provides support to a number of global partners in the health and education sector. These are mainly targeted at HIV/AIDS prevention and care and the provision of basic education in less developed countries. Funds for those initiatives are provided through global partners specialized in the sectors of health and education.

Emergency and Humanitarian Assistance

25.15 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 2009 was €67.7 million, as shown in Figure 129. This represents a reduction of 38% relative to the 2008 provision.

Figure 129 Emergency and Humanitarian Assistance, 2007 to 2009

	2007 €m	2008 €m	2009 €m
Emergency Assistance	90.0	87.0	56.0
Rapid Response Initiative	5.0	4.5	4.5
Emergency Preparedness and Post Recovery ^a	25.8	16.9	7.2
Total Emergency and Humanitarian Assistance	120.8	108.4	67.7

Note:

- a In addition, funding was provided through the special programme for post-conflict recovery in Sierra Leone and Liberia referred to earlier.

25.16 In order to facilitate rapid response to emergencies, over €23 million was contributed in 2009 (down from €34 million in 2008) to pooled funding arrangements including the UN's Central Emergency Response Fund. A further €7.2 million was channelled through the Red Cross. UN organisations received €7.9 million of which the World Food Programme received the largest

share (€4.6 million). The NGO sector was provided with €12.7 million, of which €10.9 million was provided to Irish-based organisations.

Multilateral Development Assistance

25.17 Around 32% of Irish ODA is provided through general contributions to the cost of development work undertaken by a range of international multilateral organisations. Figure 130 presents a breakdown of the organisations funded.

Figure 130 Multilateral Official Development Assistance, by Organisation, 2007 to 2009

	2007 €m	2008 €m	2009 €m
United Nations, including Voluntary Contributions to UN Agencies	111.9	102.1	60.1
European Community Agencies and Initiatives			
EU Budget for Development Co-operation	82.0	85.3	95.1
European Development Fund	15.3	22.0	22.0
World Bank and other Multilateral Institutions	46.4	53.6	32.8
Co-financing with Multilateral Agencies	9.2	7.7	21.3
Total Multilateral ODA	264.8	270.7	231.1

25.18 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.
- 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

25.19 The Department of Foreign Affairs 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. The Unit's operations are overseen by the Department's Audit Committee.

25.20 The work of the Evaluation and Audit Unit includes provision of assistance to other units within Irish Aid in managing audits, and in developing a result-based approach in the formulation of country strategies, with objectives stated in terms capable of being monitored and evaluated. A rolling plan for both evaluation and audit was introduced in 2006, as well as an annual operational work plan which is approved by the Secretary General and agreed by the Audit Committee

25.21 The Unit carries out some audit and evaluation work itself, and also commissions audit and consultancy 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.

Evaluations Completed in 2009

25.22 Three formal evaluations of aid programmes were completed in 2009. These related to

- the country assistance programme for Uganda
- support for Sierra Leone and
- support for Liberia.

The main conclusions and recommendations of the evaluations are summarised in Annex A.

25.23 All the evaluations are submitted to the Senior Management Group and to the Department's Audit committee and give rise to formal responses. The evaluations are published and are available on the Irish Aid website.

25.24 Evaluations of aid expenditure are also carried out as part of the Government's programme of value for money and policy reviews. These evaluations examine the value for money of spending programmes across a range of Departments, in terms of rationale for the spending, efficiency of delivery, effectiveness, impact achieved, and continued relevance of the expenditure.

25.25 In 2009, a major review of Irish Aid's expenditure on HIV and AIDS support was conducted as part of this programme. The main conclusions and recommendations of the review are also summarised in Annex B.

Peer Review of Irish ODA

25.26 The OECD's Development Assistance Committee is a committee of member states that have agreed to secure an expansion of the aggregate volume of resources made available to developing countries, and to improve the effectiveness of the application of those resources. The Committee conducts peer reviews of the individual development co-operation efforts of its members, about once every five years. Ireland's policies and programmes were reviewed in 2009, with generally positive findings. The main findings of the review were

- Ireland is a leader in making aid more effective. Its programme is well concentrated on a limited number of very poor African countries. It is a practical and flexible donor and its attention to local priorities is appreciated by its developing country partners.
- Ireland's approach to Irish NGOs and multilateral partners is strategic and targeted and it provides humanitarian assistance in accordance with internationally agreed principles.
- Irish Aid is a strong, cutting-edge, development co-operation programme, fully integrated into the Department of Foreign Affairs. However, the move of the Irish Aid headquarters from Dublin to Limerick poses challenges. It will take some time before the long-term impact on the aid programme can be assessed, and the Committee urges careful monitoring of this.
- While Ireland is focussing on achieving results it should enhance its efforts to measure the impacts of its aid programme.

Conclusion

Between 2004 and 2008, Ireland made steady progress in moving towards the UN target for developed countries to contribute ODA of 0.7% of GNP or more. Having reached a level of 0.59% of GNP in 2008, a significant reduction in the level of allocation in 2009 resulted in Irish ODA dropping back to 0.55% of GNP.

Irish Aid has in place processes and resources to carry out formal evaluations of the effectiveness and ongoing relevance of its assistance programmes, and these feed in to its strategic planning. A peer review of Ireland's official assistance programme concluded that Ireland is a leader internationally in ensuring that development co-operation is effective, and is clearly focused on achieving results through its efforts. It recommended that Irish Aid's measurement of the impact of the aid programme should be enhanced.

Annex A Aid Evaluations Completed in 2009 – Main Conclusions and Recommendations

Country Strategy for Uganda

Uganda has been Ireland's largest recipient of development assistance since 2000. Under the country strategy for Uganda 2007-2009, Irish Aid has committed €18 million through a mix of delivery methods and sectors, including education (€11 million), Poverty Action Fund (€30 million), governance (€24 million), HIV/AIDS (€16 million), health (€6 million) and other projects (€1 million).

The review of the country strategy found that, in the last two decades, Uganda had moved from being a failing state to one of Africa's fastest growing economies. Economic growth averaged 7.5% a year between 2002 and 2007 and the pattern of sustained growth over 20 years had contributed to a reduction in income poverty.

The report found that Irish Aid's country strategy paper 2007-2009 was well aligned with the Government of Uganda's policies and addressed Uganda's strategic priorities on poverty reduction as articulated through the third phase of the Poverty Eradication Action Plan. While this plan had been regarded as a success, its relevance had reduced as Uganda's growth has progressed.

The report found that Irish Aid recognised the need to improve the focus of its portfolio and did so by withdrawing from support in the health and agriculture sectors. The move out of health support had been made after careful assessment established that the sector was well funded from other donors. Education remained as Irish Aid's major sector in funding terms. All the programmes that Irish Aid chose to support in the area of governance, including public sector reforms, decentralisation, public finance management, and justice, law and order, were found to be relevant.

The report's recommendations for consideration in deciding a future strategy for Irish Aid's involvement in the provision of aid in Uganda included the following.

- Reduce further the range of interventions within the two focus areas of human development and governance, and ensure a better prioritisation in terms of sectors, sub-sectors and programmes, as well as appropriate exit strategies where disengagement is planned.
- Irish Aid's priorities should be on addressing chronic poverty and inequality, improving quality in education in target geographical regions, improving governance, and mainstreaming gender and HIV/AIDS.
- Adoption of a more effective approach to general and sector budget support to include analysis of fiduciary risk, scrutiny over local governments' ability to absorb conditional grants, and focus on results in priority sectors.
- Structure the Country Strategy Paper objectives and supporting pillars to help improve monitoring and evaluation, aiming for a clearer logic between sub programmes' objectives, programme outcomes and overall goals.
- In education, streamline different initiatives and only fund agencies — such as the Education Service Commission, the National Examinations Board, National Curriculum Development Centre and Education Standards Board — for specific activities, while encouraging the Ministry of Education to take over their funding through the sector budget support.
- In public sector reform, Irish Aid should consider focusing on financial reforms rather than other such areas as public service reform.
- On gender, Irish Aid should earmark a specific budget in the programme to support gender initiatives. There is also a need to involve the Ministry of Gender, Labour and Social Development in gender mainstreaming.

Support to Liberia 2006-2009

This review provided Irish Aid with an assessment of its support to Liberia during the period 2006-2009. The review assessed the performance and achievements of the programme over the period, and aimed to inform strategic decision making in the formulation of Irish Aid programmes from 2010 to 2012.

The evaluation's overall assessment of the context for Irish Aid's involvement is that six years after the end of war, Liberia remains fragile and poor. Over the period of the strategy, Irish Aid had contributed €25.7 million to the country. This was divided between peace building (€3 million), health (€16 million), water and sanitation (€2 million), infrastructure (€2 million), emergency assistance (€2.1 million) and other projects (€0.6 million).

The review found that Irish Aid's support to Liberia during 2006-2009 had been highly relevant to the development needs of the population and the priorities of the government of Liberia. Their focus on basic service delivery in the sectors of health, water and sanitation, as well as its work in security and infrastructure were very relevant to the needs of the people of Liberia.

The report stated that Irish Aid supported activities in Liberia had been well aligned with Irish Aid corporate policies as set out in sectoral, thematic and humanitarian policies, and in the Irish Government's White Paper principles on human development, security, gender equality and a commitment to deepening Irish Aid's engagement with fragile states.

The overall assessment of the review was that the overarching strategic goal of Irish Aid's Interim Strategy 2008-2009 for Liberia was achieved. Irish Aid's implicit goal of contributing towards poverty reduction through emergency, recovery and rehabilitation activity had also been achieved. Further, Irish Aid had managed to develop strong and effective partnerships with government and other development partners and had effectively promoted harmonisation.

The review found that aid in support of institutional strengthening of government and service delivery, was delivered in a variety of ways - pooled funds, INGO consortia and NGO projects. The report found that this mix of delivery methods used was efficient and appropriate. However, the report stated that to be more in line with the principles of engagement with fragile states, Irish Aid should consider taking greater managed risks by directly providing funds through government systems to achieve higher efficiency gains.

The report recommended the following areas for consideration in deciding a future strategy for Irish Aid's involvement in the provision of aid in Liberia

- in the short to medium term to maintain a non-resident mission in Liberia
- continue to engage in the health sector, and for this area to remain as the priority in Liberia
- continue to engage in peace building as the number two priority
- review and support efforts within its current sectors of activity which address hunger and food insecurity
- discontinue involvement in the infrastructure sector and the World Bank managed fund when the current phase of commitment ends
- in the longer term, consider channelling more aid directly through government systems.

Support to Sierra Leone 2006-2008

This evaluation assessed Irish Aid's strategy for support in Sierra Leone in the period 2006-2008 in terms of performance and achievements to date.

Sierra Leone is in the process of recovering from civil war, which ended in 2002. Over the period of the strategy, Irish Aid contributed just over €1 million to the country. This has been divided between peace building (€0.2 million), health (€0.8 million) and food security (€0.1 million).

The evaluation report concluded that Irish Aid's support was relevant to Sierra Leone's development needs both in terms of its design and implementation. Irish Aid's focus on health, food security and peace building initiatives were found to be relevant areas of support, aimed at addressing the needs of the poorest and most marginalized people in the country.

The evaluation found that the objective of Irish Aid's Interim Strategy for Sierra Leone has been achieved – that is, Irish Aid had contributed 'towards peace consolidation and poverty reduction in line with the objectives of the Government of Sierra Leone's Poverty Reduction Strategy Paper.' It also states that Irish Aid's programme had established genuine and effective partnerships, demonstrated a strong commitment to donor harmonisation, and well integrated political and development functions. On that basis, the evaluation concluded that the support stood out as a very good development programme.

While not delivering aid directly through government systems, the evaluation found that the mix of delivery methods used was efficient. They were well aligned to government policies and plans, and work in ways that are compatible with the country's governance systems.

The report recommended the following areas for consideration by Irish Aid in designing a new strategy for Sierra Leone

- continue to focus efforts on health, food security and peace building objectives
- in the longer term, take the necessary steps to move towards delivering aid more directly through government systems
- continue to provide predictable funding – which is considered best practice of working in a fragile state – to the Sierra Leone programme
- put in place enhanced systems for information management, monitoring, reporting, audit, documentation and dissemination
- continue to robustly apply the fragile states principles¹⁹⁶, be innovative and flexible in its programming design and maintain a willingness to adjust rapidly to changing circumstances.

¹⁹⁶

The Principles for Good International Engagement in Fragile States and Situations – often referred to as the Fragile States Principles – provide a set of guidelines to improve involvement of the international community in situations of conflict and fragility. They were approved in 2007 by the Organisation for Economic Co-operation and Development (OECD) and are listed at www.oecd.org/fsprinciples

Annex B Review of Irish Aid's HIV and AIDS Related Expenditure

The review examined expenditure over the period 2000-2007, and specifically related to

- the overall quality of Irish Aid's HIV and AIDS response
- the management of Irish Aid's HIV and AIDS expenditure in line with its overall strategy
- the effectiveness, efficiency, relevance, impact/contribution and sustainability of Irish Aid's response to the global HIV and AIDS pandemic.

In the period covered by the review, a total of €340 million in aid expenditure was specifically dedicated to HIV and AIDS interventions.

Irish Aid's response to HIV and AIDS is delivered at global, regional and national levels via a range of delivery methods and organisations. These supports include initiatives in a number of countries in Sub-Saharan Africa, funding for NGOs, and multilateral cooperation, such as UNAIDS and the Global Fund to fight AIDS, Tuberculosis and Malaria. In addition, Irish Aid manages a regional HIV and AIDS programme in Southern and Eastern Africa, and supports UNICEF's HIV and AIDS programmes in Eastern Europe and in Ghana.

The review found that the Irish Aid response to the HIV and AIDS pandemic was a justified and valid application of public funds, and that it was characterised by a high degree of relevance and coherence.

Irish Aid channelled a significant proportion (more than 41%) of its funding for HIV and AIDS through multilateral and global agencies which had the capacity to use large amounts of funding effectively. However, the report noted a shortcoming with regard to the use of the OECD-DAC code for the reporting of HIV and AIDS expenditures in Irish Aid's financial information management system. The code can include other types of expenditure, with the possibility that expenditure could be inconsistently classified, and the spend on HIV and AIDS initiatives overstated.

The report found that Irish Aid's decision-making over the period of this review had been evidence-based and informed by strong analytical work often commissioned directly by Irish Aid. They adopted a harmonised approach to monitoring and evaluation using existing performance measurement frameworks, and had also been proactive in conducting studies and research.

The report recommended the following areas for consideration in deciding a future strategy for Irish Aid's involvement in support of HIV and AIDS — Irish Aid should

- examine how the existing HIV and AIDS programme can be adapted to ensure that the programme is effectively managed by its current staff complement, while reducing the dependency on external consultants
- continue to develop performance measurement frameworks with special reference to core policy objectives
- examine how its financial management information system can more efficiently track its HIV and AIDS funding.
- increase its efforts to promote aid effectiveness with its global and national partners in the context of its HIV and AIDS programme.

Chapter 26

**Department of Communications, Energy and
Natural Resources**

Energy Programmes

Energy Programmes

26.1 The Department of Communications, Energy and Natural Resources (DCENR) is responsible for policy related to Ireland's energy management and provision. Its objectives include promoting, through targeted assistance, better energy efficiency and greater use of renewable technologies in both the domestic and non-domestic sectors. It spent €81 million on energy initiatives in 2009 (€68 million in 2008).

Delivery Mechanisms

26.2 DCENR funds Ireland's national energy agency, the Sustainable Energy Authority of Ireland (SEAI) and its functions include the management of schemes aimed at promoting the deployment of energy technologies and raising awareness of energy efficiency by providing information, advice and publicity on best practice in the energy environment.

Chapter Focus

The residential sector accounts for more than 24% of final energy consumption. Three schemes were reviewed in the course of audit – two under the sustainable energy programme and one under the energy research programme. These schemes were

- Warmer Homes
- Greener Homes
- House of Tomorrow.

The three energy schemes were reviewed in order to assess

- whether the financial assistance provided had been properly controlled
- how the schemes were administered including the output and performance under each scheme and the extent to which the schemes had been evaluated.

26.3 These schemes are designed to implement part of Ireland's sustainable energy policy, which is focused on a combination of improved energy efficiency and the wider exploitation of renewable energy. Annex A outlines the schemes that focus on improving energy efficiency.

Financial Control of Schemes

26.4 Since their inception, the three schemes had a cumulative spend of €120 million up to 31 December 2009 as indicated in Figure 131.

Figure 131 Expenditure on Schemes Reviewed

Scheme	Year Established	Cumulative Expenditure to end 2009 ^a
		€m
Warmer Homes	2003	26.03
Greener Homes	2006	66.91
House of Tomorrow	2001	27.12
Total Expenditure		120.06

Source: SEAI

Note:

a 2009 data is provisional

26.5 As part of this examination a sample of transactions for each of the three schemes was reviewed to ensure that

- the details on application form agree to supporting documentation
- the applicant met all the scheme conditions and had entitlement to the grant
- the approval function for payment was reserved to an appropriate level of management
- payments agreed with the financial records
- payments were recorded and reported under the correct headings
- payments and invoices were recorded in the correct accounting period.

The audit found that the foregoing controls were in place and the payments were duly processed.

Scheme Administration

Warmer Homes Scheme

26.6 It was estimated in 2001 that approximately 62,000 householders in Ireland were living in persistent energy poverty and that a further 165,000 were experiencing intermittent energy poverty¹⁹⁷. Energy poverty is an inability to heat one's home to an adequate (safe and comfortable) temperature owing to low income and energy inefficient housing¹⁹⁸.

26.7 In an effort to address this, a Low Income Housing Programme had commenced in the 1990s, administered by SEAI using community-based organisations supported by Community Employment, Social Economy and Job Initiative Schemes. In 2003, this programme was

¹⁹⁷ The Fitzpatrick Report – A Review of Energy Poverty and Low Income Housing, November 2003 (Fitzpatrick Associates)

¹⁹⁸ Clinch and Healy – Alleviating Fuel Poverty in Ireland : A Program for the 21st Century.

incorporated into the Warmer Homes Scheme. The Warmer Homes Scheme was established as a result of the recommendations in the Fitzpatrick Report¹⁹⁹.

Basis and Objectives of the Scheme

26.8 The Warmer Homes Scheme provides funding for the installation of energy efficient measures in households that are unable to afford the associated capital investment. The main objectives of the scheme were to

- improve the energy efficiency and comfort conditions of homes built prior to 2002 in private ownership and experiencing energy poverty
- establish the systems and grow the capacity in Ireland to install such measures.

Implementation Arrangements

26.9 The scheme is primarily administered by SEAI through 22 charitable or non-profit Community Based Organisations.

Community Based Organisations

Community Based Organisations (CBOs) are diverse in terms of method of operation, and funding. Usually, they tend to provide opportunities for long term unemployed, through Community Employment Schemes, to be trained and employed in the installation of energy products. CBO's receive funding from a number of sources including FÁS, local authorities and other Departments.

Delivery organisations are chosen by SEAI following assessment under criteria such as

- whether they have a successful track record in delivering energy or similar measures
- whether they have the technical knowledge and would be able to commit to the standards and training requirement of SEAI
- whether they can obtain funding from other sources to cover labour and overhead costs
- whether they reside in an area, that requires the service.

In practice, insulation, draft proofing and lagging of hot water cylinders are the usual type of work. Funding is drawn down in instalments based on actual activity.

26.10 The CBO assesses the householder taking into consideration factors such as income, circumstances and age of the members of the household. The primary eligibility criterion is that the household is in receipt of a fuel allowance from the Department of Social Protection (DSP), combined with owning a property built prior to 2002. When a householder is deemed eligible for a grant and the dwelling is suitable for measures required, the work is carried out by the CBO. Prior to 2010, the householder made a small monetary contribution to the CBO in certain cases.

¹⁹⁹ The Fitzpatrick Report – A Review of Energy Poverty and Low Income Housing, November 2003 (Fitzpatrick Associates)

Outturn and Cost

26.11 Between 2003 and December 2009, 32,591 households had benefited under this scheme. SEAI has stated that the pace of expansion of the scheme in programme delivery and impact has been determined by annual budget allocations.

26.12 The total planned investment for this scheme from 2003 to the end of 2009 was €27.5 million. This compares to expenditure of €26 million in the same period. Planned costs, outturn and household numbers for the scheme is set out in Figure 132.

Figure 132 Planned Costs, Outturn and Household Numbers for the Scheme 2003-2009

	2003	2004	2005	2006	2007	2008	2009 ^a	Total to end 2009
Planned Costs (€m)	0.90	0.85	1.55	1.70	2.50	5.00	15.00	27.50
Outturn (€m)	0.79	0.95	1.42	2.00	2.40	5.69	12.78	26.03
Households Assisted	1,768	1,947	1,813	2,102	3,378	5,343	16,240	32,591

Source: SEAI

Note:

a 2009 data is provisional

Administration of the Scheme

26.13 Each CBO submits payment documentation to SEAI and is paid in due course. All CBO's are audited by SEAI to ensure that documentation submitted is accurate and correct. The audits also check that the CBO is complying with SEAI terms such as insurance and data administration. The CBO's update a national database held by SEAI over the internet giving details of the number of households that have been assisted, measures installed, costs, the source of the original application, geographical location and the installers name. This database is owned by SEAI and validated by an independent agency (the energy grants agency)²⁰⁰.

26.14 The energy grants agency carries out inspections on behalf of SEAI after grant-aided installation work has been done. The energy grants agency has set a target inspection rate of between 10% to 15% of sites. In 2009, this inspection process and related services (including call centre maintenance and administrative support) cost SEAI €53,000. As part of its contract with SEAI, the energy grants agency also carries out customer satisfaction surveys. Feedback from the inspection process and the customer satisfaction surveys are used to gauge customer satisfaction. SEAI has reported that satisfaction levels are high with the scheme.

²⁰⁰

Following a tendering competition, SEAI contracted out the quality aspects of the work to an agency. This agency was established in 1990 in the UK as a privately owned company to lead UK Government funding efforts to improve the living conditions of vulnerable people living in cold, damp and energy inefficient homes. In 2007, this agency became the principal contractor, or managing agent, for energy efficiency schemes such as Warm Homes (in Northern Ireland), Warm Front (in England) and HEES (in Wales).

26.15 The energy grants agency reports monthly in relation to

- the number of houses where work has been completed in the month and cumulatively
- the type of activity carried out
- the spend by each CBO
- the number of quality control inspections and their outcomes.

Warmer Homes Scheme Plus

In 2009, as a result of additional funding provided by the DCENR, the Warmer Homes Scheme was expanded. This expansion of the scheme provides for wider geographical coverage as some areas were outside the existing CBO network and increases the number of measures available to include interventions such as central heating and dry lining. This expansion in scheme delivery was achieved by appointing a panel of private contractors through public procurement.

Of the 16,240 homes completed under the Warmer Homes Scheme in 2009, 12,669 homes were delivered by CBO's and 3,571 were delivered through private contractors. 219 of these availed of measures only available as a result of the expansion of the scheme.

According to SEAI, in 2010 full national coverage for the scheme is now available.

Under the inspection process for the Warmer Homes Scheme, it was noted that inspection results were very poor for the private contractors at the start of the rollout of the expanded scheme. According to SEAI, this was not unexpected, as contractors were adjusting to SEAI's technical specifications and workshops were only done after the panel of contractors was established for a while. According to SEAI, by July 2010, inspection pass rates have reached on average 92%.

Outcomes and Evaluation

26.16 To date no external evaluation of this project has been carried out. The scheme would benefit from evaluation at this stage of its development, including an examination of the extent to which it has achieved its stated objectives of

- improving the energy efficiency and comfort conditions of targeted households in energy poverty
- establishing the systems and grow the capacity in Ireland to install energy efficiency measures.

26.17 It was not clear whether the scheme removed households assisted under the scheme from energy poverty as SEAI does not measure the impact of the scheme on the energy efficiency of grant aided households. In November 2008, the Economic and Social Research Institute (ESRI) estimated that between 68,000 and 301,000 households are in some form of energy poverty. However, a methodology to define and identify these households has not yet been established. While household's entitlement to fuel allowance is a key criterion for eligibility to a Warmer Homes grant, to achieve maximum impact the scheme needs to actively target persons in receipt of fuel allowance. A mail shot to 20,000 homes during 2009 for the purpose of making fuel allowance recipients aware of the Warmer Homes Scheme is an encouraging initiative in this regard.

26.18 A new Energy Affordability Strategy is being drawn up by the DCENR, DSP and SEAI. It is understood that a first draft of the Strategy will be ready in Autumn 2010.

Greener Homes

26.19 The Greener Homes Scheme provides grants for the installation of certain renewable energy technologies. It commenced in 2006 with a planned duration of five years.

Basis and Objectives of the Scheme

26.20 Installations in this category can include solar heating panels, heat pumps, wood chip\pellet stoves\boilers and wood gasification boilers.

26.21 The level of grant support varies from €800 to €3,500 per installation. An installer registered with SEAI must carry out installations. These installers have received qualifications under training schemes approved by FETAC²⁰¹.

26.22 The objectives of this scheme are to

- increase the number of households in Ireland that use renewable energy heating
- guide consumers and enhance awareness of renewable energy heating choices
- ensure that the market for the products,²⁰² services²⁰³ and fuel²⁰⁴ continues to develop in a robust manner
- decrease Ireland's reliance on imports of fossil fuels
- benefit the environment by reducing emissions of carbon dioxide.

Implementation Arrangements

26.23 Applicants apply directly to SEAI for a grant. When they receive SEAI approval they may then proceed with the installation. The applicant hires an installer. The installer carries out the work and certifies that work performed meets the required standards. Payments are made directly to the applicants on foot of documented claims and installer's certification.

Outturn and Costs

26.24 The budget for the Greener Homes Scheme for the period 2006-2010 was set at €27 million. The budget allocation was increased to €57 million in 2007 to take account of higher than anticipated demand levels. In 2009, the budget allocation for the scheme is €68 million. As at the end of 2009 a total of €67 million had been spent. Planned costs, outturn and number of installations for the scheme for 2006-2009 are set out in Figure 133.

²⁰¹ Further Education Training and Awards Council (FETAC) is the national awarding body for further education and training in Ireland.

²⁰² Products that are deemed eligible under the scheme are renewable energy based heating systems under the following categories – solar heating, heat pumps, wood chip or pellet stoves or wood chip and pellet boilers and wood gasification boilers.

²⁰³ Services, in this case relates to installers and supplier of products.

²⁰⁴ For this scheme, the fuels are wood pellets and wood chips.

Figure 133 Planned Costs, Outturn and Number of Installations for the Scheme 2006-2009

	2006	2007	2008	2009 ^a	Total to end 2009
	€m	€m	€m	€m	€m
Planned Costs	4.90	28.20	22.50	12.35	67.95
Outturn	5.04	27.67	22.55	11.65	66.91
Number of Installations	1,338	8,387	9,643	7,311	26,679

Source: SEAI

Note:

a 2009 data is provisional

Administration of the Scheme

26.25 Following installation, SEAI inspects the appliances and systems installed. In 2006, it was planned that 10% of installations were to be inspected each year by SEAI inspectors. Currently, the inspections are picked randomly or as a result of complaints or if the installer is new. At December 2009, 2,255 inspections had been completed which represents 8.5% of all installations. Inspections found that 1,477 installations or 65% of all work inspected required a revisit and resolution by the installer. The result of these inspections is outlined in Figure 134.

Figure 134 Inspections and Severity Levels of Issues

	2006	2007	2008	2009	Total to end 2009
Level 1 ^a	21	81	105	36	243
Level 2 ^b	124	419	399	292	1,234
Level 3 ^c	31	125	126	131	413
No Issues	-	116	134	115	365
	176	741	764	574	2,255

Source: SEAI

Notes:

a Potential Health and Safety Risk and require a return visit.

b Matters that have the capacity to impact the performance of the system and require a return visit.

c Issues that are identified to the installer for future reference but do not require a return visit.

26.26 Since this level of revisits suggest that there is a need to address the quality of installation, I sought the views of SEAI. SEAI stated that it considered that the level of rework required was not unexpected given the approach taken to inspection generally under SEAI programmes and the known risks in the national policy drive to introduce innovative or unfamiliar systems into a traditionally unregulated domestic market. It said that, in the first instance, inspections were against very high standards set by SEAI. For this reason, a requirement for rework did not necessarily represent a poor or bad installation. Also secondly, the approach taken to inspection was a risk-focussed approach. The criteria/information that inform the selection of sites or installers for inspection included complaints, installers that are newly registered as well as a random selection. This regime would automatically mean that results would be biased toward lower performance.

26.27 SEAI stated that the results of inspections since the launch of the programme had fed into training programmes, continuous development workshops for installers, newsletters for installers identifying common reasons for rework and identifying remedies. Combined with the introduction of mandatory training in 2008, this had led to a reduction in the level of rework following inspections in later years of the scheme.

26.28 One of the key purposes of the robust inspection regime operated by SEAI was to ensure that the domestic renewable market develops with the correct standards and quality. The common reasons for reworks were collated and used to assist installers to achieve best practice in their installation works. The results of the collation are posted on the SEAI website. Repeated errors or failure to complete reworks could lead to sanction up to and including deregistration from the Greener Homes Scheme list of registered installers.

26.29 The Accounting Officer for DCENR stated that lowering revisit rates and improving installation quality would be a continuing objective of the Greener Homes Scheme. In this regard he noted that there had been a continual feedback of findings of inspections into installation training since the Greener Homes Scheme was introduced. He said that the high rate of revisits was the logical result of a deliberately chosen risk oriented inspection system that was specifically designed to focus on likely problems. It did not represent evidence of a wider quality problem. He said that the risk-based approach to sample selection meant that new installers, or installers with a record of issues, were prioritised. This both skewed the results and ensured that customers benefited from increased oversight of those most likely to be unfamiliar with these technologies. The Accounting Officer stated that the positive impact of this approach was actually seen in the high revisit rates, as the inspection mechanism focused on quality improvement and development of overall standards. The result had been a reduction in both the number and severity levels of issues arising from inspections.

Outcome and Evaluation

26.30 The number of households that use renewable energy heating systems has increased in the last four years with the actual number of installations at 26,679 under this scheme.

26.31 DCENR, under the 2009 to 2011 round of the Value for Money and Policy Review Initiative, is conducting a report on the Greener Homes Scheme. This report is expected to be finalised shortly.

26.32 One of the objectives of the scheme is to ensure that the market for the products, services and fuel continued to be developed in a robust manner. No targets were set in this area. It has been reported by SEAI that the number of products in the market that are registered with SEAI has increased significantly from 241 in April 2006 to 968 in December 2008. The number of installers has also increased with 1,625 registered with SEAI in December 2009. It is reported by SEAI that the number of suppliers of wood pellets and wood chips has increased from a very low base in April 2006 to 92 in December 2008.

26.33 It has been estimated by SEAI that the scheme to date has saved 64 kilotonnes of CO₂ emissions per annum. Since it is estimated that the residential sector accounted for 25% (11,896 kilotonnes CO₂) of energy related CO₂ emissions in 2006. This would imply that the scheme has contributed to a saving of 0.5% of the total 2006 level of CO₂ emissions in the residential sector.

26.34 The scheme does not provide for feedback on whether installations have improved energy efficiency. SEAI has stated that measures under the Greener Homes Scheme will not have any impact on energy efficiency. It stated that the Greener Homes Scheme is designed to increase penetration of renewable energy systems. However, the products that can be installed are required to be registered with SEAI, which ensures that they meet a minimum efficiency standard.

House of Tomorrow

26.35 House of Tomorrow is a scheme that was established in September 2001 by SEAI on behalf of DCENR as an element of the National Development Plan 2000-2006.

Basis and Objectives of the Scheme

26.36 The scheme was targeted at accelerating improvements in energy performance in Irish housing. This had its origins in the Green Paper on Sustainable Energy in 1999²⁰⁵, which highlighted deficiencies in this regard.

26.37 The fundamental objective of the scheme was to demonstrate the feasibility of achieving a 40% improvement on existing building regulations by providing funding for developments which achieved this through best and innovative energy efficient design, practice and technologies.

26.38 There was a focus on stimulating widespread uptake of superior sustainable energy design, specification and construction practices in both the new home building and home improvement markets.

Implementation Arrangements

26.39 This scheme was aimed at housing developers who were building at least ten dwellings. The range of developments includes large-scale public regeneration housing schemes and sheltered accommodation – both substantially provided from public monies.

26.40 The target for the scheme in 2001 was 135 projects or 3,000 houses. This was to include a geographical as well as a technical mix.²⁰⁶ An annual target was not set for this scheme. The initial response from the potential market was very weak in 2001 to 2003 and by early 2004 there were only 15 projects approved, with most of these applicants coming from the social housing market.

26.41 Interest increased over the period 2004-2007 as a result of promotion by SEAI when it targeted the building industry through the Construction Industry Federation and the Irish House Builders Association. Ultimately, in 2007, the scheme was closed off to new applicants as the targets had been reached in terms of number of houses and geographical spread.

Outturn and Costs

26.42 The financial support offered to builders was 50% of the additional costs up to a maximum of €8,000 per dwelling, for new housing projects. Non-capital related expenses were limited to no more than 30% of the entire grant. Figure 135 sets out the planned costs, outturn and number of projects completed over the nine years of the scheme.

²⁰⁵ Green Paper on Sustainable Energy, Department of Public Enterprise, 1999.

²⁰⁶ The geographical mix relates to having a spread of developments throughout the country. The technical mix relates to having a portfolio of innovation features that could demonstrate new technologies and their effectiveness.

Figure 135 Planned Costs, Outturn and Number of Projects Completed for the Scheme 2001-2009

	2001-2004	2005	2006	2007	2008	2009 ^a	Total to date
	€m	€m	€m	€m	€m	€m	€m
Planned Costs	2.32	2.60	3.52	8.00	9.00	2.00	27.44
Outturn	2.06	2.94	3.87	7.91	8.78	1.56	27.12
Total Projects Completed^b	10	11	18	33	60	9	141

Source: SEAI

Notes:

a 2009 data is provisional.

b Includes 13 research and development and feasibility study projects.

26.43 The elements installed in a total of 5,292 houses were

- 3,086 condensing boilers
- 1,411 solar hot water heaters
- 2,380 mechanical ventilation water/heat recovery systems
- 718 heat pumps
- 1,266 wood biomass boilers.

Administration of the Scheme

26.44 The administration of the scheme involved

- review of the application and sign off by the SEAI's technical manager to ensure that the proposed energy efficiency features were in line with the technical requirements of the scheme
- confirmation by the quantity surveyor, or the engineer on site, that technical features funded by SEAI were installed
- at least one site visit was also made to all sites by SEAI's technical manager to ensure that features outlined in the application were present and installed.

Outcomes and Evaluation

26.45 To date no external evaluation of this scheme has been carried out. However, SEAI has drawn up tender documentation for such an evaluation. It is SEAI's intention to get the evaluation carried out in the near future.

26.46 SEAI sees the core success of the House of Tomorrow programme in terms of its contribution to the revision of the Building Regulations in 2008 to reflect House of Tomorrow standards.

26.47 The impact of the programme was seen through accelerated regulatory change, initially at local level and subsequently at national level

- From 2005 onwards, individual local authorities began to adopt House of Tomorrow or similar standards, representing future coverage of over 10,000 new housing units. It is estimated that these standards would improve energy efficiency by 40%.
- Revision of the Building Regulations by the Department of Environment, Heritage and Local Government in 2008 made these energy and carbon performance standards a requirement for all new housing units.

26.48 SEAI stated that mainstreaming the standards had the effect of making what were originally innovative 'House of Tomorrow standards' the new regulatory norm.

26.49 SEAI estimates that, with the implementation of the revised Building Regulations as a result of the scheme, that there is a potential to reduce CO₂ emissions by 615 kilotonnes by 2020.

Conclusion

While under the Warmer Homes Scheme, investment has occurred in a range of energy saving initiatives, no work has been done to establish the extent to which they have been successful in removing the assisted households from energy poverty. It is also unclear whether the scheme penetrates through to the households in greatest need but a recent mailshot to 20,000 homes during 2009 for the purpose of making fuel allowance recipients aware of the scheme is an encouraging initiative in this regard. These issues should be examined in the course of a comprehensive evaluation.

Over 26,000 installations under the Greener Homes Scheme were in place at December 2009. It was noted that as part of its assurance process, 65% of all inspections required a revisit and resolution by the installer. Action is required to lower revisit rates and improve installation quality.

The slowdown in the building industry has had an effect on building completion rates and has made it difficult to gauge the impact of the House of Tomorrow scheme. This scheme influenced revisions in the Irish 2008 Building Regulations, but the full impact of these will only be seen when the construction sector returns to sustainable output levels.

The volume of properties impacted by the revised regulations to date is likely to be in the range of 20,000 to 30,000 with the key improvements including

- mandatory high efficiency (condensing) oil or gas boilers, first introduced as a standard innovation condition within the House of Tomorrow programme from 31 March 2008
- targeted energy and carbon performance improvements of 40% (i.e. effectively the House of Tomorrow standard), nominally from 1 July 2008. However, a transitional exemption provision which is common with the Building Regulations meant that in practice this provision only took effect from 1 July 2009.

Audit work carried out on the schemes showed the control system governing payments to be satisfactory and all cases reviewed were found to have entitlement for payment. Overall, the financial administration of the schemes was operated in accordance with preset procedures.

Evaluation to date of the three energy schemes examined has been limited and is internal in character. At this point, it would be useful to independently review their effectiveness and, in particular, the extent to which they have achieved their stated objectives. Internal evaluations, have reported the following impacts

- The Warmer Homes Scheme which targets households most at risk of energy poverty, will see 60,000 homes upgraded by end 2010.

- The Greener Homes Scheme has achieved its key objective of encouraging the development of certain sustainable energy technologies.
- The House of Tomorrow Scheme has influenced improved energy performance standards as required under the revised Buildings Regulations.

Annex A Sustainable Energy Schemes

Six schemes or initiatives are focused on improving energy efficiency in the residential sector. These are summarised below.

Schemes	Description	Output
Warmer Homes Scheme	Support energy efficiency improvements in low income households	Over 32,000 homes improved 2003-2009
House of Tomorrow	Supports to construction sector towards superior energy performance in new buildings	Over 5,000 exemplar homes. Proof of viability of increased standards – led to the 2008 Building Regulations revision
Home Energy Saving Scheme	Support homeowners investing in energy efficiency improvements	18,800 homes improved in 2009, 2,500 contractors registered
Building Energy Rating	Compliance with EPBD ^a while providing information on energy performance of homes prior to purchase or rental – shaping consumer choice and behaviour	118,000 homes rated and 2,200 registered assessors
Greener Homes Scheme	Support to homeowners to invest in new renewable heat technologies	26,600 systems installed, robust market of 1,500 qualified installers and 1,100 eligible products established
Power of One Campaign	Consumer awareness programme influencing consumer choice and behaviour on energy using products in the home	Engagement of general public on a wide range of energy behaviour messages

Note:

a EPBD - Energy Performance of Buildings Directive

Chapter 27

Department of Agriculture, Fisheries and Food

Agricultural Inspections

Agricultural Inspections

27.1 The Single Payment Scheme (SPS) was introduced in Ireland in January 2005, replacing existing schemes such as livestock premia and arable aid schemes. The SPS generally applies to farmers who actively farmed during the reference years 2000, 2001 and 2002, who received livestock premia and/or arable aid and remained farming in 2005. The SPS is decoupled from production and is based on average payments received over the reference years.

27.2 Under the SPS farmers are required to observe a number of Statutory Management Requirements (SMR's) which originate from EU legislation on the environment, public, animal and plant health and animal welfare and to maintain land in Good Agricultural and Environmental Condition (GAEC). Adherence to these farm management, environmental, health and welfare conditions is known as cross-compliance.

27.3 In Ireland, cross-compliance was extended to a number of other schemes from 2007, mainly, the Disadvantaged Area Scheme (DAS) and the Rural Environmental Protection Scheme (REPS).

Schemes and Inspections

27.4 The SPS is wholly funded from the EU while DAS and REPS are part funded by the EU. The value of these three schemes to Irish farmers was some €1.8 billion in 2009. The Department of Agriculture, Fisheries and Food (the Department) is the paying agency for the schemes and has responsibility for their administration and control and for eligibility and cross-compliance inspection.

27.5 Inspections are integrated with the general aim of minimising the number of inspection visits and moving towards a situation where, in most cases, all eligibility and cross-compliance checks are carried out during a single farm visit. The requirement to integrate inspections is also provided for in EU regulations²⁰⁷. The Department's Integrated Controls Division, (ICD) carries out the inspections. Under EU regulations between 20% and 25% of cases inspected should be selected at random, the remainder are selected on the basis of risk.

27.6 Where infringements are identified on inspection, penalties can be imposed. In 2009, penalties in relation to eligibility, full cross-compliance and Identification and Registration (IDR) of €1.9 million were imposed.²⁰⁸

27.7 Failure to exercise financial control over payments as set out in EU regulations can lead to a disallowance being applied to EU schemes. In 2009, Ireland incurred a disallowance of €15,000 as a result of a 2005 EU Commission audit.

²⁰⁷ Commission Regulation (EC) No 796/2004.

²⁰⁸ 80% of penalties are credited to the EU fund while 20% are retained and accounted for as Appropriation-in-aid of the Vote for Agriculture, Fisheries and Food.

Chapter Focus

The audit set out to ascertain

- whether the risk methodology used by the Department is effective in profiling the farming population in a way that ensures the efficiency of inspection by focussing on the most risky cases
- whether the structure and organisation of the inspection programme is sufficient to put a check on the full range of criteria taking account of timing of the underlying conditions and whether the operation of the Department's Integrated Controls Division is cost effective in the light of the pattern of inspection activity
- how the Department addressed the issues that led to an EU penalty of €15,000 being imposed.

Inspection Programme

27.8 The annual inspection programme is designed to monitor and inspect farming enterprises, as specified in the relevant EU Regulations in order to ensure that they comply with scheme conditions and regulations. The range of tests conducted are set out in Figure 136.

Figure 136 Inspection Programme Specified in EU regulations

Type of Test	Proportion of population examined	Method of selection
Eligibility	5% of total population for SPS, DAS and REPS schemes.	20-25% on a random basis and remainder on a risk assessment basis.
Cross Compliance	1% of the sample chosen for testing eligibility.	20-25% on a random basis and remainder on a risk assessment basis.
Identification and registration checks	5% of cattle farmers and 3% of sheep farmers covering 5% of the sheep population	20-25% on a random basis and remainder on a risk assessment basis

Focus of Inspections

27.9 Each type of inspection has a particular set of inspection objectives. These are outlined in Figure 137.

Figure 137 Inspection Focus

Eligibility Inspection

Eligibility checks are carried out to verify entitlement to payments under SPS, DAS and REPS. Eligibility checks carried for SPS and DAS aim to verify

- the actual area declared in applications corresponds with the area available to the farmer in that year and that no overlapping or duplicate claims exist
- the use for which land is actually employed is the same as declared on the application
- appropriate deductions have been made for all ineligible areas such as buildings
- a stocking rate of 0.15 livestock unit/hectare is observed in the case of DAS.

REPS eligibility checks also verify declared land and usage of land and adherence to various conditions set out in each farmer's individual REPS application.

Cross-Compliance Checks

Cross-compliance checks aim to verify that

- farmers comply with applicable SMR's as agreed in EU legislation in areas of environment, public, animal and plant health and animal welfare
- farmers maintain land in good agricultural and environmental condition as set out in GAEC regulations.

Identification and Registration Checks

Identification and registration checks aim to verify that

- calves are tagged with approved tags within specified time frames after birth
- all cattle are tagged, have correct passports and complete and up to date documentation
- herd registers and details on the Department's CMMS^a system are correct and up-to-date.

Note:

- a The Cattle Movement Monitoring System (CMMS) was set up the Department to trace all cattle movements from birth to disposal.

27.10 Cross Compliance and Identification and Registration (IDR) checks require on-farm visits. Cross Compliance Inspections are conducted without the farmer receiving prior notice, while IDR inspections can be undertaken with or without prior notification to the farmer.

27.11 Under EU regulations eligibility checks may be conducted using remote sensing²⁰⁹. The Department aims to conduct about two-thirds of these checks by way of remote sensing with the balance conducted by way of an on-farm visit. An external contractor is employed to conduct the eligibility checks using remote sensing. The satellite image is compared with the application to confirm eligibility. Some of these cases may require an on-farm visit to conclude on eligibility, which make take the form of a rapid field visit or a full on-farm inspection.

27.12 The audit found that for all types of inspection the level conducted exceeded the amount required by EU regulations.

Risk-Based Inspection

27.13 The selection of risk criteria and decisions about the proportion of the sample selected on the basis of individual criteria are critical to the effectiveness of the risk-based approach.

27.14 On an annual basis, a Risk Analysis Group in the Department examines the results of the previous years eligibility and cross-compliance checks in order to evaluate the appropriateness of the risk criteria used.

27.15 The work comprises two elements

- Examination of the penalties imposed in the risk-based sample to determine which risk criteria produced the most penalties. This examination takes account of cases that although selected under a particular risk criterion attracted penalties due to a different criterion.
- Examination of the penalties imposed in the randomly selected sample. A risk criterion is attached to each randomly selected case. The penalties imposed are then examined to establish which risk criteria are producing the most penalties. The results of random inspections are used as a baseline against which risk performance can be measured.

27.16 The results of these evaluations are used to decide the proportion of the risk-based sample selected on the basis of individual risk criteria in the subsequent year.

Results of Inspections 2009

27.17 The audit found that overall, a total of 7,455 farmers were inspected for eligibility and 1,361 (18%) attracted a penalty amounting to €902,052 giving an average penalty of €663. The analysis showed that

- Random inspections have resulted in penalties being imposed in 23% of cases inspected while the corresponding risk based percentage is 17%. 54% of penalties imposed in randomly selected cases are less than 3% of relevant payments as compared with 60% in relation to cases selected on a risk assessment basis.
- The penalty rate for on-farm visits is 23% as compared with 15% for cases where eligibility is checked via remote sensing.
- Penalties imposed represented 3% or less of relevant payments in 66% of SPS cases, 44% of DAS cases and 53% of REPs cases.

²⁰⁹ Remote sensing involves the analysis and interpretation of aerial and satellite imagery to confirm eligibility.

- In a small number of cases in each of the schemes the penalties imposed represented between 75% and 100% of relevant payments - 4% of SPS cases, 1% of DAS cases and 3% of REPs cases.
- SPS returned the highest percentage of penalties, 16%, while DAS returned 10% and REPs 1%.

27.18 There are two categories of inspection that examine compliance

- Full cross compliance checks which cover all 18 SMRs including IDR checks for cattle and sheep and GAEC.
- IDR checks which examine identification and registration for cattle and sheep.

27.19 A total of 1,505 farmers were inspected for full cross compliance, the majority of which included checks in relation to IDR for cattle and sheep²¹⁰. Penalties totaling €10,875 were imposed on 469 farmers (31%). The average full cross compliance penalty was €1,089. 32% of cases selected on a risk assessment basis are penalised as compared with 28% for random. As with eligibility penalties, the majority of penalties imposed are in the category of 3% or less of relevant payments — 62% of farmers.

27.20 There were 6,362 IDR checks comprising

- 4,296 farmers were inspected for cattle IDR only and penalties with a total value of €245,895 were imposed in 329 or 8% of these
- 1,763 farmers were inspected for sheep IDR only and total penalties of €163,703 were imposed in 226 or 13% of these
- 303 farmers were inspected for both cattle and sheep IDR and total penalties of €38,098 were imposed in 47 or 15% of cases.

27.21 Taking account of the two categories of compliance checks, a total of 7,867 farmers were inspected in 2009 with 1,071 (14%) attracting penalties totaling €58,571.

27.22 Penalties were imposed in the case of 5% of farmers selected randomly and 8% of farmers selected on a risk assessment basis when inspected for cattle IDR. 5% of farmers selected randomly and 10% of farmers selected based on a risk assessment basis were penalised when inspected for sheep IDR.

Views of the Accounting Officer

27.23 As the efficiency of the inspection system was called into question in instances where the level of non-compliance detected in random inspections exceeded that in risk focused inspections I sought the views of the Accounting Officer.

27.24 The Accounting Officer stated that the Department's approach to risk analysis complies with the requirements of EU regulations. Prior to 2008 Member States were required to include 10 mandatory risk criteria each year, which in the Departments view was not the optimum system as similar type farmers were inspected every year.

27.25 Since 2008, the Commission allows Member States to define the most appropriate risk criteria by establishing the relevance of each risk factor. This is achieved by comparing the results

²¹⁰ From a total of 1,505 full cross compliance inspections, 1,462 contained checks in relation to cattle IDR and 1,433 contained checks in relation to sheep IDR.

of risk based and randomly selected cases and by taking into account the specific factors in each Member State. A weighted risk approach was also tested by the Department but analysis proved it was difficult to identify the predictability of the occurrence of penalties.

27.26 The Department is obliged to include eligibility risks appropriate to SPS, DAS and REPs. As the schemes have different eligibility criteria this increases the number of risks that must be included by the Department regardless of their performance.

27.27 He stated that Commission studies on the outcomes of inspections in all Member States confirm the difficulty in ensuring risk assessed cases out perform randomly selected cases.

27.28 The Accounting Officer stated the error rate for remote sensing will generally be lower than for on-farm visits due to certain instances of non compliance which are difficult to identify remotely. Ireland has been using 12 remote sensing zones resulting in a concentration of risk based inspections in these areas. As random cases are chosen from the entire population, the majority of these fall outside remote sensing zones and therefore require on-farm visits resulting in a higher penalty rate from random inspections.

27.29 The Accounting Officer was satisfied that the tolerance²¹¹ and penalty system is adequate in acting as a genuine deterrent to non compliance and the system has been the subject of on going audits by the Commission without negative findings to date.

Conduct and Resourcing of Inspection Programme

27.30 All control checks except eligibility checks conducted by way of remote sensing require a farm visit. Inspections are arranged and conducted across four phases throughout the year as outlined in Figure 138.

- Phase 1 are identification and registration inspections.
- Phase 2 are on-farm eligibility checks of beneficiaries under DAS. These farmers may also be inspected for IDR or cross-compliance. These checks must be completed by September before DAS payments issue.
- Phase 3 are on-farm eligibility checks on applicants who are not beneficiaries of schemes other than DAS. These farmers may also be inspected for IDR or cross-compliance and must be completed by October before the advance SPS payments issue.
- Phase 4 comprises the balance of the cross compliance checks and identification and registration checks not already conducted in conjunction with eligibility checks. The only requirement for these inspections is that they are carried out within the calendar year.

²¹¹

The Department developed a weighting system within the cross compliance inspection, which allows a certain level of tolerance for infringements, which are inadvertent and minor in nature. Where tolerance is applied the farmer will be notified of the infringement and afforded time to rectify it, which will then be rechecked by an inspector. Failure to do so will result in the application of a minimum 1% penalty.

Figure 138 Patterns of Farm Visits 2009

Month	Phase 1	Phase 2	Phase 3	Phase 4	Total
January					
February					
March					
April	47				47
May	825			1	826
June	886	486	2	-	1,374
July	187	981	43	4	1,215
August	21	646	54	22	743
September	16	523	163	17	719
October	267	2	305	37	611
November	757	3	2	407	1,169
December	1062	1	1	279	1,343
Sub-Total	4,068	2,642	570	767	8,047
SCWS					603 ^a
Total	4,068	2,642	570	767	8,650

Note:

- a A total of 1,128 SCWS inspections were conducted in 2009, 525 were conducted in conjunction with other inspections, while 603 SCWS only inspections were conducted throughout the year.

27.31 The Integrated Controls Division of the Department has a complement of 152 staff; 140 involved in inspections and 12 administrative staff. In 2009 there were 86 active Technical Agricultural Officers (TAO's), with 29 in the Supervisory Agricultural Officer (SAO) grade and 25 District Superintendents (DS). The TAO's are the frontline staff who carry out the inspections, which are then checked by the SAO. The DS will check a minimum of 20% of all files and must decide on the level of penalty to apply in cases of non-compliance. On average a TAO will conduct 100 inspections annually. Allowing for annual leave and other factors such as the pattern of inspections, inspectors carry out on average three inspections each week.

27.32 A full costing of the service is not available nor is an apportionment of the cost over the different schemes under the responsibility of the Division. The Department has not developed norms in respect of the cost and duration for the various types of inspection. However, its aim is to ensure that inspections do not take more than a half-day for the average farmer client.

27.33 Overall, when direct salary costs, overheads²¹², imputed pension costs²¹³ and travel and subsistence are taken into account the cost of the inspection programme is of the order of €15.8 million. Based on this, the average cost of an inspection is in the region of €1,800. However, a more refined calculation based on the intensity of each inspection would only be possible if norms were established by the Department based on its experience.

²¹² An overhead rate of 40% has been applied based on guidance on costing public services contained in guidelines from the Department of the Taoiseach, June 2009.

²¹³ A 13% imputed pension cost has been used based on Special Report No. 68, Public Service Pensions, Office of the Comptroller and Auditor General.

Views of the Accounting Officer

27.34 In view of the apparent downtime revealed in the pattern of resource utilisation I sought the observations of the Accounting Officer. The Accounting Officer informed me that to ensure the most efficient use of resources, the Departments policy was to minimise the number of inspection visits and move towards a situation where, as far as possible, eligibility, cross compliance and IDR checks are carried out during a single farm visit. However, it is not always possible to avoid more than one farm visit. Therefore, in reality the four-phase approach adopted represents the optimum use of resources while at the same time meeting the minimum regulatory requirements including the timing of inspections.

27.35 Since SPS applications are not received by the Department until May of each year, eligibility inspections cannot commence before this date and must be completed before any payments are issued. It does, however, mean that a lull occurs in the earlier months of the year, which facilitates re-performance checks, formulating risk criteria for the upcoming inspection campaign and preparation of procedures manuals and training. Furthermore, since February 2010 the Department has undertaken to carryout 1,500 on-farm nitrates inspections on behalf of local authorities.

27.36 In regard to the cost of inspection the Accounting Officer stated that while it is possible to track the time taken between the issue of an individual file to an inspector and its return, it is not possible to individually attribute a time associated with each inspection since during a farm visit, the TAO may be completing a number of different inspections.

Addressing Issues that led to EU Disallowance

27.37 In 2005, the EU Commission carried out an audit of the Clearance of EAGGF Guarantee accounts under Article 7(4) of Regulation (EC) No. 1258/1999 and (EC) No. 1663/95. The audit focused, *inter alia*, on the Department's

- responsibility to conduct on the spot checks
- risk analysis
- quality of reports
- correct application of sanctions
- ability to ensure that all cross-compliance issues were covered.

27.38 The Commission's main finding was that the control system for cross-compliance checks for direct aid to farmers in Ireland was not in line with provisions set out under Article 47(1) of Regulation 796/2004²¹⁴ as not all farmers selected for on-farm cross-compliance checks were checked for all SMRs applicable to them. The Commission requested the Department to provide a breakdown of the population affected by the non-compliance showing the numbers of farmers not checked for all the relevant SMRs and GAEC in 2005.

27.39 On the basis of the audit findings and data provided by the Department to the Commission, the Commission maintained that the Irish system represented a financial risk and proposed a financial correction amounting to €1.8 million in January 2008. This represented a financial correction of 5% applied to the amount deemed by the Commission to be at risk. This amount of €35.4 million has been established in accordance with Commission guidelines on cross

²¹⁴ Article 47(1) of Regulation 796/2004 provides that "*In performing the checks on the sample provided for under Article 44, the component control authority shall ensure that all farmers thus selected are checked with regard to their compliance with the requirements and standards for which it is responsible.*"

compliance penalties at 3% of the direct payments for the claim year 2005. The Department made a request for conciliation following which in February 2009 the Commission reduced the disallowance to €715,000.

Views of the Accounting Officer

27.40 In view of the loss to public funds I sought the views of the Accounting Officer on how the matters giving rise to the disallowances were addressed. The Accounting Officer informed me that in his view the system of risk analysis adopted by Ireland for 2005 was at least as effective as the system proposed by the Commission. At that time farmers were selected for cross compliance inspection on the basis of risk pertaining to each individual SMR, with 1% of farmers being selected for inspection under each SMR. The Commission contended that 1% of farmers should have been selected and inspected for compliance with each individual SMR that was applicable to them.

27.41 The Department has adapted its cross compliance risk analysis from 2006 onwards in order to ensure that it complies fully with the regulatory requirements. The Accounting Officer stated that EU regulations governing selection of the control sample for cross compliance were subsequently amended in 2007 so as to allow Member states to adopt a risk selection similar to that adopted by the Department in 2005.

Conclusion

Overall, the level of inspection reached or exceeded the requirement of the EU regulations. The eligibility, cross compliance and IDR tests carried out in 2009 complied with the EU requirement that 20%-25% of required checks be selected on a random basis.

For eligibility inspections, risk focussed inspections surface less compliance breaches than pure random cases. This suggests a need to review the risk assessment basis since a fundamental purpose of risk assessment is to help an organisation focus on the riskier cases.

The estimated cost of an inspection is about €1,800 and inspectors complete on average three inspections per week. In order to arrive at a more refined costing based on the size and intensity of each inspection, relevant data would need to be collected and norms established.

To enable the efficiency and cost effectiveness of inspection services to be assessed, costing of the different types of inspections is required. Data to enable this is not currently available. For this reason and in order to establish norms in relation to the duration and costs of inspections the Department should consider ways of costing their inspectorate services.

Chapter 28

Department of Transport

Barrier Free Tolling on the M50

Barrier Free Tolling on the M50

28.1 Ten tolling schemes operate across the national primary network. Most of these schemes operate as part of Public Private Partnership arrangements. In the case of the M50, which is a motorway around the west side of Dublin, the State decided to buy out the rights of a private company National Toll Roads (NTR) while retaining tolls on the motorway.

28.2 Up to July 2008 a barrier type tolling system with partial electronic toll collection (ETC) was in place and toll income was shared between the State and the private partner. Since then all revenue accrues to the State and is retained by the National Roads Authority (NRA). From 30 August 2008 a full barrier free tolling system was installed.

Chapter Focus

This chapter reports the results of a review of the commissioning of the facilities and the first year of operation of the project (August 2008 – July 2009). In addition, it examined

- the comparative financial performance over the previous year and the challenges in maximising toll revenue
- how operations are monitored.

Commissioning of Tolling Facilities

28.3 The move to full barrier free tolling involved engaging with a toll operator to build and maintain tolling facilities and operate those facilities on behalf of the State. In developing and moving to a barrier free tolling system, the operator was required to design, build and operate the system to ensure that all toll transactions were captured and that vehicles were correctly charged. A performance testing plan was agreed in August 2007. The purpose of this plan was to ensure the system was working as intended and was secure. There were different elements to the testing plan including

- testing that the system could handle the load/volume of vehicles and transactions
- running tests to ensure the financial element of each transaction was completed by payment or otherwise
- testing that components of the systems were communicating with each other and between the operator, the Information Exchange Agency²¹⁵, the Vehicle Registration Unit of the Department of Environment, Heritage and Local Government and the banks
- user type testing – testing how the system (registration, website and payment) would interact with the user.

28.4 A committee was established to make decisions following testing and to determine whether the tests had met the contractual requirements. When the NRA was satisfied that the operator had met the requirements of the contract, and passed the performance tests, it was to issue a provisional operating permit.

²¹⁵ This is a clearing house for tolls.

28.5 The NRA engaged the services of an independent reviewer (the tolling reviewer). The tolling reviewer's role during the commission and testing phase centred around working with the operator to develop test plans to ensure that the system was capturing and processing journeys correctly and agreeing performance targets and outputs for the operator. Subsequently, its role has moved to one of monitoring the performance of the system and auditing reports generated by it.

28.6 Where performance deficiencies were identified during testing they were prioritised in terms of impact. The barrier free tolling would not be implemented until any issues impacting on revenue collection or on customers' experience were resolved. Although the operator's system did not pass all of the performance tests there were no major deficiencies and the NRA decided to proceed with the operation of barrier free tolling from 30 August 2008. Work continued to correct minor deficiencies in the system.

28.7 The NRA stated that repeating the performance tests would have delayed the system going live and affected the run-in time to the launch of barrier free tolling. The provisional operating permit was issued with effect from 1 January 2009.

Comparative Financial Performance

28.8 In the first year of operation, there were 32.8 million toll journeys on the M50, an increase of 3.8% on the previous year (August 2007 – July 2008). The NRA attributes this increase to the completion of part of the M50 road works²¹⁶ and the introduction of the barrier free tolling. It estimated that traffic volumes on the M50 at the West Link were suppressed in the period 2006-2008 by reason of road works being carried out to upgrade the motorway. The extent of the suppression was estimated at between 4% and 11%.

28.9 Figure 139 compares the total journeys and the cash collected in respect of tolls on a like-for-like basis for the twelve month periods before and after the buy-out.

²¹⁶

It is anticipated that the works will be finalised in 2010.

Figure 139 M50 Traffic and Toll Revenue

	Number of Journeys	Toll Revenue €m
Post buy-out (August 2008-July 2009)		
Cash and ETC ^a	2,703,616	6.3
Barrier Free Tolling	<u>30,107,150</u>	<u>70.3</u>
Outturn^b	32,810,766	76.6
Pre buy-out (August 2007-July 2008)		
Barrier Tolling ^c	31,595,781	79.5
Less VAT		14.0
Comparative Outturn	31,595,781	65.5

Notes:

- a Before 30 August 2008 a cash and partial ETC system was in place. Cash collected at toll booths amounted to €3.7 million and ETC revenue amounted to €2.6 million.
- b No VAT applies.
- c The revenue does not include compensation of €3.2 million paid to National Toll Roads in lieu of increases of HGV tariffs.

28.10 Revenue increased by 17% to €77 million over the corresponding period before the buy-out when measured on a like-for-like basis. In the first month after the buy-out tolls were collected at toll booths and through a partial ETC system and thereafter through barrier free tolling. Upon implementation of the barrier free tolling system the toll fee structure changed with alternative charges in respect of the various payment means available to users²¹⁷.

28.11 The revised financial arrangements also provided for late payment penalties. A further €10 million was collected in the first twelve months by way of penalties. Account management fees of €1.2 million were also collected from users with electronic tags²¹⁸.

28.12 The audit sought to reconcile the cash collected for the first eleven months of the barrier free tolling operation with that estimated to be due on the basis of journeys. Overall the income collectable aligned with the traffic throughput. The outturn is set out in Figure 140.

²¹⁷ The average toll tariff in the pre buy out period was €2.51 and €2.76 in the post buy out period.

²¹⁸ Users can opt for journeys to be detected by means of an electronic tag which is a small device mounted on the windscreen of the vehicle.

Figure 140 Revenue for First Eleven Months of Toll Operation

	Number of Journeys	Estimated Revenue €m
Actual number of journeys	30,107,150	
Exempt journeys ^a	(484,363)	
	29,622,787	
Transactions lost due to technical issues ^b	(273,185)	
Journeys potentially recoverable	29,349,602	81.0
Waived/deferred ^c		(2.9)
Toll Revenue Due		78.1
Revenue collected ^d		(70.3)
Amounts outstanding - likely to be collected ^e		(2.5)
Amounts outstanding		5.3

Notes:

- a These include journeys by motorbikes and vehicles exempted under the Bye-Laws including specially adapted vehicles for disabled persons, ambulances, Garda vehicles, fire brigades and goods vehicles registered by SÓuth Dublin and Fingal County Council.
- b A total of 702,185 journeys were lost due to technical issues – 269,000 of these were recoverable from the operator and a further 160,000 were subsequently paid by toll users.
- c This primarily relates to users who are initially charged tolls at the higher toll rates but were subsequently transferred to the lower rates under the registered payment options.
- d This excludes penalty amounts and account management fees collected.
- e This represents current amounts due from the operator and toll users.

28.13 Figure 141 provides a breakdown of the unpaid tolls at the end of July 2009 where collection is doubtful.

Figure 141 Unpaid Tolls – Doubtful Debts at July 2009

	€m
Registered user accounts with insufficient funds	0.7
Foreign vehicles ^a	2.2
Toll charges for enforcement ^b	2.0
Estimated non-recovery of toll charges currently being processed ^c	0.4
Total	5.3

Notes:

- a The majority of these are Northern Ireland vehicles for which keeper details were not available from the Northern Irish Authorities. A Memorandum of Understanding between the two jurisdictions was signed in 2010 to address this issue.
- b This represents over 700,000 cases for enforcement.
- c This was derived using a recovery rate based on data for first 11 months of operation.

28.14 The NRA has stated that its policy is to pursue doubtful debts through the enforcement process and, in particular, it will pursue amounts due in respect of Northern Ireland vehicles as it now has gained access to the relevant details for the first time.

28.15 The financial impact of the decision to move to barrier free tolling and to buy out the contract with NTR to the end of the first twelve months of operation is set out in Figure 142.

Figure 142 Financial Impact of Barrier Free Tolling to end July 2009

	€m	€m
Revenue		
Cash and ETC		6.3
Barrier Free Tolling	78.1	
Less: Unpaid tolls – doubtful debts	<u>(5.3)</u>	<u>72.8</u>
Gross revenue from tolling		79.1
Penalties and Account Management fees		<u>11.2</u>
		90.3
Costs		
Toll operations	20.0	
Enforcement	3.4	
Tolling reviewer	<u>2.1</u>	<u>25.5</u>
Surplus on current tolling activities		64.8
Less: Deemed application for M50 buy-out		(51.3)
Less: Establishment costs ^a		
Construction costs	11.5	
Tolling reviewer	<u>4.8</u>	<u>(16.3)</u>
Estimated Net Cost of tolling up to end July 2009		(2.8)

Note:

- a These were the non-recurring costs incurred in constructing and commissioning the barrier free tolling system.

28.16 In the twelve months preceding the buy-out income of approximately €22 million was received by the State from NTR. Over €90 million of toll and related revenue has been received in the twelve months since the buy-out resulting in an increase in revenue of €68 million.

28.17 The State has contracted to pay NTR an annual sum for the buy-out indexed in line with movements in the Consumer Price Index for the period August 2008 to March 2020²¹⁹. The base amount was €50 million which applied for the first five months and was indexed thereafter. For the first twelve months of operation the buy-out sum was €51.3 million.

²¹⁹

At the time of the buy-out agreement the State also assumed immediate responsibility for VAT of around €122 million and a projected liability of around €18 million over the course of the buy-out term.

Conclusion – Financial Impact of Barrier Free Tolling

The decision to move to barrier free tolling involved buying out the existing contract with National Toll Roads (NTR). Under agreements with the State, NTR had exclusive rights to operate and toll the bridge section of the M50 motorway until 2020.

The buy-out cost €51 million in the initial twelve months of operation. Costs of approximately €42 million were incurred by the NRA to the end of the period in respect of the commissioning and operation of the barrier free tolling system. The buy-out gave rise to an increase in revenue to the State in the first twelve months in the region of €68 million.

When comparing the revenue received in the pre buy-out period with that collected in the post buy-out period the revenue collected increased by 17%. The increase in revenue was mainly due to the increase in traffic volumes and an increase in the toll tariff.

Following the first eleven months of operation, the collection of over €5 million due to the tolling operator was doubtful as a result of e-flow accounts having insufficient funds, non-payment by foreign vehicles and toll charges outstanding at enforcement.

Operational Performance Monitoring

28.18 Within a period of twelve months from the commencement of barrier free tolling, the operator was required by the contract to demonstrate that the system was functioning satisfactorily. When the NRA was satisfied that the operator met the terms of the contract, it was to issue a final operating permit.

28.19 A key element in satisfying the contract terms involved achieving a Correct Handling Rate (CHR) of at least 91% over three consecutive months.

Correct Handling Rate

The Free-flow Electronic Toll Collection system processes customer information in order to charge M50 toll users. The CHR is a measure of performance of the system and reflects the percentage of toll events²²⁰ that have been correctly identified and processed using a number of indicators

- tolling events processed by the system to those manually counted on a video auditing system
- correctly recognised user identifications (vehicle class and registration status), discounting those who deliberately try to escape the tolling system
- correct calculation and processing of the toll having regard to the payment means of user
- correct processing for collection and enforcement where tolls have not been paid.

²²⁰

A toll event is the passing of a vehicle through toll point (whether a toll is payable or an exemption from the toll applies).

28.20 The CHR calculation method was provisionally agreed²²¹ in June 2009 and the independent reviewer validated the data for the fourth quarter of 2009. This work was completed through sample testing and checking chains of information from the roadside equipment through to the billing and payment systems.

28.21 It was originally anticipated that the final operating permit would be issued in August 2009 upon achievement of the CHR target and when any outstanding issues had been resolved. The operator did not achieve the target CHR rate until the fourth quarter²²² of 2009. The final operating permit was issued with effect from January 2010. However, at this time a full disaster recovery plan had not been completed and the payment card industry standard had not been achieved. The disaster recovery plan has since been approved and the tolling operator has been validated as being compliant with the payment card industry standard.

28.22 Under the contract CHR targets increase from 91% in the first year of operation to 95% by the fourth year. The operator is eligible for a performance bonus where the relevant CHR target has been achieved or exceeded. The bonus arrangements are structured to incentivise the operator with higher payment rates in the first two years of operations. Where the CHR targets are not met, the operator incurs a deduction in payments²²³.

Ongoing Reporting Requirements

28.23 As part of the contract, the operator is required to submit daily, weekly and monthly reports to the NRA to allow it to monitor both the toll activity and its performance.

28.24 The main management tools the NRA has at its disposal are monthly reports covering traffic volumes, revenue, operations and customer service, and monthly meetings with the independent reviewer and operator. Any issues that arise from the reports are put on the agenda for discussion at a monthly meeting with the operator.

28.25 The tolling reviewer employed by the NRA has carried out a review of the key monthly reports (i.e. traffic and revenue) and has recently submitted a preliminary report to the NRA which has validated traffic and revenue information in the reports.

Conclusion – Ongoing Reporting Requirements

The contractual mechanism has increasing performance targets rising from 91% to 95% by year four corresponding with reductions in bonus payments which is in line with expectations of operational improvements over time and the need to incentivise the operator more in the early years of the contract.

The CHR, the methodology for measuring the operator's performance in capturing all transactions, was not provisionally agreed until June 2009. The final operating permit was issued in January 2010 following achievement of a CHR of 92% for the final quarter of 2009.

²²¹ This was finalised July 2010.

²²² At that stage a rate of 92.1% was achieved.

²²³ A tolerance of up to 5% of the CHR target is applied in determining whether a deduction is made.

Department Monitoring

28.26 The Accounting Officer outlined the following arrangements in relation to effectiveness monitoring.

- As part of the annual budgetary process, the Department of Transport is provided with the NRA's projections of revenue and cost in respect of its tolling operations.
- The primary formal reporting mechanism is by way of the annual accounts and reports on the operation of the M50 barrier free tolling.

28.27 A quarterly National Roads Monitoring Group meeting between the NRA and the Department provides, and is used as, a forum for monitoring the M50 tolling project on an ongoing basis.

Conclusion

The operational surplus on M50 tolling activities for the initial twelve months of operation was approximately €65 million, which includes €1 million received in penalties and account management fees.

Toll revenue increased by 17% on a like-for-like basis over the corresponding period due to an increase in traffic volumes and an increase in the toll tariff.

Overall, after taking account of M50 buy-out and establishment costs the net cost of tolling operations up to the end of the first twelve months was €3 million.

Chapter 29

Department of Enterprise, Trade and Innovation

National Training Fund - Skillnets

National Training Fund - Skillnets

29.1 The National Training Fund (NTF) was established under the National Training Fund Act, 2000. Its resources are used to fund training of people who are either in employment or seeking employment. The fund is resourced by a levy collected from employers as part of social insurance contributions. It was set at 0.7% of the reckonable earnings of employees in 2009. Payments from the NTF may be used to finance a range of schemes aimed at

- raising the skills of those in employment
- providing training to those who wish to acquire skills for the purposes of taking up employment
- providing information in relation to existing, or likely future, skills requirements in the economy.

29.2 The amounts to be paid in pursuance of those objectives are determined by the Minister for Education and Skills²²⁴ with the consent of the Minister for Finance. The total expenditure from the NTF in 2008 and 2009 is shown in Figure 143.

Figure 143 National Training Fund Expenditure 2008 and 2009

Expenditure	2008 €m	2009^a €m
<i>Training for those in employment</i>		
FÁS	168.8	103.2
Skillnets Limited ^b	26.0	16.6
Enterprise Ireland	3.0	2.9
IDA Ireland	2.5	2.5
Skillnets Services Limited ^c	0.7	-
Other bodies	1.3	1.4
	202.3	126.6
<i>Training for employment</i>		
FÁS	195.8	238.9
<i>Provision of information on skills requirements</i>		
FÁS – Skills Analysis Unit	0.4	0.4
Forfás	0.5	0.5
	0.9	0.9
Total Expenditure	399.0	366.4

Source: Department of Enterprise, Trade and Innovation.

Notes:

- a The 2009 expenditure figures are subject to audit.
- b The 2009 amount of €16.6 million includes an allocation of €1 million to the Finuas Networks Programme dedicated to providing specialised training within the International Financial Services industry.
- c Skillnets Services Ltd is a wholly owned subsidiary of Skillnets Limited established to manage the Accel Programme from 2006 to 2008. The total cost of the programme was €24.2 million. ESF support provided up to 75% matching funding of €13 million, the National Training Fund contributed €3.6 million (final payments of €0.7 million were made in 2008) and member companies provided the remaining €7.6 million.

²²⁴ Responsibility for the National Training Fund, FÁS and Skillnets transferred from the Department of Enterprise, Trade and Innovation to the Department of Education and Skills from May 2010. National Training Fund expenditure and allocation of funding for 2009 was the responsibility of the Department of Enterprise, Trade and Innovation.

Chapter Focus

As Skillnets is an example of a service delivery model where publicly subvented services are delivered by the private sector at arms length from the funding body, I reviewed how those services are delivered and how the use of the public funding is monitored to ensure that it is applied for the purpose intended.

Skillnets Programme

29.3 Skillnets Limited (Skillnets) is a company wholly funded from the NTF in order to support the development of workplace skills. It supports and funds networks of enterprises to engage in industry specific training under the Training Networks Programme (TNP). The Skillnets board comprises employer and employee representatives as well as three nominees of the Minister for Education and Skills. Skillnets operates under a five-year agreement with the Department of Education and Skills (DES) and the current agreement runs until 2010.

29.4 The concept involves supporting and funding networks of enterprises to come together to jointly address their common training needs, collaborate with other enterprises and engage experts, trainers, certifying bodies, industry bodies and others to work with them to achieve their training goals. Following an agreed budget allocation from the DES, Skillnets invites applications for funding from groups of enterprises including existing training networks. Proposals received are assessed against set criteria before successful networks are funded for the TNP on a two-year basis.

Funding Arrangements

29.5 Skillnets was originally allocated €24.8 million for 2009. However, due to the economic downturn and reductions in government spending, the allocation was subsequently reduced in March 2009 by close to €5 million and by around a further €3.5 million by mid-May resulting in a final budget of €16.6 million for the year. Expenditure by Skillnets in 2008 and 2009 is shown in Figure 144.

Figure 144 Skillnets Ltd Expenditure in 2008 and 2009

	2008	2009 ^a
	€m	€m
Direct Programme Cost	23.6	13.8
Administration Cost ^b	2.6	2.7
Total	26.2	16.5

Source: Skillnets

Notes:

a The 2009 amounts are provisional figures.

b The administration costs are lower in 2008 as they were in effect subsidised by Skillnets Services Ltd by approximately €500,000 due to the transition of staff and other resources between Accel and TNP.

29.6 In managing the TNP, Skillnets does not deliver training directly to networks²²⁵. When a network is approved for TNP funding, it appoints a contracting organisation²²⁶ to sign a funding agreement with Skillnets on its behalf. The agreement includes a network plan and sets out the network's targeted deliverables and outcomes and the approved budget. A network manager is appointed by the contracting organisation to manage the implementation of the plan.

29.7 Grant payments are made on a phased basis to networks by Skillnets and the first payment (30% of grant) is issued in advance in order to allow a network immediate access to the funds required to deliver the plan. Further payments are conditional on the network reaching a certain level of activity and performance. The final retention payment (15% of total grant) is not made until the following year and is conditional on the network meeting all of Skillnets financial and reporting requirements, including the submission of an independent accountants report.

29.8 Funding received is used to support networks of enterprises to engage in training. The networks are led and managed by the enterprises themselves who design, manage and deliver specific training programmes across a range of industry and service sectors. The networks are monitored by Skillnets to ensure that they comply with all reporting and operational guidelines issued and they in turn are required to monitor the delivery and quality of training to the employees of the member companies.

29.9 Network member companies contribute a certain amount of matching funding. Under the TNP 2008-2009, matching funding, of between 10% and 30% of the cost of all eligible network activities was provided by member companies. Matching funding took the form of membership fees and/or training course fees.

29.10 Skillnets set out procurement guidelines for networks. These cover arrangements for the appointment of training providers²²⁷. Procurement arrangements for these appointments are the responsibility of the network manager, steering group and contracting organisation.

Programme Output

29.11 123 training networks were initially approved for funding under the 2008-2009 TNP. These were subsequently reduced to 103 by the end of 2009 due to funding cutbacks. The targeted number of persons to be trained in 2009 was set at 39,850. Actual numbers trained were reported at 40,123. Training to management in the SME sector, which is a key target group for Skillnets, represented 35% of the total training in 2009.

29.12 The actual number of training days delivered in 2009 was 193,757, which exceeded the targeted number of training days of 182,400 by 6%. The percentage of certified courses accredited under the National Framework of Qualifications²²⁸ was 30% and represented 59% of training days delivered. The 2008-2009 TNP incentivised networks to increase the amount of training provided to those with low basic skills by providing an extra premium to networks for providing such training. In 2009, 93,020 training days were provided for those with low basic skills against a target of 79,950 days.

²²⁵ The exception is a level 6 Diploma in Managing Business Networks accredited by the Dublin Institute of Technology which Skillnets deliver each year to network managers.

²²⁶ The contracting organisation must be a corporate body and is responsible for establishing a Steering Group, appointing a network manager and ensuring the implementation of the network plan and compliance with all of the conditions of the funding agreement.

²²⁷ Skillnets has no direct commercial or contractual relationship with training providers. The contracting organisation for each network is responsible for appointing training providers.

²²⁸ The National Qualifications Authority of Ireland is responsible for the implementation of the National Framework of Qualifications introduced in 2003, which provides a framework to compare and contrast the level and standard of different qualifications.

Control and Monitoring

29.13 A programme support manager within Skillnets is allocated to each network to provide support and monitor the network finances. The programme support managers conduct quarterly reviews of each network's progress in delivering the targeted training programme including details of income and expenditure, member companies, participants and training activities. These are recorded on a management information system – the Skillnets Activity Management on-line reporting system. The networks electronically submit regular updates on their financial activity, training activity and evaluation information which feed into the quarterly progress reports. The information system is also used to ensure that reporting requirements of networks are met before the final grant instalment is made. These requirements include the submission of an independent accountant's report on network finances and an independent evaluator's report that assesses the degree to which performance targets have been achieved.

29.14 Skillnets aims to carry out a monitoring visit to each network once in each two yearly cycle to review the organisation and control of the network, the network finances and to give guidance on financial issues – these are known as finance visits. 16 finance visits were carried out in 2008, two in 2009 and a further one to date in 2010. According to Skillnets, the increased workload and reduced staff resources caused by funding reductions impacted on its ability to complete finance visits.

29.15 During a visit to Skillnets, staff from my Office reviewed inspection reports arising from the finance visits. These indicated that various control weaknesses were identified and networks had been issued with comments and recommendations to improve controls. Control weaknesses identified in finance visits included

- Procurement issues arose in 12 of the 19 networks visited between 1 January 2008 and early 2010 – supporting documentation such as scoring sheets were missing for tenders in nine of the 19 networks and contracts were not tendered for in five of the 19 networks reviewed.
- Trainee profile sheets were missing or incomplete in five of the 19 networks visited and for one course 18 out of 50 profiles were missing. Attendance sheets were ticked rather than signed in two networks and missing for one course with five participants in another network. Evaluation forms were missing or incomplete in five networks.
- Other control weaknesses related to issues such as incorrect classification of expenditure or income items and missing records of meetings.

29.16 One network of the 19 visited had been the subject of anonymous allegations of malpractice received by the Department of Enterprise, Trade and Innovation in February 2009. In late 2008, arising out of its own monitoring procedures, Skillnets had a number of concerns about the network relating to banking practices and procurement issues and were following up on these matters prior to the allegations being received. Skillnets staff conducted a review of all financial and operating procedures in March 2009 and issues were identified in relation to the operation of a second bank account and the provision of training services by an external evaluator engaged to evaluate the network's performance.

29.17 The main concern related to the procurement practices of the network. Skillnets disallowed all expenditure to a training company in 2008 amounting to €37,965 and costs incurred by the network in 2009 amounting to €65,520 were also deemed to be ineligible. No loss of public funds occurred in this instance.

Training Delivery Concerns

29.18 Following the receipt of anonymous allegations in February 2010 in relation to a specific training provider, Skillnets began an investigation and identified 24 networks that had made payments to that training provider in the 2008-2009 TNP. Skillnets officials made unannounced visits to four networks in February 2010 that had been named in the allegations and as they had serious suspicions of fraud in the case of two networks, the Garda Bureau of Fraud Investigation was informed in March 2010. Skillnets engaged the services of a firm of Chartered Accountants, who have also acted as internal auditors to Skillnets for the previous three years, to assist in the investigation and to report on its findings to the Board of Skillnets.

Investigation Findings

29.19 The investigation by the accountants found that 24 networks had made payments to the training provider in the 2008-2009 TNP. There was evidence to support the allegations in relation to 12 of these networks. No evidence of irregularities was found in ten and investigations into the remaining two are on-going. The 12 networks paid the training provider a total of €319,520 for 24 courses. The findings of the investigation in relation to these 24 courses were

- eight courses were not delivered
- a further eight of the courses were delivered to companies who were not members of the relevant network
- eight courses were delivered to network members but in four of these cases there was insufficient evidence that all of the trainees claimed for attended
- in three of the eight courses that were delivered to network members, the training provider collected the matching income directly from member companies
- payment for one course which was delivered was disallowed because, although the company was a member of the relevant network, it was publicly funded and therefore ineligible.

~~29.20~~ The investigation found that for courses that did not take place there were trainee profile sheets, evaluation forms and signed attendance sheets on file for the trainees who allegedly attended these courses.

29.21 One of the 12 networks made a payment of €12,000 to the training provider for the delivery of two courses. The training provider subsequently informed the network that the payment should not have been applied for as trainees paid their own fees for one of the courses and the other was cancelled due to lack of numbers. The investigation found that documents may have been fraudulently prepared or manipulated in relation to the course that was cancelled. Skillnets brought this matter to the attention of the Garda Bureau of Fraud Investigation. The provider refunded the €12,000 to the network but the incident was never disclosed to Skillnets, which might at the time have helped to deter further malpractices. The refund was subsequently incorrectly treated as income resulting in an overclaim of expenditure by the Network, which is being pursued by Skillnets.

29.22 It was noted during the course of the investigation that some Waterford Institute of Technology (WIT) certificates were retained on file as evidence of training. Skillnets made contact with WIT in May 2010 and provided documentary evidence of the WIT certificates for verification. After reviewing the certificates, WIT informed Skillnets that the certificates did not appear to be genuine nor were they signed by an authorised official. WIT is to further investigate the matter.

29.23 In relation to any net loss of public funds, Skillnets has reviewed all courses provided by the named provider to the 24 networks and may deem network expenditure totalling €319,720 as ineligible based on their findings, with Skillnets grant funding applicable to these payments amounting to €202,586. To date, Skillnets has deemed expenditure of €129,800 as ineligible with grant funding applicable to this expenditure amounting to €95,634. After allowing for retention money accruing to the networks from 2009, the maximum loss of public funds is estimated by Skillnets to be €9,645. Skillnets is working with the contracting organisations of the networks to recover, in whatever way appropriate, the loss of public funds and will consider taking legal action for recovery of debt or other redress where appropriate.

29.24 The investigation found cases where the training provider paid the matching income over to the network. The effect of allowing the training provider to collect the matching income is to reduce the contact the network has with its member companies and trainees. This raises the possibility of the inclusion of fictitious trainees as the network cannot directly verify the numbers of trainees in attendance and it assists in concealing training courses that did not take place.

29.25 The investigation identified two networks that were operating more than one bank account to lodge matching funding, contrary to Skillnets funding conditions.

Allegations Relating to FÁS

29.26 Skillnets informed FÁS in February 2010 of allegations that FÁS had also been the subject of these malpractices. FÁS met with Skillnets on 26 February 2010 and based on this meeting immediately commenced a review of its activities with the trainer. Based on this work, a decision was made to allocate a member of the internal audit team to commence an investigation. The detailed work commenced in May 2010. FÁS informed me that

29.27 The training provider had received contracts worth €658,498 in the years 2003 to 2010. Initially, audit work is focussing on four head office contracts with a total value of €107,500 in 2008-2009.

29.28 The potential loss of public funds cannot be accurately estimated until the investigation is complete and any loss will be offset against monies due to the training provider. Outstanding payments of €38,362 to the provider are currently being withheld along with retention monies of €12,458 in respect of a training contract.

29.29 The investigation is continuing and FÁS cannot commit to a report completion date until all enquiries are completed.

Observations of Skillnets

29.30 The Chief Executive Officer (CEO) stated that Skillnets has now committed to conducting at least one compliance visit per network annually. The commitment to compliance checks will complement the quarterly and annual monitoring processes. The scope of these visits will be expanded, above finance visit checks, to include sample checks with companies and trainees with regard to the training delivered. The sample checks can take place at any time during the year and networks have been informed that Skillnets have directed that network managers should attend as many training events as is feasible and that Skillnets staff may attend training events on an unannounced basis.

29.31 The CEO stated that the operating guidelines and funding agreements have been amended to make clear how networks should manage their relationships with member companies, the rules relating to the payment of matching income and the requirement that networks operate one bank

account. Procurement guidelines have also been expanded to include further guidance on contracting with service providers.

29.32 In response to my enquiry as to what further actions Skillnets propose to take to bring this matter to a conclusion, the CEO explained that they were still engaged in the following

- concluding on the scale of ineligibility for all networks where this has yet to be determined
- where there are insufficient retention monies held, pursuing repayment of the grant related to ineligible expenditure
- continuing liaison with FÁS and WIT as they progress through their own investigations and continuing contacts with the Garda Bureau of Fraud Investigation
- based on legal advice obtained, all current networks have been informed not to use the named training provider without the consent of Skillnets
- Skillnets have commenced a sample based audit of the providers for the years 2008 and 2009 based on the criteria of scale of expenditure, spread of activity with other networks and instances where issues have been identified.

Views of the Accounting Officer

29.33 Prior to May 2010, responsibility for the National Training Fund and therefore Skillnets funding rested with the Department of Enterprise, Trade and Innovation. As responsibility has since been transferred to the DES, I sought the observations of the Accounting Officer of that Department.

29.34 The Accounting Officer informed me that any specific requirements DES may have, in terms of policy aims to be underpinned by Skillnets TNP, are communicated to Skillnets by DES as conditions of the confirmation of their funding. Requests for tranches of funds voted to Skillnets are examined by DES to ensure their appropriateness. The Minister for Education and Skills nominates three representatives to the Board of Skillnets, one of whom is an officer of DES. The relationship between Skillnets and DES is set out in the Mandate and Funding Agreement for TNP which in its current form runs until the end of 2010. DES obtains assurance as to the financial control of Skillnets through the monitoring and control mechanisms operated by Skillnets and the reporting mechanisms to the Board and to DES.

29.35 In relation to the allegations of irregularities, Skillnets kept DES informed at all stages and DES is satisfied with Skillnets investigation of the matter to date. DES has agreed with Skillnets that a number of strengthened monitoring measures are required taking into account the recommendations of the investigation report. Matters arising from the allegations and their investigation will be considered in the context of any future funding of Skillnets TNP.

29.36 DES will consider the results of an external evaluation of TNP, to be commissioned by Skillnets in 2010, with a view to any improvements recommended in the TNP and its operation. In providing funding for the 2010 TNP, DES had already, in December 2009, required a number of new measures including

- a consolidation and streamlining of the number of networks funded (with a maximum of 70 to be funded)
- a requirement that networks provide an increased level of matching funding of 50%
- a limit on the management costs of networks to 25% of total expenditure, all of which are to be met by private funding

- the capping of retention payments at 10% of total grant paid and at €1 million in total across the TNP.

Conclusion

A plan of control designed to ensure that services subvented are actually delivered is necessary in order to ensure that public money is ultimately applied for the purpose intended.

Funding reductions adversely affected the number of monitoring visits carried out by Skillnets.

The lack of direct contact by Skillnets with member companies or trainees and the absence of sampling or spot-checking on individual courses or events run by networks made it difficult to verify that training took place.

There needed to be more separation of the functions of training procurement and provision. Allowing the training provider to take too active a role in the delivery and financial management of training networks made it difficult to identify those courses that did not take place or were not provided for the benefit of members.

The recommendations of the investigating accountants summarise the areas where Skillnets need to enhance its control regime including

- direct follow-up contact by Skillnets with trainees
- clear written communication to each network of its responsibilities
- allocation of a unique identifier to each training provider and quarterly review by Skillnets of total payments to each provider
- full details of matching income to be recorded by networks on Skillnets' management system and reconciliation of matching income for each course
- review of procurement in each network
- written confirmation from network directors that only one bank account operated and a requirement that independent accountants obtain standard bank confirmations.

In response to my enquiries in regard to the lessons learned as a result of this incident and how this experience will inform future monitoring and operational procedures, the CEO of Skillnets informed me that the recommendations for new and amended systems of control contained in the investigation report have been fully accepted and will be implemented in 2010. He said that the incident pointed out the risks involved when networks allow the training provider to take too active a role in the delivery and financial management of training. It also highlighted the need for Skillnets to more effectively monitor, on a sample basis, the end-users of the training i.e. trainees and companies.

Chapter 30

Department of Enterprise, Trade and Innovation

Redundancy and Insolvency Payments

Redundancy and Insolvency Payments

30.1 The Department of Enterprise, Trade and Innovation (the Department) is responsible for the management of statutory redundancy and insolvency schemes under the Redundancy Payments Acts, 1967 to 2007 and the Protection of Employees (Employers' Insolvency) Act 1984. The Department administers three main types of payment under those schemes

- rebates to employers of 60% of the statutory redundancy payments made to employees
- statutory redundancy payments to employees in cases where employers are not in a position to make the payments
- in cases of insolvency, payments to employees (usually made through liquidators or receivers) in relation to outstanding entitlements relating to pay.

30.2 The Social Insurance Fund (SIF) managed by the Department of Social Protection (DSP) bears the cost of the schemes. It is intended to integrate this function into the DSP from January 2011.

Scheme Outturn

30.3 Figure 145 outlines payments made in respect of redundancy and insolvency for the years 2004 to 2009²²⁹.

Figure 145 Scheme Expenditure, 2004-2009

Scheme	2004	2005	2006	2007	2008	2009
	€m	€m	€m	€m	€m	€m
Employer Rebates	137.8	137.9	152.1	167.4	161.8	247.9
Employee Payments	14.3	11.3	14.3	15.9	31.9	88.0
Insolvency Payments	5.5	4.6	4.3	5.7	10.1	20.0
Total Expenditure	157.6	153.8	170.7	189.0	203.8	355.9
Less Receipts	10.6	3.8	1.0	1.6	1.9	6.2
Net Expenditure	147.0	150.0	169.7	187.4	201.9	349.7

Source: Redundancy and Insolvency Division, Department of Enterprise, Trade and Innovation.

30.4 Overall, there was a three-fold increase in the number of redundancy related claims received between 2007 and 2009, rising from 25,459 to 77,001. Insolvency claims also increased by similar proportions rising from 5,895 in 2007 to 21,411 in 2009.

Chapter Focus

The audit focused on redundancy payment administration and reviewed Departmental controls to manage the payment systems. It also examined subsequent employment patterns for persons made redundant up to the end of 2009.

Payment Administration

30.5 A sample of 15 employers, accounting for 902 redundant employees, was selected in order to establish whether there were sufficient controls in place to ensure that redundancy payments made were within the parameters of the scheme. The audit examined procedures in place to ensure that

- all required documentation had been submitted with claims
- appropriate officials had checked that claims had been made within the rules of the scheme
- an authorised officer had authorised payment of the claim
- amounts refundable by employers were recorded
- claimants' entitlement under social welfare criteria had been checked
- the data in the Redundancy and Insolvency computer system had been accurately recorded.

30.6 The audit also checked 110 claims in detail to ensure they conformed with eligibility criteria and that the resulting payments were accurate.

Conclusion – Administration

The audit showed the control system governing payments to be satisfactory and all cases reviewed for eligibility were found to have entitlement to payment.

Debt Management

30.7 A debtor balance is created and recoupment is sought from the employer when lump sums of 100% of statutory redundancy entitlements are paid to an employee or when amounts under the Insolvency Scheme are paid out of the SIF.

30.8 At 31 December 2009, the SIF was owed €144 million by employers. Employer liabilities classified by age of debt are summarised in Figure 146.

Figure 146 Aged Analysis of Redundancy and Insolvency Debtors

Year of Debt	Original Debtor Raised	Receipts ^a in Respect of Year	Receipts as Percentage of Original Debtor	Write Offs and Adjustments ^b in Respect of Year	Outstanding 31 December 2009 ^c
	€	€	%	€	€
Up to 31 December 2004	70,231,015	15,413,469	22%	15,824,961	38,992,585
2005	9,821,792	1,695,372	17%	1,360,982	6,765,438
2006	10,939,261	3,312,308	30%	355,485	7,271,468
2007	12,923,670	678,387	5%	70,752	12,174,532
2008	24,063,239	821,219	3%	129,772	23,112,247
2009	56,583,460	674,411	1%	15,089	55,893,960
Total	184,562,437	22,595,166	12%	17,757,041	144,210,230

Notes:

- a Receipts do not include €15,820 received in 2009 relating to debts raised in 2010.
- b This includes reductions of €569,135 in the amounts owing to reflect the change in status of a company from defaulter to insolvent.
- c The debtors figures provisional and are subject to audit.

30.9 The level of debt due to the SIF has increased by approximately 62% (€55 million) from 2007 to 2009. At the end of 2009, there was a liability of €78 million outstanding in respect of the Redundancy scheme and €66 million in respect of the Insolvency scheme. Debt arising in 2009 alone accounted for around 39% of this, while amounts owed for more than five years made up 27% of the outstanding sums.

30.10 22% of debts raised in the period up to and including 2004 have been collected. Since then, with the exception of 2006 where recovery is currently at the rate of 30%, levels of recovery have been low.

30.11 In the case of insolvency debt, the Department has indicated that its current focus is on cases where liquidators or receivers have been appointed.

30.12 While it has no formal targets for recovering outstanding amounts, the general aim is to recover as much debt as possible.

Receipts

30.13 In 2009, the total collected from debtors to the SIF was €6.2 million. The pattern of collection suggests that there can be a considerable time lag in recovering outstanding amounts. Figure 147 sets out the recoveries in 2009 to the year when the debt was incurred.

Figure 147 2009 Receipts by Year of Origin

Year of Debt Creation	2009 Collection €
Up to 31 December 2004	1,318,944
2005	464,039
2006	2,528,137
2007	517,877
2008	736,381
2009	674,411
2010 ^a	15,820
Total	6,255,609

Note:

a Receipts of €15,820 were received in 2009 relating to debts raised in 2010.

Write-Offs

30.14 €8.7 million of the cumulative write-offs of €17.2 million occurred in 2009.

30.15 In administering these write-offs, a Write-Off Committee established in the Department in April 2008 has authority to deal with amounts under €10 million, subject to approval at Assistant Secretary level in the Department. The Secretary General of the Department must approve amounts in excess of this threshold. Figure 148 relates the amounts written off in 2009 to the year in which the debt first arose.

Figure 148 Debt Written Off in 2009

Year of Origin	2009 Write-Offs €
Up to 31 December 2004	7,153,512
2005	1,145,213
2006	353,395
2007	49,240
2008	-
2009	-
Total	8,701,360

30.16 All companies being dealt with by the Write-Off Committee are either in liquidation, receivership or subject to a High Court Order for winding up. Since its establishment in 2008, the Write-Off Committee has written off debts relating to almost 680 companies. The largest write-off was €1.9 million and the smallest was €127.

Views of the Department of Enterprise, Trade and Innovation

30.17 During the period January 2009 to May 2010, a total of 80,188 redundancy claims were paid with an associated statutory redundancy entitlement of €789 million.

30.18 In response to my enquiries, the Accounting Officer stated that the growth of debt in 2009 and the extent of employer default should be viewed in light of the unprecedented downturn in the economy which saw increasing numbers of companies ceasing to trade completely and defaulting on their debts. The Department continues, despite the very considerable pressures on the payments front, to actively pursue all monies owing to the SIF with the issuing of reminders on a quarterly basis to all companies and sole traders who have a liability to the Fund.

30.19 He stated that the Department has become more active in insisting, in the case of informal insolvency, on employer acknowledgment of the 40% liability to the SIF. The Department has engaged with companies to seek instalment payment plans and this has shown some positive results. Recoveries of €6.2 million in 2009 represented a significant increase on earlier years but is still small compared with the level of expenditure from the scheme, representing just 1.7% of the total redundancy expenditure in 2009.

30.20 In cases where scheme payments have been made on behalf of an insolvent employer, the Department, while a preferential creditor, has to wait until the liquidator has completed the liquidation, before it can be determined as to what, if any, dividend will be paid. Where a dividend has been paid which is insufficient to defray the liability to the Fund and the company has been dissolved, the balance is written off by the Write-Off Committee. Once the liability to the Fund has been acknowledged, there is no statutory limitation on its collectability and those with liabilities to the Fund are sent reminders regularly.

30.21 In the case of employers with existing debt who become entitled to a rebate and have failed to pay other employees their statutory entitlements, the liability to the Fund is satisfied from the rebate.

Conclusion – Debt Management

All debt was found to be listed for recovery. While the present economic conditions militate against recovery, the Department would need to apply focused risk management to all components of the debt and to guard against premature write-off of amounts owing.

Subsequent Employment History

30.22 Statutory redundancy is paid in recognition of the fact that the employee has, inter alia, been in continuous employment with his former employer for a period of at least two years. The payment is intended to assist the transition of that employee into another employment, which could happen immediately after the termination of his previous employment.

30.23 Employees who have been made redundant by their former employer are not in any way limited from taking up new employment.

30.24 The examination found that 903 companies that had made 16,211 employees redundant in 2009 had subsequently reemployed 1,464 of those employees. The statutory redundancy entitlement of the employees reengaged amounted to €12.9 million. About 54% of the employees reemployed by the same employer came from building and civil engineering or manufacturing. Employees reengaged within three months of being made redundant represented 24% of those reengaged. 7% were reengaged within one month.

30.25 425 employees previously employed in 19 companies moved en bloc in groups of ten or more to another employer. The statutory redundancy entitlement of these individuals was €7.4 million. More than one-third were reemployed within 30 days and most of them were employed within three months.

30.26 Ten or more employees transferred into pension arrangements in the case of 15 employers. In total, 544 individuals with a statutory redundancy entitlement of €20.6 million were identified as transferring to pension arrangements.

Conclusion – Subsequent Employment

Overall the audit noted that

- 1.6% of the total statutory entitlement of payments examined in the period January 2009 to May 2010 was in respect of persons rehired by the employers who made them redundant
- Just under 1% represented a sample of employees who were rehired in groups of ten or more by employers in related businesses
- 2.6% consisted of employees who moved to pension schemes.

Conclusion

The audit provided assurance that redundancy payments are in accordance with entitlement.

A net €552 million was paid out of the Social Insurance Fund in the 24 months to 31 December 2009. Included in this amount are obligations of €79 million which the State has met following default by employers and not yet recovered.

With the transfer of responsibility for the scheme to the Department of Social Protection, an opportunity arises to increase monitoring of overall employment patterns, including reemployment following redundancy. Such information could provide a valuable input into future employment policy initiatives.

Chapter 31

**Department of Social Protection
Expenditure on Social Welfare**

Expenditure on Social Welfare

31.1 The Department of Social Protection (the Department) is accountable for expenditure of €20.5 billion in 2009. These funds were processed through Vote 38 (€10.7 billion²³⁰) and the Social Insurance Fund (€9.8 billion). In addition, significant social welfare spending also occurred under schemes funded through other Votes.

Chapter Focus

This chapter summarises expenditure on social welfare from the various accounts, indicating the source and application of the funds applied over the past four years, together with 2010 projections.

Welfare Expenditure

31.2 All expenditure under the Department's Vote and the Social Insurance Fund (SIF) 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
- Domiciliary Care Allowance (DCA), which was operated by the Health Service Executive (HSE) until 2009
- Blind Welfare Allowances, currently operated by the Health Service Executive (HSE).

31.3 A Government decision was made in 2006 to transfer responsibility for the DCA and Blind Welfare Allowance schemes to the Department. The Department has decided all new claims for DCA since 1 April 2009, and took over responsibility for the payment of all DCA claims from the HSE in September 2009. A date has not yet been set for the transfer of the Blind Welfare Allowance scheme from the HSE to the Department.

31.4 Annual expenditure data are based on audited appropriation account figures (2006 to 2009) and audited SIF data (2006 to 2008). For 2009, draft figures for SIF expenditure were used because the audit of the 2009 accounts is not yet completed²³¹. Figures for planned Vote and SIF expenditure in 2010 are taken from the Revised Estimates for Public Services 2010.

²³⁰ Net of administration costs recovered from the Social Insurance Fund.

²³¹ Based on the experience in previous years, it is not expected that significant changes will be required to the draft account figures.

Social Welfare Expenditure and Funding

31.5 Figure 149 summarises social welfare expenditure on each main category of recipients. It also indicates the sources of that expenditure.

Figure 149 Expenditure on Social Welfare by main category of recipient and by source of funding, 2006 to 2009, and estimated for 2010^a

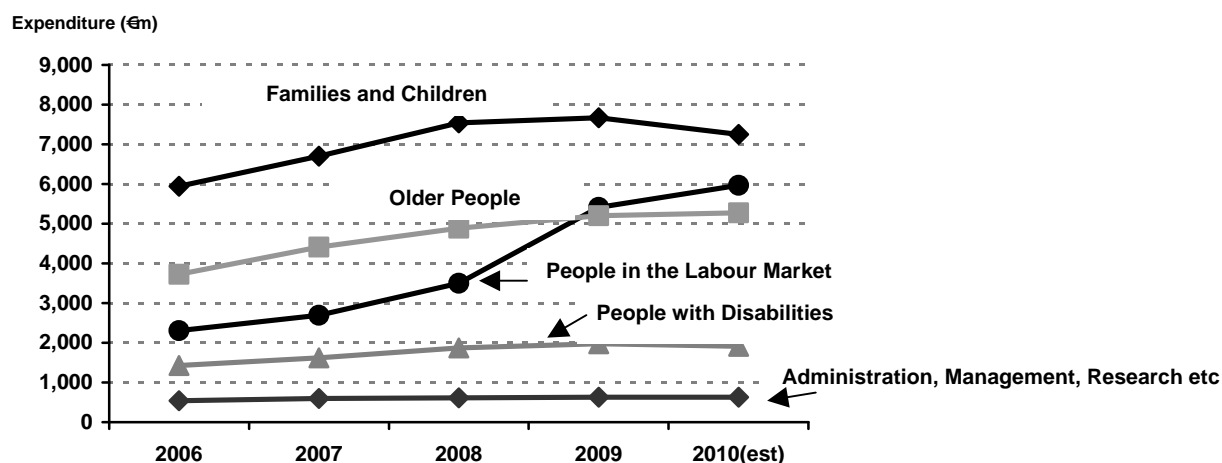
Expenditure Category	2006	2007	2008	2009	2010
					Est
	€m	€m	€m	€m	€m
Support for Families and Children	5,941	6,700	7,544	7,669	7,253
Support for People in the Labour Market	2,304	2,692	3,500	5,408	5,966
Support for People with Disabilities	1,428	1,622	1,875	1,975	1,911
Support for Older People	3,724	4,414	4,885	5,202	5,275
Administration, Management, Research, etc	541	595	610	627	630
Total Expenditure	13,938	16,023	18,415	20,881	21,035
Funded through:					
Social Insurance Fund	6,326	7,251	8,400	9,783	9,560
Voted Expenditure					
Vote 38 Social Protection	7,196	8,200	9,353	10,697	11,400
Vote 40 Health Service Executive	70	88	120	103	9
Vote 41 Children and Youth Affairs	281	418	480	231	5
Expenditure under other votes	50	50	45	51	46
Notional rent on State owned property	15	16	17	16	15
Total Funding	13,938	16,023	18,415	20,881	21,035

Note:

a Due to rounding, scheme expenditures may not sum to aggregate values.

31.6 Figure 150 shows the trend in expenditure by main category of expenditure. The fastest increase has been in the level of expenditure on welfare support for people in the labour market, reflecting rapidly increasing numbers unemployed.

Figure 150 Trend in expenditure on Social Welfare by Main Category of Recipient, 2006 to 2009, and Estimated for 2010



31.7 Figure 151 presents a breakdown of social welfare expenditure by category of recipient and by scheme.

Figure 151 Expenditure on Social Welfare by Scheme and Category of Recipient, 2006 to 2009, and Estimated Expenditure for 2010^a

Expenditure Category	2006	2007	2008	2009	2010
	€m	€m	€m	€m	Est €m
Support for Families and Children					
Child Benefit	2,056	2,233	2,454	2,495	2,261
Widow/er Schemes/Guardian's Payments	1,212	1,239	1,342	1,392	1,353
One Parent Family Payment	834	962	1,067	1,121	1,120
Supplementary Welfare Allowance	686	740	867	1,032	1,026
Carer's Payment	301	388	484	533	573
Maternity Benefit	181	258	316	331	352
Treatment Benefit	95	92	97	100	34
Family Income Supplement	107	140	170	167	215
Respite Care Grants	50	72	98	99	153
School Meal Grants	14	28	32	35	35
Bereavement and Widowed Parent Grants	16	21	24	24	26
Deserted and Prisoner's Wives	105	108	111	106	99
Adoptive Benefit	1	1	2	1	1
Early Childcare Payments	281	418	480	231	5
Total Expenditure	5,941	6,700	7,544	7,669	7,253
Support for People in the Labour Market					
Jobseeker's Benefit	455	545	929	1,734	1,546
Jobseeker's Allowance	769	875	1,159	2,005	2,760
Illness Benefit	628	755	852	920	884

Expenditure Category	2006	2007	2008	2009	2010
	€m	€m	€m	€m	Est €m
Employment Support Services	116	145	161	194	229
Occupational Injury Benefit	96	104	112	112	110
Farm Assist Scheme	71	79	85	93	96
Redundancy and Insolvency	170	188	202	350	340
Health and Safety Benefit	*	1	1	1	1
Total Expenditure	2,304	2,692	3,500	5,408	5,966
Support for people with Disabilities					
Disability Allowance	738	901	1,053	1,143	1,101
Invalidity Pensions	602	618	686	682	686
Blind Pensions	17	15	16	16	16
Domiciliary Care Allowance	62	78	110	123	99
Blind Welfare Allowance	8	9	11	11	9
Total Expenditure	1,428	1,622	1,875	1,975	1,911
Support for Older People					
State Pensions	3,166	3,754	4,183	4,473	4,489
Pre-retirement Allowances	113	124	118	97	75
Free Travel	58	64	68	73	77
Electricity Allowance	108	147	157	166	202
Telephone Allowance	90	99	112	120	121
Fuel Allowance	117	146	161	185	209
Free TV licence	49	52	56	56	59
Natural/Bottled Gas Allowances	9	15	16	18	24
Smog allowance	13	12	15	15	19
Total Expenditure	3,724	4,414	4,885	5,202	5,275
Administration, Management, Research etc					
Administration and management ^b	466	506	518	543	547
Agency and service grants ^c	68	82	86	81	79
Economic and social disadvantage	—	—	—	1	1
Other	7	7	7	2	2
Total Expenditure	541	595	610	627	630
Expenditure on all Schemes	13,938	16,023	18,415	20,881	21,035

Notes:

* Indicates expenditure was less than €500,000.

a Due to rounding, scheme expenditures may not sum to aggregate values.

b Includes the expenses of the Office of the Pensions Ombudsman.

c Grants paid to the Family Support Agency, Money Advice and Budgeting Service, Citizens Information Board and Combat Poverty Agency. Combat Poverty Agency was dissolved on 1 July 2009 and its functions and staffing were integrated into the Department's Social Inclusion Division. The Money Advice and Budgeting Service was transferred to Citizens Information Board during 2009.

Schemes not included in Consolidation

31.8 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 incurred under the HSE's Vote
- the Rural Social Scheme, operated by the Department of Community, Equality and Gaeltacht Affairs, which cost a total of €48 million in 2009 (€49 million in 2008)
- expenditure by FÁS on Community Employment Scheme allowances at a cost of €282 million in 2009 (€274 million in 2008).

31.9 Following a Government decision on 27 April 2010, the Department is to take over responsibility later in 2010 for the Rural Social Scheme (and the Community Services Programme) from the Department of Community, Equality and Gaeltacht Affairs as well as the employment and community services programmes operated by FÁS (including the Community Employment Scheme).

31.10 Certain other 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.

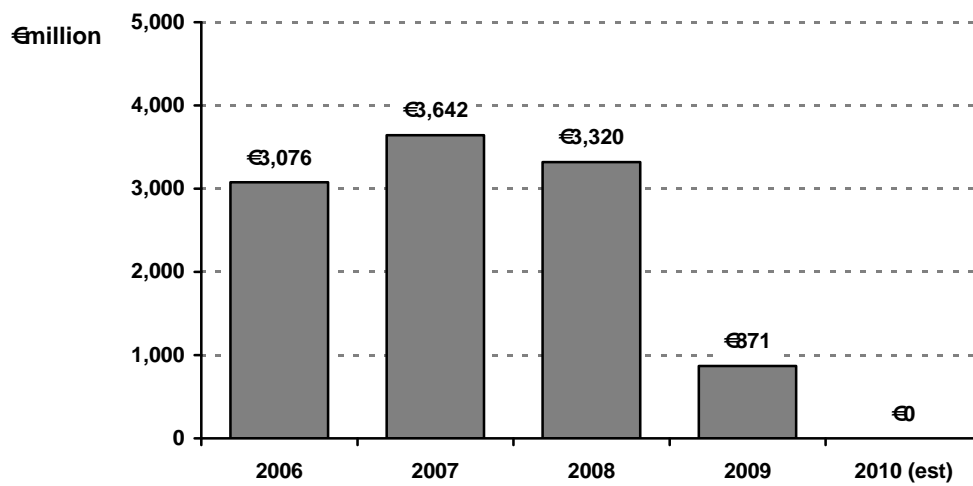
Social Insurance Fund Reserves

31.11 Pay-related social insurance contributions collected by the Revenue Commissioners from employers, employees and self-employed persons are paid into the SIF. Benefits under social insurance schemes are paid for out of the SIF's current account. Funds that are not required to meet current expenditure are transferred to an investment account, which is managed and controlled by the Minister for Finance. Under Section 9 (9) (a) of the Social Welfare Consolidation Act, 2005, there is provision for the Exchequer to fund any deficit.

31.12 In the years up to 2007, expenditure on welfare benefit schemes was less than the income received into the SIF through contributions. As a result, the balance in the investment account increased, standing at just over €3.6 billion at the end of 2007. Since then, contributions received into the SIF have declined, and expenditure under the benefit schemes has increased. As a result, the balances in the investment account have been drawn down. At the end of 2009, the balance stood at €871 million. See Figure 152.

31.13 Provision was made in the Vote for 2010 for payment to the SIF of up to €1.55 billion. Subvention from the Exchequer to the SIF commenced on 26 May 2010.

Figure 152 Balance in the Social Insurance Fund Investment Account at the end of each year 2006 to 2009, and projected at end 2010



Chapter 32

Department of Social Protection

Regularity of Social Welfare Payments

Regularity of Social Welfare Payments

32.1 The Department of Social Protection (the Department) is required to ensure that

- expenditure it incurs has been applied for the purposes for which the money was made available by Dáil Éireann, and
- its financial transactions conform with the authorities under which they purport to have been carried out.

Financial transactions are considered to be ‘regular’ when both of these conditions are satisfied.

32.2 Previous annual reports drew attention to evidence that there is a persistent problem of social welfare payments being made that are in excess of the entitlements due to claimants under the terms of various welfare schemes.

Chapter Focus

The evidence in relation to the incidence of excess payment of social welfare was examined with a view to establishing the overall scale of the problem, and the implications for the regularity of expenditure reported in the accounts of the Vote for Social and Family Affairs and of the Social Insurance Fund. The examination also reviewed the adequacy of the measures used by the Department in relation to its performance in managing the risks of excess payment, and the effectiveness of its control activity.

Irregular Welfare Payments

32.3 Welfare payments in excess of claimants’ entitlements arise for a variety of reasons. The main factors identified as leading to excess payments are

- **fraud** — where the claimant intentionally provides incomplete or inaccurate information in order to receive benefits
- **claimant error** — which arises when the claimant has provided inaccurate or incomplete information, or failed to report a relevant change in circumstances, but there is no fraudulent intent on the claimant’s part
- **departmental or administrative error** — where benefits are paid incorrectly due to inaction, delay or mistakes made by the Department and its staff.

Underpayment

32.4 While departmental errors can result in a welfare claimant being paid too much, they may also result in claimants being paid less than they are entitled. Where claimants (or their representatives) have a good understanding of what they should receive, they are (rightly) likely to challenge such underpayments or appeal the claim award decision, until the correct amount is paid. Nevertheless, cases do arise where claimants submit all the required information, but end up receiving less than they should.

Excess Payment and Overpayment

32.5 It is useful to distinguish the underlying level of excess payments within the social protection schemes from the level of detected and recorded overpayments.

- Fraud and error survey work helps establish the underlying level of irregular payments in a scheme.
- Detected excess payments may lead to the entitlement being adjusted from a current date and, where sufficient information exists, to overpayments being listed for recovery.

32.6 Where new information relevant to a current claim comes to light, the Department may formally determine that the claimant does not have an entitlement to the amount he/she is currently being paid i.e. the current payment is excessive. This normally results in the payment being terminated or the payment level being reduced to the appropriate level, with immediate effect.

32.7 An overpayment arises where, in line with Part 11 of the Social Welfare Consolidation Act 2005 (the 2005 Act), a revised decision is made by a deciding officer, resulting in a retrospective reduction in a claimant's entitlement. Overpayments are recorded only following formal decisions in line with the 2005 Act.

32.8 In many cases where payments are reduced or terminated following a review, the Department does not record an overpayment debt. In cases of claimant or departmental error, the deciding officer reviewing the case 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 may be no effective way of establishing the date the claimant's entitlement changed.

32.9 In 2009, the Department recorded overpayment debts totalling around €67 million — around €47 million related to Vote-funded payments and around €20 million related to Social Insurance Fund schemes.

Reporting Control Activity Performance

32.10 The Department reports on the performance of its control activity, primarily in terms of

- case review activity levels, generally measured by the number of claims reviewed each year²³²
- estimates of the level of excess expenditure prevented from being incurred in the future, because excess payment cases were detected — these are referred to by the Department as control savings.

²³² Control activity also includes inspection of selected employers to assess compliance with Pay Related Social Insurance (PRSI) scheme requirements. In 2009, around 1,500 such inspections were undertaken.

2009 Review Levels

32.11 The Department reports that it recorded having carried out around 750,000 claim reviews across both Vote and Fund based schemes in 2009²³³. This includes both reviews arising when claimants provide new information, and where the Department itself selects cases for review.

32.12 The results of a case review may be to confirm the current payment, to adjust the payment level (up or down, depending on the circumstances) or to suspend or terminate the payment. The Department does not monitor or report the review results. It has stated that because of the volume of claims processed and system complexities, it is not possible to identify the number of claims terminated, or with a reduced level of payment, as a result of control activity.

Control Savings

32.13 The Department quantifies the level of control savings achieved by multiplying the value of (mainly weekly) payments terminated or reduced by pre-set multiplier factors, which vary from scheme to scheme. These multipliers are based on the assumption that, had the excess payment not been detected as a result of control activity, it would probably have continued for at least a set future period. In general, the multiplier period is set at 52 weeks, but in some cases, the multiplier period is up to 136 weeks.

32.14 The Department has estimated that the 2009 control activity resulted in savings totalling around €484 million. The Accounting Officer stated that while the Department undertakes over 750,000 control reviews annually, it is not possible to report on the number of cases generating savings due to review processing and software limitations.

32.15 The Department has stated that control savings multipliers are internationally recognised and used. It regards the annual control savings figure as an internal performance indicator tool used by senior management to assess the performance of control measures on a year-on-year basis and as long as the calculation of such savings is consistent, then management can benchmark control effectiveness. It has commenced a review of the usefulness of the control savings estimate as a measure of its performance in carrying out control work.

Fraud and Error Surveys

32.16 Special fraud and error surveys undertaken periodically by the Department indicate that the scale of the excess payment problem varies across schemes. The extent of the irregular payment is influenced by the entitlement conditions set for schemes, the circumstances of the target populations and the processes used by the Department to assess claims and to exercise control over ongoing payments. In general, fraud and error is found to be higher for means tested schemes than for schemes where entitlement is based primarily on claimants' social insurance contribution record.

32.17 The two most recent fraud and error surveys undertaken by the Department focused on

- the State Pension (Contributory) and State Pension (Transition) schemes²³⁴, both of which are paid out of the Social Insurance Fund
- the Jobseekers' Allowance scheme, which is paid out of the Vote.

²³³ The Department considers that further claim reviews were undertaken but not recorded because of work pressures.

²³⁴ These schemes were assessed as part of a single survey.

Contributory Pension Schemes Fraud and Error Survey

32.18 The State Pension (Contributory) is paid to a person aged 66 and over who has a sufficient social insurance record. In general, this is a life-long payment that only ceases when the claimant dies. The State Pension (Transition) is also based on a claimant's social insurance record, but is payable only for a year, between the ages of 65 and 66, provided the recipient is either fully retired, or working and receiving less than €38 per week income from employment.

32.19 At the end of 2009, there were around 265,000 State Pension (Contributory) recipients and around 8,400 State Pension (Transition) recipients. Many of the pensioners received related secondary allowances and benefits. Overall expenditure in 2009 was €3.5 billion.

32.20 In carrying out the fraud and error survey of the schemes, the Department randomly selected a total of 1,035 cases in payment in March 2008 for review. The sample was checked for bias against key population parameters such as geographical location, method of payment, secondary allowance entitlement, dependents, and was found to be representative of the population of claims as a whole.

32.21 Departmental staff carried out desk/documentary assessments of the sample cases either where the claimant had no secondary allowances in payment (21% of cases) or where the claimant had an address outside Ireland (13.6% of cases). In foreign-residence cases, certificates of eligibility for completion by the claimant and a witness were issued.²³⁵ The remaining 65% of cases were referred to local social welfare inspectors for investigation and assessment.

32.22 Assessments were completed in 989 of the selected cases i.e. 96% of those sampled. Assessments not completed were due mainly to

- 21 cases not returned on time by social welfare inspectors
- 15 cases where no Departmental file was locatable and where it was not possible to fully reconstruct the claimants' details
- six cases where the inspector reported the claimant was too ill to be interviewed²³⁶.

32.23 The main findings of the completed assessments were

- just over 94% of claimants were in receipt of the correct payment amounts and secondary allowances
- 3.3% of claimants were receiving more than they were entitled to and had their payments reduced or terminated — the total value of the resulting payment reductions or terminations was 1.1% of the overall amount paid to the sample of cases²³⁷
- 2.2% of claimants were not receiving all the payments or allowances to which they were entitled, and so had their payments increased — the increases added 0.3% to the total amount paid weekly to the sample claimants.

²³⁵ In cases where the certificate was returned undelivered, payment was stopped. In some cases, where the claimant had moved and not notified the Department of the new address, payment was restored after the claimant contacted the Department and completed the certificate.

²³⁶ Reviews were ongoing in the remaining cases when the report was being compiled.

²³⁷ Included in this category were cases suspended because their whereabouts was not known. These accounted for 0.9% of all cases assessed.

32.24 Only one of the excess payment cases was found to have involved a deliberate fraud. This was where a family member had continued to draw a pension for more than two years following the death of the pensioner. Overpayments totalling in excess of €30,000 were recorded, and the case has been referred for prosecution and recovery of the overpayment.

International Comparison – UK Retirement Pension

The UK Department of Work and Pensions administers a similar insurance-based Retirement Pension scheme. A fraud and error survey undertaken in relation to that scheme in 2005/2006 found that

- the loss to the Department of Work and Pensions due to excess payment of Retirement Pensions was 0.1% of expenditure
- the level of underpayment of Retirement Pensions entitlement found was 0.3% of expenditure^a.

The estimated percentage of excess payment of contributory pensions by the Department of Social Protection, at 1.1%, is significantly higher than the 0.1% estimated for the UK Retirement Pension scheme.

Note:

- a Department of Work and Pensions (UK), *Fraud and Error in the Benefit System: April 2008 to March 2009*, Tables 2.1 and 2.2. Payments in excess of entitlement in this publication are referred to as overpayments.

Jobseekers' Allowance Fraud and Error Survey

32.25 The Jobseekers' Allowance scheme provides payments for unemployed people. Claimants are required to be available for and looking for work, and are subject to a means test. Payments under the scheme, which may continue indefinitely while the scheme conditions are satisfied, are borne on the Department's Vote. In contrast, payments under the social insurance-funded Jobseekers' Benefit scheme — payable for a maximum of 9 or 12 months, depending on social insurance contributions — are not subject to means testing.

32.26 At end 2009, the total number of recipients of Jobseekers' Allowance was just over 203,000. Expenditure in 2009 under the scheme totalled over €2 billion.

32.27 One of the first fraud and error surveys undertaken by the Department (in 2003) examined samples of Jobseekers' Allowance and Jobseekers' Benefit payments.²³⁸ It found that an estimated 15.8% of the Allowance cases examined were receiving more than they were entitled to, compared to just 1.8% of Benefit cases found to be in overpayment. The financial impact of the overpayments was not recorded as part of the survey.

32.28 The Department undertook a second fraud and error survey of Jobseekers' Allowance based on a random sample of 1,000 cases in payment in October 2009. The final report on the results of the survey (September 2010) indicated that assessments by Social Welfare Investigators as to whether an increased or reduced rate should have been paid to a claimant in a particular week had been completed in 1,000 of the selected cases.

²³⁸

At that time, the schemes were referred to as Unemployment Assistance and Unemployment Benefit.

32.29 The main findings reported in the September 2010 report were that

- almost 84% of the Jobseekers' Allowance claims examined were found to be at the correct level of payment
- in 11% of the cases examined, it was found that claimants were being paid more than they were entitled to and their payments were reduced to the correct level or terminated — this resulted in a reduction of 4.1% in overall expenditure
- in 4.1% of the cases examined, claimants were found to be underpaid relative to what they were entitled to — the resulting increases in payment added 0.8% to total expenditure.

32.30 The reasons for adjustment of claim payments in 16% of Jobseekers' Allowance cases were also recorded. This analysis indicated that

- suspected fraud was identified in 3% of the cases examined
- claimant error was found to have resulted in incorrect payments in 8.6% of cases
- departmental error was identified in 4.1% of the cases examined. This resulted in excess payments in 2.9% of cases reviewed and underpayments in 1.2% of cases.

International Comparison — Jobseekers' Allowance

The UK Department of Work and Pensions also administers a scheme called the Jobseekers' Allowance. Unlike the Irish scheme, the UK scheme comprehends both social insurance-based and means-tested entitlements. UK claims selected at random are reviewed on a rolling basis to estimate the incidence of fraud and error. The latest report on the results of the survey found that the UK Department's loss due to payments in excess of entitlement was 5.4% of scheme expenditure (compared to 4.1% in the Irish survey). The level of underpayment of entitlements found in UK cases amounted to 0.4% of scheme expenditure (compared to 0.8% in the Irish survey).

The main difference between the Irish and UK survey results was in the level of excess payments attributed to departmental error (referred to as official error in the UK survey). This was found to account for excess payments totalling 2.4% for UK scheme expenditure, compared to just 0.6% in the Irish survey. The estimated financial impact of underpayments resulting from administrative errors was the same in both jurisdictions, at 0.2% of overall expenditure.

Interpretation of Survey Results

32.31 The estimates produced in fraud and error surveys are subject to sampling error. In any sampling exercise, the estimates derived from the sample may differ from the results that would emerge if the whole population from which the sample is drawn was examined. This is usually assessed by expressing the level of error (within a defined degree of divergence) in terms of a specified confidence level.

32.32 The UK Department of Work and Pensions produces its fraud and error estimates to a 95% confidence level. These take account of both statistical sampling error and some other estimation uncertainties e.g. because assumptions have to be made to account for incomplete or imperfect data, or because current year estimates incorporate survey results from different time periods. On this basis, it reports a central estimate for fraud and error of 2.2% across all its welfare expenditure schemes for the year 2008/2009. The associated 95% confidence range is from 1.9% to 2.6% excess expenditure.

32.33 The reports on fraud and error surveys completed to date by the Department do not present confidence limits or a confidence range for the estimates. However, the Department has stated that the margin of error for its survey results may be of the order of 1% (i.e. the central estimate value $\pm 1\%$). This contrasts with the margin of error of $\pm 0.3\%$ of the UK Department of Work and Pensions confidence limits. The Department stated that the variance reflects the different approaches taken to fraud and error surveys. Whereas the Department of Work and Pensions undertakes surveys with large sample sizes annually, the Department of Social Protection uses smaller sample sizes less regularly and on single schemes at a time.

Estimate of Overall Level of Excess Payment

32.34 In the course of presentation of evidence at a meeting of the Committee of Public Accounts on 25 February 2010, the Accounting Officer for the Department stated that it had estimated that the risk of irregular payments due to fraud or error amounted to an average of 3% of the Department's total annual welfare expenditure, across both the Vote and Social Insurance Fund. This estimate was based on averaging the financial results of the fraud and error surveys undertaken by the Department, weighted using the 2008 expenditure levels.

32.35 Using the same methodology, the average excess payment for the surveyed Vote-funded schemes in 2009 is estimated at 4%. In contrast, the average overpayment for insurance-funded schemes surveyed is estimated to be 1%. See Figure 153.

32.36 Together, the Vote-funded schemes that have been subjected to fraud and error surveys in the period 2004 to 2009 if updated using current values would now account for 76% of the overall expenditure on scheme payments of €10.4 billion under the Vote in 2009. Vote-funded schemes that have not yet been subject to fraud and error surveys include Supplementary Welfare Allowance²³⁹, Carer's Allowance and Farm Assist. These are means-tested schemes, on which a total of €1.6 billion was spent in 2009. Free scheme benefits accounted for a further €345 million, and employment support services accounted for €193 million.

²³⁹

A fraud and error survey of Supplementary Welfare Allowance rent supplement cases, which is administered through the Health Service Executive, was carried out in four regions. However, because there was a high variance in results between the region, the Department considers the survey to be unreliable.

Figure 153 Estimated excess payments in welfare entitlements, by scheme and source of funds, 2009

	Year ^a	Scheme Cost 2009	Estimated excess payment in 2009	
		€m	%	€m
Vote-funded schemes				
Child Benefit	2004	2,495	1.8%	45
Family Income Supplement	2005	167	3.3%	6
Disability Allowance	2005	1,143	7.0%	80
State Pension (non-contributory)	2007	1,001	2.1%	21
One-Parent Family Payment	2007	1,121	7.3%	82
Jobseekers Allowance	2009	2,005	4.1%	82
Total for Vote schemes surveyed		7,932	4.0%	316
Social Insurance Fund schemes				
Illness Benefit	2006	920	0.4%	4
State Pension (Contributory/Transition)	2009	3,472	1.1%	38
Total for Fund schemes surveyed		4,392	1.0%	42
Total for all schemes surveyed		12,324	2.9%	358

Source: Department of Social Protection methodology, updated by Office of the Comptroller and Auditor General

Note:

a Base year for fraud and error survey.

32.37 The insurance-funded schemes surveyed accounted for 46% of insurance scheme expenditure totalling €9.5 billion in 2009. Major schemes not yet subjected to fraud and error surveys include Jobseekers' Benefit²⁴⁰, Contributory Widows' Pension, Invalidity Pension and Maternity Benefit.

32.38 In the absence of systematic fraud and error surveys, the level of excess payment that arises on the non-surveyed schemes is uncertain. The Department has stated that the remaining schemes could be expected to be relatively low risk based on the results of other surveys, with the possible exception of Supplementary Welfare Allowance payments (€1 billion in 2009).

32.39 The approach adopted by the UK Department of Work and Pensions in arriving at an overall estimate of the level of excess payments across all welfare schemes is pragmatic. Based on the survey results for schemes with similar structures and conditions, it applies assumed excess payment rates for expenditure under un-surveyed schemes.

32.40 In the absence of systematic comparisons between surveyed and un-surveyed Vote-funded schemes, a more conservative approach is to assume that excess payments under the Supplementary Welfare Allowance scheme amount to 2% of scheme expenditure (i.e. about half the rate for the surveyed schemes), and that excess payments under other un-surveyed schemes amount to 1% of scheme expenditure. On that basis, the average excess payment rate across all Vote-funded welfare schemes would be 3.4%. Applying the Department's margin of error to that estimate suggests the overall excess payment rate is in the range 2.4% to 4.4% of overall scheme expenditure. In cash terms, this is equivalent to excess payment in the range €246 million to €455 million.

²⁴⁰ Jobseekers' Benefit cases were included in the first fraud and error survey undertaken by the Department in 2003. This found that around 1.8% of the cases surveyed were being paid the incorrect rate. However, the financial impact of the changes was not recorded.

32.41 The lack of survey results in relation to welfare schemes paid for from the Social Insurance Fund makes estimation of the overall excess payment level for the Fund more uncertain. For the schemes that have been surveyed, the average excess payment rate (1%) implies excess payment of €42 million. A conservative assumption of excess payment of 0.1% for all other schemes would result in an overall excess payment rate for Fund scheme expenditure of around 0.5%, equivalent to around €47 million.

Conclusion on Regularity of Welfare Expenditure

The evidence from the fraud and error surveys that have been carried out by the Department indicates that there is a significant problem of excess, and therefore irregular, payment in relation to many of the welfare payment schemes it operates. While the scale of the problem is evidently greater for Vote-funded schemes, the estimated level of irregular payments under the social insurance funded State Pension (Contributory) and State Pension (Transition) schemes is also material.

There is wide variation in the level of irregular payments between Vote-funded schemes, but the consistent materiality of the level of the problem across the surveyed schemes suggests that the situation is likely to be similar in un-surveyed Vote-funded schemes, many of which are means-tested.

Using conservative assumptions about excess payment rates for the non-surveyed schemes, the average rate across all Vote-funded schemes is estimated to be 3.4% of 2009 scheme expenditure. Using the Department's estimated margin of error, the overall rate of such irregular payments would therefore be in the range 2.4% to 4.4% of overall scheme expenditure. While the Department detected a significant number of welfare claims where it found that payments were in excess of entitlements, it does not record the financial impact of the consequential payment reductions or claim terminations. Overpayments are not recorded in all such cases and, therefore, do not represent a reliable measure of the financial impact of the irregular payments in a year.

I am required, under section 3 (5) of the Comptroller and Auditor General (Amendment) Act 1993, to refer in my audit certificate on an appropriation account to any material case in which

- a Department has failed to apply expenditure recorded in the account for the purpose or purposes for which the appropriations made by the Oireachtas were intended, or
- transactions recorded in the account do not conform to the authority under which they purport to have been carried out.

I have prepared this chapter in order to outline the likely range of payment in excess of entitlement included in the charge to the Vote. I have concluded that, while the charge to the Appropriation Account properly presents the payments that have been made in the year, the extent to which those payments are regular depends on the degree to which the overall levels of error found in surveys have been mitigated by

- subsequent control enhancements in delivery systems
- data matching exercises
- changes in the economic environment.

Accounting Officer's Views

32.42 The Accounting Officer has stated that she and all the staff in the Department take very seriously their role in providing a robust control environment designed to ensure that all monies voted to, and collected and disbursed by, the Department are properly paid and accounted for, and that the Department's customers are paid all monies properly due to them.

Irregular Payments

32.43 She has stated that payments are considered to be irregular where evidence is available to a deciding officer to indicate that the conditions of the scheme are not being met or the rate of the payment is incorrect, given the particular circumstances of the customer. Overpayments are by definition irregular payments. They are the only instances where it can be proven conclusively that a payment has been incorrectly paid. Unless and until there is evidence to prove that claimants do not have an entitlement to payment, a payment cannot be assumed to be irregular.

32.44 In her view, fraud and error surveys estimate the risk of irregularity but cannot determine the extent or fact of irregularity. This can only be achieved through the formal assessment and calculation of overpayments. In accordance with Part 11 of the Social Welfare Consolidation Act 2005, an overpayment will arise where a revised decision is made by a deciding officer on a claimant's entitlement resulting in a retrospective reduction in their entitlement. An overpayment can only be recorded in accordance with statutory provisions. On that basis, she considers that overpayments are the best and most conclusive evidence of irregularity.

Fraud and Error Surveys

32.45 She stated that the purpose of a fraud and error survey is to identify the level of risk associated with particular schemes and areas with a view to designing processes and control measures specifically targeted to minimise the level of future risk. They are not designed to identify overpayments. In this regard

- some of the persons who have their payment terminated following review may have the payment reinstated on appeal at a later date or
- as is common with all surveys of this nature, they involve a margin of error.

Reliance on Historical Surveys

32.46 The Accounting Officer has pointed out that applying historical survey results will not provide relevant and reliable information in respect of the 2009 financial year. In Figure 153, 42% of the computation of excess payments for Vote schemes is based on an extrapolation made on foot of surveys carried out in 2004 and 2005, and 74% is based on information two and more years old. Only 26% of the extrapolated results are from a 2009 survey.

32.47 The Accounting Officer's view is that the nature and substance of the control strategy adopted by the Department and the associated processes has been fundamentally developed and progressively improved over the past seven years since the first fraud and error survey was undertaken within the Department. The process improvements and advanced application of technology to monitor, match and check scheme payments with other available data has given rise to enhanced control activities and valuable new means by which claim entitlement is validated. As a consequence, the levels of risk estimated in earlier fraud and error surveys cannot be assumed to remain valid today as reflecting the current position.

32.48 Furthermore, the economic climate has turned since many of these surveys were first conducted. While engagement in the labour force was high in 2007 and earnings were buoyant, we have witnessed a significant turn in the tide with rising levels of unemployment, increased numbers on reduced hours of work and lower earnings levels. The surveys identified changes in means/earnings as high risk but it may be the case in follow-on surveys that there would not be as many changed cases because the potential for increases in unreported earnings is not as great in the current economic climate.

32.49 She has pointed out that a control review policy has been implemented to target risks identified across all schemes paid from voted expenditure. Up to date surveys are required to establish current risks and associated outturn costs. It is considered that many schemes would now have lower levels of revision to payment because risks have already been identified and targeted.

Factoring in Final Outturns of Surveys

32.50 The Accounting Officer has stated that she is aware that surveys need to be repeated to identify current risks and associated costs of fraud and error. She has indicated that the next round of surveys will build on the knowledge and expertise gained over the period on scheme-specific outcomes. As the approach taken in terms of scale and scope of surveys is resource intensive particularly in terms of investigative resources, she also stated that, in the context of ensuring continuity of service delivery, the desired frequency of surveying will only be achieved if variable approaches to such surveys can be deployed.

32.51 An example of the requirement for this is highlighted in the survey undertaken on the Disability Allowance scheme four years ago. In general terms, the rate of successful appeals is of the order of 48%. However, in the Disability Allowance scheme, there is a higher appeal rate and the results of these appeals were not factored into the results of the survey findings, given the methodology adopted. The survey results are based on 59 terminations calculated at the end of the survey. However, 24 claims were subsequently reinstated and four claimants moved to other schemes. Some 27 were not on a social welfare payment. The outcome suggests that the actual risk is much less than 7% of the annual cost of the scheme. The Accounting Officer's view is that these learnings are important in terms of developing the survey methodology, while bearing in mind the survey objectives.

32.52 The Department proposes that future fraud and error surveys will include an additional component that after, say, six months, follows up all cases that are not deemed to be receiving the correct amounts. The overall methodology will be discussed in advance with the Office of the Comptroller and Auditor General.

Conclusion

The Department's control activities are targeted at schemes and claimants with perceived higher risks of excess payment. Adjustments in payments and other benefits are made in a substantial number of cases each year, and where overpayment debts are recorded, they are pursued for recovery. However, since overpayments are not recorded in a substantial proportion of review cases where claim entitlements are reduced or terminated, 'recorded overpayments' is not an adequate measure of the level of irregular payments. Furthermore, all excess payments are not detected.

Periodic fraud and error surveys, based on random rather than targeted samples of claims, are potentially a useful way of identifying the scale of the underlying problem and of tracking the Department's performance over time in reducing the level of excess payment. The surveys can also help the Department to identify the key factors that give rise to significant excess payments, and help it to target control activity more effectively on higher risk areas.

The Department's stated policy is to carry out fraud and errors surveys of the perceived highest risk schemes every two years. In 2008 and 2009, only one such survey was carried out each year. Some major expenditure schemes have not been subjected to this type of survey, and the latest survey results in relation to some schemes go as far back as 2004. More frequent surveys are necessary to inform departmental administration and control activity, and to demonstrate the discharge of its accountability for the regularity of its payments.

While reliance on older survey results is not ideal and is unlikely to accurately reflect the current position, it would not be appropriate to ignore them in the absence of more recent results. Furthermore, other available evidence tends to confirm the persistence of excess payments. This is the case in relation to the State Pension (Non Contributory) and One Parent Family Payment schemes, as outlined in Chapter 34 and Chapter 35 respectively.

A key principle for ensuring reliable fraud and error surveys is that every case reviewed should be fully tested for all possible breaches of scheme conditions. In practice, this usually requires the re-application of all the checks and tests — including interviews, home visits, re-certification of means, or medical reviews, as appropriate — that would apply if the claim was being submitted anew, with a fresh determination by a deciding officer. A subsequent high rate of successful appeals of fraud and error outcomes would be indicative of a defective survey process.

The Accounting Officer reports that almost half of the claims terminated following review for the Disability Allowance survey were subsequently reinstated to payment on appeal. If the fraud and error rate estimated for that scheme was only half the level reported and the unsurveyed schemes error rates were conservatively estimated, the central estimate for the overall excess payment rate for Vote-funded schemes would be 3% (rather than 3.4%.) At that lower estimated level, the level of irregular payments is still material.

The Department should draw up a medium-term programme for the conduct of reviews based on random samples across all its major schemes. The survey programme should be incorporated into the Department's control strategy, and professional statistical oversight and quality control of the surveys should be provided for. The Department should also consider structuring its control activity reporting so as to address the three key drivers of irregular payments i.e. fraud, client error and departmental error. The optimal response to each of these is likely to be different. The key targets for control activity should be expressed in terms of a targeted reduction in each of these areas.

Chapter 33

Department of Social Protection

Welfare Overpayment Debts

Welfare Overpayment Debts

33.1 The Department of Social Protection (the Department) has a debt management function designed to record and, where possible, to recover excess amounts paid to welfare claimants.

33.2 The Department's approach to debt management takes account of the circumstances that gave rise to the overpayments and to the limited financial resources available to many welfare recipients. Instalment repayment arrangements may be agreed with the debtors, including deductions from welfare payments where there are continuing entitlements.

33.3 The prospect that the Department will actively seek to recover any payments in excess of entitlement should act as an incentive for scheme claimants to try to ensure that the information they provide in support of their claims is complete and correct. Where there is evidence that a claimant has deliberately made a false or fraudulent claim, the Department may initiate criminal proceedings against the individual(s) concerned, in addition to seeking to recover the overpayment debt.

Chapter Focus

This chapter examines the Department's debt management and criminal prosecution processes to establish its effectiveness in identifying, recording and recovering welfare payment debts, and in prosecuting fraud cases.

Basis for Recording of Overpayments

33.4 The Department may identify that a welfare payment is in excess of a claimant's entitlement either because new information is provided voluntarily by the claimant or as a result of its control activity. When an excess payment is identified, the payment is terminated or the amount is reduced to the correct level.

33.5 Payment termination/reduction does not always result in the recording of an overpayment debt. In cases of claimant or departmental error, the deciding officer reviewing the case may determine the effective date of a revised payment amount to be a current rather than a retrospective date, in which case no overpayment legally arises. In other cases, it may be likely that there was overpayment in the past but the deciding officer does not have evidence to establish the date the excess payment commenced and accordingly cannot record or pursue an overpayment. Consequently, only a proportion of identified payments in excess of entitlement are pursued as overpayments. The Department does not measure or report the extent to which detection of excess payments is followed by recording of an overpayment debt.

33.6 The Department carries out a programme of activity designed to detect instances where payments are in excess of entitlements. Control activity cases and their outcomes are recorded manually. As a result, the Department is unable to provide accurate data on the total number of cases where payment was stopped or reduced following a review, or the value of the terminations/reductions.

33.7 In many cases where a claim is terminated or payment reduced as a result of some control activity, the Department calculates a 'control saving'. In 2009, these savings were estimated at around €484 million, and were related to an estimated 68,300 cases. In contrast, overpayments were recorded in respect of 42,500 cases.

33.8 At scheme level, there is no clear relationship between the claiming of a control saving and the recording of an overpayment for recovery. For example, control savings were claimed in relation to an estimated 12,800 Jobseekers' cases reviewed, but overpayments were recorded in 23,700 such cases. In contrast, control savings were claimed in an estimated 13,200 One Parent Family Payment cases reviewed and in around 9,200 Family Income Supplement cases, but overpayments were recorded in around 1,500 and 740 cases respectively.

33.9 Apart from the inherent difficulty in finding sufficient evidence to underpin the recording of an overpayment debt, the Department attributes the differences in the number of cases where control savings were claimed and overpayments raised to two main reasons

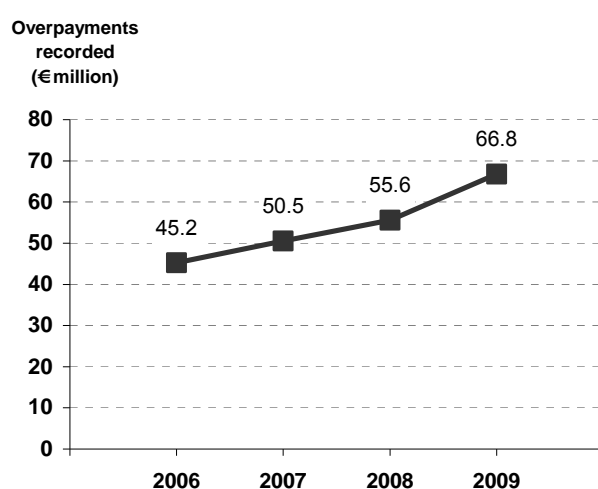
- overpayments may be recorded in cases where claimants voluntarily provide information that indicates past overpayment or because payment continues for a period following the provision of relevant information
- because of claim processing backlogs in relation to Jobseeker cases, control saving records do not include all cases reviewed that resulted in payment being terminated or reduced.

33.10 The Department considers that control savings estimates and overpayments recorded are not comparable. It regards the control savings figures as an internal performance indicator intended for use by management to assess the performance of control activity. It does not consider the number of overpayment cases and/or the value of overpayments recorded to be indicators of its performance.

Overpayments Recorded in 2009

33.11 The Department records overpayment amounts on its Overpayments and Debt Management system. In 2009, it recorded overpayments of welfare entitlements totalling €66.8 million (see Figure 154). This represented a 48% cumulative increase since 2006. This was in line with the 51% increase in the level of overall expenditure on welfare schemes in the same period.

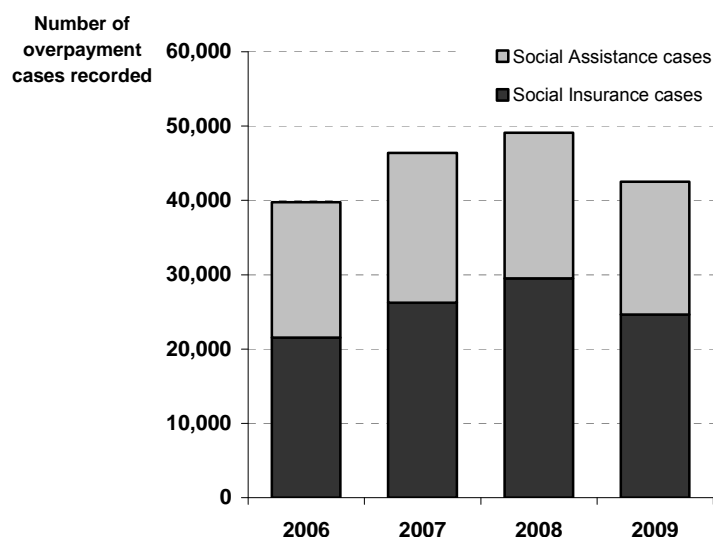
Figure 154 Aggregate value of overpayments of welfare entitlements recorded each year, 2006 to 2009



Source: Department of Social Protection

33.12 The total number of cases in respect of which overpayments were recorded in 2009 was just over 42,500 (see Figure 155). There was a drop of 13% in the number of cases where overpayment was recorded between 2008 and 2009. The number of cases fell for both social insurance and social assistance schemes.

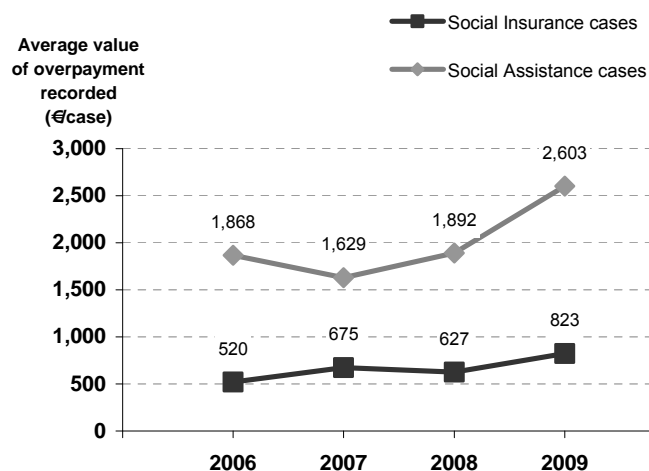
Figure 155 Number of recorded cases of overpayments of welfare entitlements, by scheme category, 2006 to 2009



Source: Department of Social Protection

33.13 The increase in the value of overpayments recorded combined with the drop in the number of cases means that there was a substantial increase in the average value of overpayments recorded (see Figure 156). The average overpayment recorded in 2009 in social assistance cases was 38% higher than in 2008. For social insurance cases, the 2009 average was 31% higher than the 2008 average. Debts in individual cases may relate to overpayments going back a number of years.

Figure 156 Average value of recorded overpayments of welfare entitlements, by scheme category, 2006 to 2009



Source: Analysis by Office of the C&AG

33.14 The Department attributes the increase in the average value of overpayments recorded in 2009 to a drop in the number of short-term overpayment cases recorded. Overpayments lasting less than one week in duration fell from around 19,400 in 2008 to around 15,200 in 2009. When cases terminate (e.g. where a claimant secures employment), payment may continue for a short period, resulting in short duration (and hence lower value) overpayments being recorded. Changes in control procedures, such as transferring Jobseeker payment cases to Post Office payment rather than electronic funds transfer (EFT) have also tended to reduce disproportionately the proportion of short-term overpayment cases.

Reasons for Overpayment

33.15 The Department classifies recorded welfare debts under three headings, corresponding to the main reasons why overpayments arise. These are

- Overpayments due to confirmed or suspected fraud.
- Overpayments due to client error or errors made by third parties who provide information in relation to claims.
- Overpayments due to departmental/clerical error.
- A further category of overpayment case — referred to as estate cases — is based on the method of discovery of the overpayment. This usually arises where mandatory returns made to the Department in the course of processing of the estates of deceased individuals reveal circumstances (usually undisclosed means) that indicate that the individuals concerned may not have been entitled to some or all of the welfare payments made to them. By convention, the Department does not categorise such cases as fraud/suspected fraud.

33.16 Figure 157 shows the breakdown of the overpayments recorded in 2009, using the classification outlined above. This indicates that almost half of the overpayments recorded were attributed to errors made by claimants or by third parties. Almost all estate cases, which accounted for recorded overpayments of €10.6 million (16% of the total), related to non-contributory State Pension recipients.

Figure 157 Value of welfare overpayments recorded in 2009, by overpayment classification

Classification of cases	Social insurance cases	Social assistance cases	Total	
	€m	€m	€m	%
Due to fraud	6.8	13.9	20.7	31
Due to claimant/third party error	10.7	20.8	31.5	47
Due to departmental error	2.8	1.2	4.0	6
Estate cases	—	10.6	10.6	16
Total	20.3	46.5	66.8	100

Source: Department of Social Protection

33.17 Less than one third of the amount recorded in 2009 as overpayment debts was attributed to fraudulent claims. By comparison, the percentage of overpayments recorded in 2008 as being due to fraud was 38%. The equivalent figure in 2006 was 45%. Between 2006 and 2009, the value of overpayments recorded each year as being due to fraud has fluctuated in the range €20 million to €21.5 million.

33.18 Fraud was detected or suspected in over 13,000 of the overpayment cases recorded in 2009. This represented a drop of 29% relative to the number recorded in 2008 (see Figure 158).

Figure 158 Number of overpayment cases attributed to fraud or suspected fraud, 2006 to 2009

	2006	2007	2008	2009
Social insurance cases	7,877	8,304	9,991	6,788
Social assistance cases	8,950	9,808	8,347	6,251
Total	16,827	18,112	18,338	13,039

Source: Department of Social Protection

33.19 The Department attributes the decrease in the percentage of overpayments attributed to fraud to the fact that many of the newer debt holders were in a claim overpayment situation for the first time and often were first time customers of the Department. When making the decision on the overpayment category in such cases, there is a general presumption of honest mistake and overpayments are usually classified as customer error. It also considers that increased control effectiveness has resulted in fewer opportunities for fraudulent activity – one such example would be the transfer of the payment process for Jobseeker payments from EFT to payments in person through the Post Office – thus eliminating the lower value fraud cases.

Recovery of Overpayment Debts

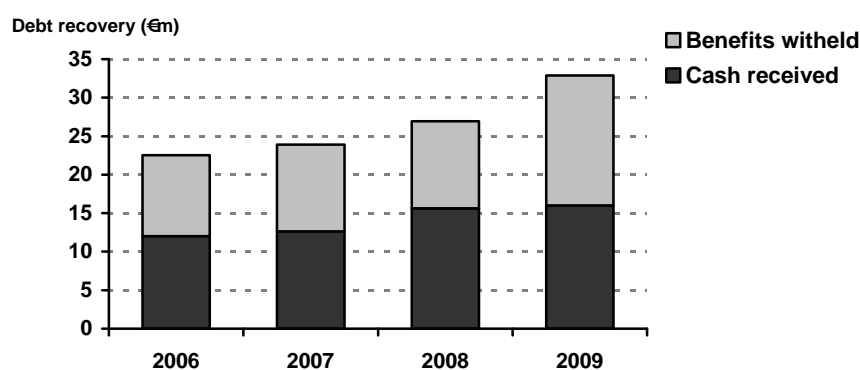
33.20 Overpayment debts are recovered by the Department in two ways

- through direct payments by debtors
- by withholding some or all of any welfare payments due to the debtors.

In individual cases, debts may be recovered by one or by a combination of the above means.

33.21 The aggregate value of overpayments recovered by the Department in 2009 was €32.9 million (see Figure 159). This was 22% more than the amount recovered in 2008, and 46% more than was recovered in 2006. This pattern of increase in recoveries mirrors the increases in the level of overpayment debts recorded and in the overall expenditure level in the same period.

Figure 159 Welfare overpayment recoveries, by method of recovery, 2006 to 2009



Source: Department of Social Protection

33.22 Around €16 million (49% of the total amount recovered) was received by way of direct payment in 2009. This compared to €15.6 million (58%) recovered in cash in 2008. Debt recovery in 2009 in relation to non-contributory State Pension cases amounted to a total of €8.7 million, mainly through cash recoveries.

Recoveries from Current Welfare Claimants

33.23 Just over half of the overpayment debts recovered in 2009 — amounting to a total of €16.9 million — was collected through deductions from payments to which claimants were currently entitled. This represented a significant increase in the level of recovery through deductions compared to 2008, when €1.3 million was withheld.

33.24 The Department has stated that of the 139,000 individuals against whom debts had been recorded at 31 December 2009, some 64,000 (46%) were servicing their debts at some level. Because the majority of these are on low incomes, the typical value of repayments made is less than €10 a week.

33.25 The Department's legal capacity to recover overpayment debts through benefit deductions²⁴¹ is limited. Such recoveries must have regard both to the total amount to be recovered and the person's ability to repay. In such cases, a claimant's weekly social welfare payment may fall below the weekly rate of supplementary welfare allowance appropriate to his or her family circumstances, but only with the claimant's prior written agreement.

Write Offs of Welfare Debts

33.26 Overpayment debts may also be disposed of, in whole or in part, by being formally written off by the Department. This is usually done on the basis that the debt has become irrecoverable for some reason.

33.27 The Department reviewed its procedures for approval and recording of write offs in 2008. The main elements of the process are as follows

- All scheme managers have the legal authority to write off overpayment debts.
- The repayment of a debt may be cancelled where there is no realistic prospect of repaying the debt or where there is no reasonable prospect of recovering the debt within a reasonable timescale without incurring considerable administrative costs. The Department outlined the kinds of circumstances where this might be done e.g. where the person overpaid has died without estate; the Statute of Limitations applies (i.e. the person was not informed within six years of the discovery of the overpayment); the cause of the overpayment was Departmental error and the amount was not significant; the claimant has a serious medical condition; the overpayment is less than €63.50.
- The reason for the write-off must be recorded on the claim papers and signed by the authorised officer (or recorded electronically with a recorded action requiring a digital signature/password), to maintain an audit trail.
- 5% of write-off cases are reviewed by a supervisor.
- The procedures are monitored and reviewed to ensure that they are working satisfactorily.

²⁴¹

Provided for in Article 245 of Statutory Instrument Number 142 of 2007.

33.28 Write offs of debts in 2009 totalled €11.6 million. This was more than double the level of write offs in 2008, which totalled €4.9 million. The Department has stated that, during 2009, it undertook an exercise to review the debt balance on its system. This found that a significant balance was being reported each year in respect of customers who have been deceased for over six years and thus recovery of the debt would not be possible. Such debts were then further examined and debts with a value of €6.8 million were written off.

33.29 Cancellation of previously recorded debts may occur as a result of a revised decision in the light of new or further information or to correct errors in recorded amounts. Debts amounting to €1.3 million were cancelled in 2009. The comparable figure for 2008 was €1.1 million.

Welfare Debt Balance

33.30 The net impact of new welfare overpayment debts recorded by the Department, debts recovered and write offs is shown in Figure 160.

Figure 160 Movement in the Department's debt balances, 2006 to 2009

	2006	2007	2008	2009
	€m	€m	€m	€m
Outstanding debts at 1 January	131.2	149.5	232.1	256.6
Overpayment debts recorded in year	45.2	50.5	55.6	66.8
Prior year adjustments ^a	—	61.6	1.8	(1.0)
Debts cancelled	(0.1)	(1.4)	(1.1)	(1.3)
Debts written off	(4.3)	(4.3)	(4.9)	(11.6)
Total recoverable debts	172.0	255.9	283.5	309.5
Debts recovered in year (cash or withheld)	(22.5)	(23.8)	(26.9)	(32.9)
Outstanding debts at 31 December	149.5	232.1	256.6	276.6

Note:

- a Following the introduction of the Overpayment and Debt Management system (November 2006), certain debts (totalling €44 million) previously written off for accounting purposes but still considered potentially recoverable were written back to the system. A further €17 million of previously unrecorded overpayments considered potentially recoverable was also registered on the system. Some smaller adjustments were made in 2008.

33.31 The Department's overall debt recovery rate — measured by recoveries as a percentage of the total recoverable debts in the year — is low. At 10.6% in 2009, it represented a small increase relative to the 9.5% rate achieved in 2008. However, around 90% of the amount considered recoverable consistently remains outstanding.

33.32 The age profile of the outstanding debt balance is another indicator of debt management performance. Figure 161 shows the age profile of the debt outstanding at the end of December each year from 2006 to 2009. Almost two thirds of the debt is three years or older.

Figure 161 Age analysis of overpayment debts outstanding at end December, 2006 to 2009

Age of outstanding debt	2006 ^a	2007	2008	2009
	%	%	%	%
Less than 1 year	21	13	15	17
Between 1 and 2 years	20	11	10	11
Between 2 and 3 years	24	12	9	9
3 years and older	35	64	66	63
Total	100	100	100	100

Source: Department of Social Protection

Note:

- a The percentage of older debts increased in 2007, following the writing back of recoverable debts on the new Overpayments and Debt Management system.

Legal Enforcement

33.33 The Department considers cases involving fraud or deliberate abuse of the welfare system with a view to taking legal proceedings where appropriate. These may involve criminal prosecutions in relation to significant cases of abuse, and/or civil proceedings to facilitate the recovery of scheme overpayments or the collection of PRSI arrears.²⁴²

Criminal Prosecution Cases

33.34 The Department places emphasis on ensuring that prosecutions are taken in the more serious cases where there is strong evidence of fraud. In this connection, the Department has developed a matrix for vetting cases for criminal prosecution. This uses a range of nine characteristics, and weightings applied to them, to determine which cases should be considered for criminal prosecution. The characteristics include duration of the fraud, amount of the overpayment, false declaration at the time of the claim, failure to notify the Department of a change in circumstances and previous history of defrauding the Department. A computer programme has been developed based on the matrix and where a case scores over a certain figure it is then considered for prosecution. The matrix is being used at present by the Department's Central Prosecution Service on 'live' cases received from social welfare inspectors. It will be rolled out across the regions in the third quarter of 2010.

33.35 During 2009, the Department sent a total of 301 alleged fraud cases to the Chief State Solicitor's Office (CSSO) for prosecution. This was about 15% less than the average for the preceding three years. Figure 162 gives a breakdown of the cases the Department referred to the CSSO in the period 2006 to 2009, by type.

²⁴²

Apart from overpayment of welfare, debts to the Department may arise where employers evade payment of Pay Related Social Insurance (PRSI) contributions that are due.

Figure 162 Cases sent to the CSSO with a view to criminal prosecution, 2006 to 2009

	2006	2007	2008	2009
Jobseeker's Allowance	169	184	183	153
Jobseeker's Benefit	113	124	140	113
Illness Benefit	20	9	9	13
Disability Allowance	—	5	6	2
One Parent Family Payment	16	8	4	10
Other welfare payment cases	1	3	4	—
All welfare payment cases	319	333	346	291
Employer offences ^a	21	13	5	9
Working with false PPS number ^b	6	4	3	1
Obstruction of social welfare inspectors	2	7	—	—
All employment related/obstruction cases	29	24	8	10
Total cases referred to CSSO	348	357	354	301

Source: Department of Social Protection

Notes:

- a Includes where employers fail to pay PRSI contributions; fail to produce or maintain proper wage records; or fail to provide employment details for employees.
- b In addition, there was a further small number of cases each year of misuse of PPS numbers where the person was concurrently claiming a welfare payment usually using his/her own PPS number while working under a different PPS number. These cases are included in the relevant scheme figure numbers.

33.36 Relative to the number of welfare overpayment cases recorded each year where fraud is detected or suspected, the rate of referral of cases to the CSSO is very low, averaging at less than 2% a year.

33.37 In general, cases prosecuted are those that involve a high amount of detected overpayments. For example, cases finalised in court in 2009 involved average welfare overpayments in excess of €5,800 each, compared to an average value of recorded overpayments in the year of around €1,500.

33.38 In addition to the 301 cases sent to the CSSO for prosecution in 2009, a further 70 cases were determined not to be suitable for prosecution. The decision not to prosecute these cases was made by the Department and/or on advice received from the CSSO. The main reasons for non-prosecution are as follows

- 13 cases due to the lapse of time since the offence was committed
- 19 cases due to insufficient evidence to initiate criminal proceedings
- 16 cases due to prosecution criteria not being met
- 13 cases due to the personal circumstances of the client
- 9 cases due to the person being no longer resident in the State/whereabouts not known/deceased.

33.39 In 2009, a further 42 cases of possible personation/identity fraud were referred by social welfare inspectors to the Garda Síochána for prosecution under the Criminal Justice (Fraud and Theft) Act 2001. These cases are not included in the number of cases referred to the CSSO.

Outcome of Prosecution Cases

33.40 At the beginning of 2009, the CSSO and local state solicitors had on hands a total of 889 criminal cases referred by the Department. These cases were at various stages of the prosecution process. Together with the 301 further cases referred during the year, this amounted to a total active caseload of 1,190.

33.41 The number of criminal prosecution cases against welfare payment recipients finalised in court has increased in recent years. A total of 347 cases were finalised during 2009 (see Figure 163). This represents an increase of 12% on the previous year.

Figure 163 Results of court hearings of criminal prosecution cases involving welfare recipients, 2006 to 2009

Outcome	2006	2007	2008	2009
Fined ^a	99	107	199	225
Community service	10	7	9	10
Prison sentences	4	12	2	11
Suspended sentence	16	22	19	34
Bound to the Peace	2	4	1	1
Probation Act	51	51	44	48
Adjourned with liberty to re-enter (repayment ordered)	56	7	17	4
Case struck-out/dismissed	14	10	17	12
Withdrawn	4	2	1	2
Total cases finalised	256	222	309	347

Source: Department of Social Protection

Note:

a Each year, fines were imposed also in a small number of cases, in conjunction with another penalty.

33.42 Two cases were withdrawn and 12 (3.5%) were struck out. Convictions were secured (or adjourned with liberty to re-enter) in the remaining cases. About two thirds of the cases decided resulted in fines being imposed (in some cases, in conjunction with other penalties e.g. community service or a suspended sentence). The average fine imposed in 2009 was just over €900.

33.43 Seven employer-related cases were finalised in 2009 (down from 15 cases in 2008). One case was withdrawn, and one was struck out. In three cases, fines were imposed, averaging just over €80 each. One of those convicted was made the subject of a community service order and one was given the benefit of the Probation Act.

33.44 Sixteen cases referred to the CSSO prior to 2009 and where summonses remained unserved were finalised during 2009 without court proceedings, due to the lapse of time.

33.45 At the end of 2009, the CSSO and local state solicitors had on hands a total of 820 criminal cases referred by the Department at various stages of the prosecution process.

Publicity about Prosecution Outcomes

33.46 The court decision in individual prosecution cases is a matter of public record and members of the public can obtain the information by contacting the local court service in the particular region. The outcome of prosecution cases is also often highlighted in local newspapers. This publicity may have the effect on others living in the area of deterring fraud attempts.

Civil Debt Enforcement Proceedings

33.47 The Department pursues civil proceedings as a means of recovering debts only where there is a reasonable expectation that the debtor has sufficient means to discharge the debt. Over time, some cases may be dropped for a variety of reasons, while others may be settled in advance of court hearing. The overall result is that few cases end up being determined in court.

33.48 Between 2005 and 2009, the Department referred a total of 28 cases to the CSSO to initiate civil debt proceedings. The annual rate of referral has fallen significantly, from 13 cases in 2005 to just two or three in each of the past three years (see Figure 164).

Figure 164 Civil debt enforcement proceedings cases, 2005 to 2009

	2005	2006	2007	2008	2009
Cases referred to the CSSO	13	8	2	2	3
Cases finalised in year	21	13	6	48	13

33.49 The Department finalised a total of 101 civil proceeding cases over the period 2005 to 2009. Of these, a total of 47 cases were terminated either because of changes in the circumstances of the debtor (29 cases) or because the case had become statute barred (18 cases).

33.50 The Department achieved positive outcomes in 54 civil proceedings cases between 2005 and 2009

- lump sum settlements were agreed in seven cases without going to court, resulting in the recovery of debts totalling €103,000 (an average of around €14,700 per case)
- arrangements were agreed in a further 41 cases for repayment of the outstanding debts by instalments
- six cases were finalised in court, all resulting in judgements in favour of the Department — decrees awarded in three cases, instalment orders granted in two cases and a judgement mortgage granted in the remaining case.

33.51 At the end of 2009, there were 56 civil proceedings cases that had yet to be finalised (2008 — 58 cases).

Conclusion

Where it considers that it has sufficient evidence to do so, the Department records overpayment debts and seeks to recover the excess payments. In other cases, there may be enough evidence to stop or reduce payment but not to record an overpayment debt. The extent of such non-recording of excess payments is not known. The Department needs to improve its systems to measure and monitor the extent to which payments are stopped or reduced due to non-entitlement but where overpayment debts are not recorded.

In 2009, the Department recorded welfare overpayment debts totalling €66.8 million. This represented around 0.3% of the overall level of expenditure by the Department on welfare schemes in the year. Together with previously recorded debts, the total amount recorded for recovery in the year was €110 million. Actual recoveries amounted to €32.9 million.

The level of overpayment debts recorded by the Department each year has risen in line with the overall level of social welfare payments. The amount of outstanding debt recovered each year has also kept pace with overall welfare expenditure.

The level of recovery of recorded debts has ranged between 9% and 13% of the amount recorded as overpayments over the past four years. Almost two thirds of the debt recorded for recovery is more than three years old. Some of the excess welfare payments to which the debts relate are even older.

In 2009, about half of the debt amount recovered was through cash repayments by or on behalf of the debtors. The remainder was recovered through withholding amounts from current welfare entitlements. At the end of 2009, some 46% of those with recorded overpayments were servicing their debts in this way. In general, the sums being withheld from current entitlements are small in absolute terms, but at an individual level, they may be significant given the limited income of the claimants concerned. The Department is legally constrained in the amounts it can withhold in this way.

Observation of the Accounting Officer

33.52 In relation to prosecutions, the Accounting Officer stated that not all cases presented for criminal prosecution will have a debt. Other offences include the misuse of a PPS number. For the most part, the criminal cases presented are working and claiming cases. Judges, however, will always request information in relation to the amount of the debt (if any) when they are deciding on the appropriate penalty to be applied in any case. The Department pursues criminal prosecutions cases mainly where there has been a serious abuse of the system over a period resulting in a large overpayment. The average value of overpayments for which criminal cases were finalised in court in 2009 was in excess of €5,800 while the average value of a recorded overpayment was around €1,500. This shows that the Department pursues the most serious cases of fraud.

33.53 She stated that the Courts are independent of the executive branch of government and each case of alleged fraud has to be proven before a judge. Pursuit of civil proceedings to recover debts occurs in only a few suitable cases, in particular, where it has established that the person is in a position to repay the debt and has made no effort to do so.

Chapter 34

Department of Social Protection Non-Contributory State Pension Scheme

Non-Contributory State Pension Scheme

34.1 The Department of Social Protection pays State pensions to older and retired people under a range of schemes. In terms of number of beneficiaries and annual expenditure, the main schemes²⁴³ are

- State pension (contributory) — which is paid to around 265,000 pensioners, at a cost of over €3.4 billion in 2009
- State pension (non-contributory) — which is paid to around 98,000 pensioners, at a cost of €1 billion in 2009.

34.2 In order to qualify for the contributory State pension, a claimant must have a sufficient social insurance record. Where a claimant has a qualifying record, the relevant payment is made without regard to the claimant's assets or to any income from other sources.

34.3 A person aged 66 years or over who does not have an entitlement to a contributory State pension or who has an entitlement to a reduced-rate contributory pension may apply for a State pension non-contributory (SPNC). Under this scheme, the Department takes account of any financial means the claimant has in deciding whether or not he/she is entitled to a pension, and the amount of the payment. As a result, the determination of SPNC entitlement is more complex than in contributory pension cases, and carries a higher risk that excess payments may arise.

34.4 Prior to 2006, recipients of payments under other means-tested schemes could continue as claimants on the original scheme after reaching retirement age. In a rationalisation of the schemes in 2006, existing recipients of other means-tested payments aged 66 and over were automatically transferred to the SPNC scheme. This resulted in an increase in the number of SPNC pensioners from around 84,000 at the end of 2005 to around 97,000 at the end of 2006. The total number of recipients of SPNC has increased marginally since then.

Chapter Focus

As part of the financial audit of the 2009 Appropriation Account for the Vote of Social and Family Affairs, the management of claims under the State Pension (Non-Contributory) scheme was examined. The main aims of the examination were

- to verify, based on examination of a random sample of cases, that the payments made under the scheme were correct and conformed to the scheme conditions
- to assess if the controls over the payments are adequate, given the nature of the scheme, and that they are being applied as intended
- to confirm that where payments in excess of entitlements are detected, they are recovered to the maximum extent possible.

34.5 The audit reviewed the control framework put in place by the Department in relation to the SPNC scheme. It also examined the information on the Department's electronic case processing system in relation to live claims for SPNC at 16 October 2009. A random sample of 29 SPNC cases was extracted from the payment file for detailed examination, and the Department was asked

²⁴³

Under the State Pension (Transition) scheme, around 8,400 individuals aged 65 were receiving income support payments at end 2009, at a total cost of €105 million in the year. Under the Pre-Retirement Allowance scheme around 7,500 individuals aged 57 to 64 were receiving payments at end 2009, at a cost of €97 million in the year.

to provide the full documentary file containing the history of each case. It was able to present 27 original files and two duplicate files²⁴⁴.

34.6 The audit also examined in detail five cases where large overpayment debts were recorded in 2009, and relevant reports of the Department's Internal Audit Unit.

Scheme Structure

34.7 To qualify for the SPNC, an applicant must

- be aged 66 years or older
- have a valid Personal Public Service (PPS) number
- be habitually resident and living in the State
- have assessed means of €237.50 a week or less (including means of a spouse or partner, if any).

34.8 The maximum personal rate of payment for an individual claimant under the scheme is €19 per week. A pensioner aged 80 or over receives an additional €10 per week, and a claimant who lives alone is entitled to a further €7.70 per week. A pensioner on a full-rate payment with an adult dependent receives an additional €44.70 per week. Recipients of SPNC may also be entitled to benefits under the Department's various 'free' schemes.

34.9 Where the claimant (or a spouse or partner) has means, the overall payment entitlement may be reduced. In the assessment of means, certain amounts of income (depending on their source) are disregarded. The amount payable reduces as the assessed means amount increases. There is a legal obligation on those who receive pensions to report (within three months) any increase in means to the Department, to allow the payment to be adjusted, if necessary.²⁴⁵

34.10 The average payment to recipients of SPNC in 2009 was around €10,200, or €195 per week. This compares to an average payment to recipients of contributory State pension of €12,400 a year, or around €240 per week.

Claimant Profile

34.11 The profile of recipients of SPNC²⁴⁶ reflects variations in demographic factors and in the historic labour market/social insurance experience of different segments of the population. As a result

- almost two-thirds (63%) of recipients of SPNC are women — by comparison, women account for only one-third (34%) of recipients of contributory State pension
- just 3% of recipients of SPNC have dependent adults, compared to around 24% of recipients of contributory State pension — this is because dependent adults in SPNC cases generally apply for the pension in their own right on reaching age 66

²⁴⁴ The Department uses the term 'duplicate file' to describe a file created for a case where the original application file cannot be located e.g. due to misfiling. It, therefore, usually does not contain all the papers relevant to the case.

²⁴⁵ A single person who has no other means can have capital of up to €40,999 and qualify for a maximum rate pension. With capital of €92,000, a single person can still qualify for a reduced pension of around €7 per week.

²⁴⁶ Based on end 2009 data from Social Welfare Services Statistical Report 2009 (July 2010).

- significantly higher proportions of pensioners in the less urbanised areas of the State are dependent on SPNC than on the contributory State pension — there are about equal numbers of pensioners dependent on contributory pensions and on SPNC in border and western counties such as Cavan, Donegal, Mayo, and Roscommon; in contrast, in Dublin city and county, there are almost six contributory pension recipients for each recipient of SPNC
- older pensioners are more reliant on non-contributory pensions — 43% of State pensioners aged 80 and over rely on the SPNC, while 21% of State pensioners under 80 rely on SPNC.

Scheme Administration

34.12 The non-contributory pension scheme is administered centrally by the Department's Pensions Office (Social Welfare Services), based in Sligo. The Department manages claims for SPNC on its PENLIVE system.

34.13 The Department has stated that, to address limitations of the PENLIVE system, a project is underway to implement a Service Delivery Modernisation (SDM) programme for the SPNC scheme. The expected benefits of the SDM programme are

- more effective systems for control of fraud and abuse
- capacity to view all claim information on-line in one place allowing staff to provide a higher quality of service
- the capacity to become more proactive in initiating services for claimants
- system-generated communications giving claimants timely information relevant to their particular entitlements
- capacity for more flexible organisational structures, providing staff with a greater variety of work and the consequent development of new skills.

34.14 New applicants are required to complete a detailed application form, which must be sent, together with relevant supporting documentation, to the Pensions Office. The form requires the applicant to declare personal means, and those of a spouse or partner, if appropriate. Applicants already in receipt of an income support payment under another scheme, and approaching the age of 66 are asked to fill out a similar declaration form.

34.15 Applications are checked to ensure that they are completed in full and may be returned to the applicant if it is found that relevant information or supporting documentation is missing. Fully completed applications are registered and passed to a vetting officer to determine whether the file should be referred to a social welfare inspector to interview the applicant in connection with his/her application, or whether the entitlement can be desk-assessed based on the information provided. The vetting officer will also write to the applicant requesting any outstanding information/documentation required before a decision on entitlement is made.

34.16 Completed files (including reports returned by social welfare inspectors where relevant) are examined by a deciding officer, who determines entitlement to payment (if any). The deciding officer writes to the applicant informing him/her of the decision. Payment is initiated in cases where the decision is to award a pension.

34.17 There is provision for the applicant to appeal the deciding officer's decision.

Timeliness of Processing of Claims

34.18 The Department encourages applicants to apply for SPNC three months prior to their 66th birthday to allow sufficient time for the claim to be processed and, in so far as is possible, to commence payment on the applicant's 66th birthday. Applications are accepted up to six months prior to the customer reaching 66 years but the customer must confirm that there has been no change in his/her circumstances before commencement of any payment.

34.19 There is provision for backdating late applications, normally up to six months, where a valid reason is provided for the late application. In exceptional circumstances consideration may be given to backdating for longer periods.

34.20 The Department received a total of just over 10,800 applications for SPNC in 2009. The average time taken to process the applications was nine to ten weeks.

Take-on Controls

34.21 In the sample of 29 files examined during the audit, it was found that the application process and take-on controls had generally been applied as intended.

34.22 In a small number of the cases examined, it was found that there were problems with SPNC application forms. These included

- incorrect dating of forms or failure to date them
- misfiling of applications.

34.23 The Department has since reviewed the circumstances of cases brought to their attention in the course of audit in the context of the procedures in place at the time the entitlement was being assessed. It has concluded that they were dealt with appropriately and in accordance with the procedures.

34.24 The audit examination of the case files also found that eight of the application forms had not been date stamped by the Department. The Department has stated that applications for SPNC are submitted through a variety of channels — by post to the office in Sligo, via other Department offices, via social welfare inspectors or sent by local representatives or politicians. A date-received stamp only appears on the application form when it is received by post. Applications received by other means are registered on the PENLIVE system immediately on receipt in the SPNC office. The Department's view is that the date of receipt only becomes relevant where the application is received after the applicant's 66th birthday.

Evidence of Bank Balances

34.25 In assessing claimants' means, the Department relies to a significant degree on self-declaration by claimants of income, savings and other assets (including those of a dependent adult, where relevant). Claimants are asked to give details of their accounts in financial institutions, and to provide statements for each account showing the balances over the three month period prior to submission of the claim.

34.26 The review of documents backing up payment in the sample cases examined revealed six cases where claimants had declared that they had bank accounts, but where the required three months' bank statements were not on file.

34.27 The Department has stated that bank statements are not always retained on the file. In many instances, an inspector will examine bank statements during the course of the interview with the applicant and will return them to the customer directly where s/he is satisfied that there is nothing unusual or requiring further examination. In other cases, where the Department receives bank and other personal information, applicants will often request that the documents are returned as soon as possible, and the deciding officer will often return the bank statements when a decision on entitlement is made. Copies of bank statements are normally only retained where there is evidence of another source of income e.g. payment of an occupational or other pension, or regular income lodgements of note. The Department has considered retaining copies of bank statements on file but it concluded that the administrative effort associated with this would be excessive.

Accuracy Checks

34.28 In early 2010, the Department initiated a process to independently check 5% of all SPNC cases decided each month, to ensure the accuracy of decisions, that they accord with entitlement and that the payment is made to the correct recipient. In addition, 5% of desk-assessed claims are subsequently forwarded for investigation by a social welfare inspector to confirm accuracy of the decision/payment. Scheme managers check 5% of cases where arrears between €1,905 and €7,500 are paid, and approve in advance, all cases where arrears exceed €7,500.

34.29 No overall record has been kept of the frequency of revision of decisions following the accuracy checks. The Department has indicated that arrangements will be put in place to keep a manual record of the outcome of the checks. It expects the implementation of the SDM programme for SPNC to allow for streamlining of the accuracy checking process and to give greater control over quality checks.

Review and Control Strategy

34.30 The Department revised its review and control strategy in relation to the SPNC scheme during 2009. This revision took on board the findings of an internal audit report on review of estate cases in June 2008 and the results of a fraud and error survey of SPNC undertaken in 2007. Based on risk assessment, the strategy aims to ensure that targeted reviews of pension cases are undertaken in a timely manner. In addition, SPNC cases are reviewed when the claimant provides new information, or when relevant new information comes to light.

34.31 Implementation of the strategy was delayed by industrial action but a designated Control Unit is being set up in Sligo in conjunction with the proposed transfer of the scheme to the SDM programme by the end of 2010.

34.32 The Department has stated that the most significant risk identified in the fraud and error survey on the scheme was failure to make consequential change in rates of payments to pension recipients as a result of changes made in UK Retirement Pension payments. This risk is now being targeted through a new data-matching process with UK authorities on the relevant Retirement Pension payees in receipt of SPNC payments.

34.33 The Department has also developed the capacity to validate assets and income being declared through information received from a number of sources, including the Department of Agriculture, Fisheries and Food and the Private Residential Tenancies Board. More recently, the Revenue Commissioners have provided information on assets recorded on their database.

Review Frequency

34.34 The Department set a target of carrying out 7,660 reviews of SPNC cases in 2009. This was equivalent to a review rate of around 8% of the total claims in payment. The outturn was 8,814 cases reviewed — about 9% of all claims in payment in 2009.

34.35 For the sample of 29 SPNC cases examined during the audit, the case files indicated that

- only five cases had been reviewed in the period 2007-2009
- seven cases were last reviewed in 2005 or 2006
- 15 cases were last reviewed in 2003 or earlier, with individual ‘last review’ dates going back to 1988
- two cases (commenced in 2001 and 2006 respectively) had never been reviewed since initiation.

These results are broadly consistent with the 2009 target review frequency.

34.36 One of the sample cases reviewed commenced payment in 1993. The examination of the case file indicated repeated failures on the part of the Department to implement case review findings and recommendations. In this case, reviews by a social welfare inspector in 2003 and in 2005 found there had been an undeclared sale of property by the claimant in 1999 and several undeclared bank accounts. This indicated the claimant had means in excess of the limits for any pension payment. Decisions to stop the payment were recorded on the case file in 2004 and again in 2005, but the claimant was still in receipt of the maximum rate of pension at the time of the audit, and no overpayment had been recorded. While the circumstances of an individual case may not be representative of the scheme management as a whole, this case gives rise to concerns about the lack of follow through where reviews of ongoing claims are undertaken.

Payment Termination

34.37 Just over 6,600 SPNC claims were terminated in 2009 following the deaths of the claimants. The scheme provides for SPNC entitlements to continue to be paid to a qualified spouse/partner of a deceased claimant for six weeks after the death occurs. Otherwise, entitlement to payments ceases from the date of death of the claimant.

34.38 Family members or other representatives of the claimant’s estate may notify the Department of the claimant’s death. The Department aims to register notified deaths on the PENLIVE system within a week. This stops the payment.

34.39 If notification of death is not received from a family member or other representative of the claimant’s estate, or is delayed, payment may be stopped on receipt of a message from the General Register Office, which automatically notifies the Department of all deaths registered in the State. However, the legal obligation to register a death allows for up to six months to carry out the registration. Consequently, there are risks that payments can continue for periods after the death of the claimant.

34.40 The Department has stated that all pension claimants are paid through An Post or directly to a claimant’s account with a financial institution. If a payment is made following the death of a claimant, the Department has the facility to recoup the overpayment from An Post or the financial institution concerned.

34.41 The Department has reported that in 95% of the cases where an identified overpayment arose through payment after the death of the claimant, it has been possible to recoup the overpayment from the financial institution/An Post, or out of the entitlement to a six weeks payment after death due to a spouse.

Estate Cases

34.42 The Department operates an Estate Case Recovery Unit, which aims to identify overpayments (if any) in relation to cases of deceased pensioners. Reviews are based on information and declarations supplied to the Unit by representatives of the estates of deceased persons, who are legally obliged to notify the Department when they are processing the assets of an estate.

34.43 In 2009, the Unit reviewed a total of 1,548 estate cases.²⁴⁷ This is equivalent to around 23% of the number of cases that ended in the year due to the deaths of pensioners. The Department has pointed out that many pensioners die without leaving any estate.

34.44 Of the SPNC cases reviewed by the Unit, 324 resulted in overpayments being identified. The total value of the overpayments identified was €9 million (an average of around €27,800 per case).

34.45 A 2008 internal audit of the operation of the Estate Case Recovery Unit noted significant concerns in relation to the following

- The Department had no control mechanism to ensure that all relevant estate cases were notified to it.
- Local social welfare inspectors investigating estate cases were found to have agreed with the representatives of the estates concerned the amount of overpayments due for repayment and arranged for the repayment of the agreed sums. The quantum of overpayments should instead have been determined by a deciding officer following a review of each case.
- Settlements in estate cases resulted in overpayment debts being only partly recovered even though there were sufficient assets in the estate. In a sample of ten cases examined by the internal auditors, there were eight where the available assets were sufficient to repay the full debt, but the recovery rate was between 42% and 81% of the total debt. No explanations for the amounts not pursued were evident on the files.

34.46 The Department has stated that the arrangements it currently has in place in relation to estate cases are as follows

- It relies primarily on the legal obligation on the personal representatives of deceased persons to notify it when they are processing the assets of an estate. In addition, it has now arranged for regular reports from the Probate Office that will identify cases for targeted review through the Estate Case Recovery Unit.
- A local social welfare inspector computes the level of overpayment owing in an individual case, based on the Department's procedures. For practical purposes, there is a system in place where estate representatives can make a payment on account based on the calculations of the inspector.
- While, on the face of it, a particular estate may have enough funds to repay the full arrears owing, some assets may not be easily converted to cash. Legitimate expenses of the estate (e.g. funeral expenses) are also allowed before a final settlement is reached. Where the

²⁴⁷

Includes some widows' pension (non contributory) estate cases.

estate is mainly comprised of property that cannot be easily converted into cash, a pragmatic approach is often adopted to ensure that settlement is reached in a timely manner.

A review is currently underway to further enhance processes and procedures within the estates area.

Payments in Excess of Entitlements

Fraud and Error Survey Results

34.47 The Department undertook a fraud and error survey in relation to SPNC in 2007. This involved reviews of a random sample of over 1,000 current claims. In just over 17% of the cases reviewed, it was found that the payment entitlement needed to be adjusted in some way — stopping the payment in a few cases, or changing the payment amount to reflect changes in assessed means. The net adjustment was a reduction of 1.9% in the overall amount paid to the sample of pensioners²⁴⁸. This implies that there is likely to be a material level of payment in excess of SPNC entitlements.

34.48 Regular fraud and error survey results in the UK for the means-tested Pension Credit Scheme also identify a material level of excess payment, estimated at 5.1% of the total expenditure on the scheme in 2008/2009.

34.49 The Department has pointed out that since the fraud and error survey on the SPNC scheme was completed it has developed a control review policy to target the control risks identified in the survey, which is now being implemented. In light of the action taken by the Department to address the risks, it considers that 1.9% does not reflect an up-to-date estimate of the cost of fraud and error in the scheme. In addition to the improved and targeted controls in place, the transfer of the scheme to the SDM programme by end 2010 will enable a more effective and efficient review process for SPNC claimants, including an automated re-certification process.

Estimate of Control Savings

34.50 The Department estimates that it generated control savings of over €42 million on SPNC expenditure as a result of control/review activity carried out in 2009.

34.51 The control savings estimate is based on a multiplier of 136 weeks i.e. the amount of a detected excess weekly payment is multiplied by 136 to derive the control saving in each case. This multiplier is the one commonly used by the Department for long-term scheme cases. The Department has indicated that it is currently undertaking a review of the control savings multipliers it uses.

²⁴⁸ The gross overpayment level was 2.1%.

Recorded Overpayments

34.52 In 2009, the Department formally recorded overpayments in respect of 1,080 SPNC cases, with a total value of €10.3 million. Figure 165 gives a summary of the Department's classification of the circumstances giving rise to the recorded overpayments.

Figure 165 Recorded overpayments in SPNC cases, by reason, 2009

Reason overpayment arose	Number of cases		Value of overpayments		Average value
	No	%	€000	%	€/case
Undisclosed means – estate cases	324	30	9,000	88	27,800
Undisclosed means – other ^a	53	5	517	5	9,800
Payment continued after death	508	47	405	4	800
Duplicate payments made	84	8	57	1	700
Other reasons	111	10	249	2	2,200
Total (all reasons)	1,080	100	10,288	100	9,500

Source: Department of Social Protection

Note:

a Includes cases where means were found to have been under-declared, and cases where means increased after declaration and were not reported.

34.53 The primary method for discovery and determination of overpayments of SPNC is through estate cases. These accounted for almost 90% of the value of the overpayments recorded. Averaging at €27,800 per case, this implies that the payments in excess of entitlements are both substantial and long standing.

34.54 Around 5% of estate cases were assessed as having overpayments. This suggests a sizeable incidence of excess payment of SPNC in the overall population of cases.

Conclusion

In the sample of SPNC case files examined during the audit, it was found that the application process and take-on controls had generally been applied as intended. In one case, the original pension application form has been missing since at least 2006, probably due to misfiling. The Department should develop a suitable claim re-declaration protocol to apply in cases where it may have mislaid original claim application documents.

There is an onus on SPNC applicants to provide bank statements as evidence of account balances declared in application forms. In six cases examined, account balances had been declared by applicants but copies of relevant statements were not on file. If copies of statements are not retained, files should record the fact that the necessary evidence was provided, that it supported the declared balances on the form, and that it was returned to the claimant. This record might be in the form of a file memorandum note made by the social welfare inspector, and/or by the deciding officer.

The evidence from the Department's fraud and error survey in 2007, the results of estate case and other reviews and the level of recorded overpayments all indicate that there is a material level of payment of SPNC that is in excess of the entitlements due to pensioners. In the main, this arises because of non-declaration or under-declaration of means. Claims for SPNC are usually of long duration, and while there is a requirement on claimants to declare increases in means, in practice, many claimants may overlook or neglect doing so.

Reviews of estate cases involve detailed examination of income and assets of deceased pensioners. These result in the eventual detection of a significant amount of pension overpayments. However, where assets are used or otherwise disposed of before death, excess payments may not come to light. There can also be difficulties and delay in enforcing repayments in the context of probate proceedings, resulting in lower recovery of debts.

The Department should consider initiating a periodic re-declaration system for non-contributory pensioners. This could have a long repeat cycle — say, every three years. It could include a request for provision of bank statements for 'spot check' periods during which pension payments had been made.

Accounting Officer's Response

34.55 The Department recognises that regular and ongoing interaction with claimants is required to ensure that timely information is available to it in determining ongoing entitlement to the SPNC. It expects the designated SPNC Control Unit and the transfer of the scheme on to the SDM programme will ensure a more effective, efficient and timely review process for SPNC claimants. It also expects that SDM will ensure that customers are aware on an ongoing basis of their obligation to notify the Department of a change in their circumstances which may affect the rate of their entitlement.

34.56 Periodic re-certification of SPNC claims will be considered when the scheme moves to SDM, which can facilitate such a process.

34.57 The Department notes that the fraud and error survey on SPNC indicated this is a low-risk scheme with fraud being negligible. New efforts to target the cases most likely to result in control savings include data-matching projects using Private Residential Tenancies Board and the Revenue Commissioners' data on capital assets and information about UK Retirement Pension payments.

Chapter 35

**Department of Social Protection
One-Parent Family Payments**

One-Parent Family Payments

35.1 The one-parent family payment (OPFP) is a means-tested payment made to men and women who are caring for a child or children without the support of a partner, or with only limited support in the form of maintenance payments. Claimants must not be cohabiting.

35.2 At the end of 2009, around 90,000 families were receiving OPFP payments. Expenditure under the scheme in 2009 was over €1.1 billion. The average payment per family under the scheme amounted to around €12,500 a year, or €239 a week. This excludes payments under the Child Benefit scheme, and other benefits such as rent supplement which are payable to some families, depending on their circumstances.

35.3 The conditions around entitlement to OPFP are complex and present particular challenges to the Department in terms of designing and implementing effective controls over scheme payments

- claimants may have a certain level of income from diverse sources — e.g. from employment or from maintenance support — before OPFP is affected, and entitlements reduce as assessed means increase to a cut-off level
- there may be difficulty in determining the level of maintenance support that the non-claiming parent can or should provide for his/her family
- there is particular difficulty around establishing whether a claimant is cohabiting.

35.4 Any of these circumstances may change in individual cases over a relatively short period, resulting in changes in entitlements under the scheme, and considerable risks that the payments being made move out of line with current entitlements.

35.5 The OPFP scheme was established in 1997 and replaced the existing Lone Parent's Allowance and Deserted Wife's Benefit/Allowance schemes. The new scheme was originally administered centrally by Social Welfare Services Sligo. In 2003, the Department decided to devolve responsibility for administration of new scheme applications to its network of local offices which up to then had dealt mainly with Jobseeker schemes.

35.6 A staged roll out programme for OPFP was put in place. This involved provision of training for local office staff on the objectives and features of the scheme. Once training had been provided, local offices started processing new OPFP claims. Responsibility for management of existing claims is being transferred to the relevant local offices on a phased basis, as circumstances allow. By the end of 2009, around 63% of all current cases were being administered by local offices, with the balance continuing to be administered from the scheme's central office in Sligo.

Chapter Focus

As part of the financial audit of the 2009 Appropriation Account for the Vote for Social and Family Affairs, the management of OPFP claims in two local offices — Mullingar and King's Inns Street (Dublin) — was examined. The main aims of the examination were

- to verify, based on examination of a random sample of OPFP cases, that the payments made were correct and conformed to the scheme conditions
- to assess if the controls over OPFP are adequate, given the nature of the scheme, and that they are being applied as intended
- to confirm that where payments in excess of OPFP entitlements are detected, they are recorded as overpayment debts and are recovered to the maximum extent possible.

35.7 The King's Inns Street office commenced processing new OPFP applications in September 2004. At the end of December 2009, it was administering 1,637 cases, and a further 1,453 cases associated with the office's catchment area (Dublin city north) were identified for eventual transfer from Sligo. The Mullingar office commenced processing new OPFP applications in May 2005. At end-2009, it was administering 570 current payment cases. A further 788 claims are due to be transferred from Sligo.

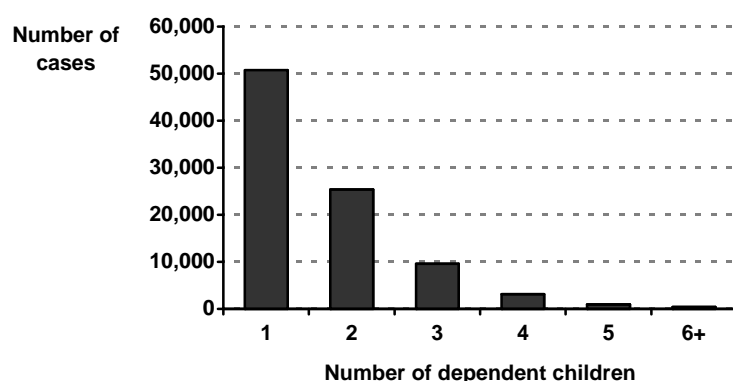
35.8 Audit work was carried out in the two selected local offices. Random samples of cases currently in payment and managed in the local offices were selected for detailed examination — 23 cases in Mullingar and 23 cases in King's Inns Street.

Claimant Profile

35.9 The number of recipients of OPFP increased from around 70,000 at the end of 1999 to around 90,000 at the end of 2009 — an increase of around 28% over 10 years. The majority of recipients of OPFP are women aged between 20 and 44 years — accounting for 86% of the total.

35.10 Around 150,000 children were recorded as living in family units in receipt of OPFP. 56% of recipients had one dependent child, and a further 28% had two dependent children. See Figure 166.

Figure 166 One parent family payment claims, by number of dependent children, end 2009



Source: Statistical Information on Social Welfare Services, 2009

35.11 At the end of 2009, 14% of the recipients of OPFP — around 12,600 families — were of non-Irish nationality.

Payment Levels

35.12 The maximum personal rate of payment for a claimant under the scheme in 2009 was €204 per week for the adult and €26 per week for each dependent child up to the age of 18, or up to the age of 22 if the child is in full-time education. These amounts may be reduced, depending on the level of assessed means of the applicant.

35.13 A claimant of OPFP who is separated, divorced or unmarried is required as a condition of the scheme to make appropriate efforts to seek maintenance from the other parent(s) of the dependent child(ren). Vouched housing costs of up to €5.23 a week (e.g. rent or mortgage) incurred by the claimant may be offset against any maintenance received, and half of the balance of maintenance support is assessed as means in establishing the rate of payment under the scheme.

35.14 Gross earnings from employment of up to €146.50 a week are disregarded from the assessment of means i.e. the full personal rates may be paid. Half of gross earnings between €146.50 and €425 a week are assessed as income, and the rate of payment is reduced accordingly. A person who earns more than €425 per week does not qualify for a payment²⁴⁹.

35.15 Claimants are required to inform the Department promptly of any change in their circumstances or means that might affect their continued entitlement to payments under the scheme. Increases in means/income must be notified to the Department within seven days.

Payment Method

35.16 Recipients of OPFP are paid by one of the following payment methods

- Electronic Information Transfer (EIT) — payable weekly in a nominated Post Office branch on presentation by the claimant of photo identity documents. Uncollected EIT payments are returned to the Department after 20 days, prompting claim reviews.
- Electronic Funds Transfer (EFT) — payments are credited directly to clients' bank accounts.

The choice of payment method is intended to accommodate different family circumstances e.g. where the claimant works full time.

35.17 In the samples of cases examined in the local offices in Mullingar and King's Inns Street, there was a significant difference in the methods of payment. In the former case, almost four out of five (78%) of the claims examined were paid by EFT. By comparison, just over one in four (26%) claims in the King's Inns Street office were paid by EFT.

35.18 Since late 2007, at the instigation of the Regional Manager, the policy in the King's Inns Street office is not to offer EFT as a payment option for OPFP except in exceptional circumstances. This decision was in response to evidence that some social welfare payments delivered to Irish bank accounts of clients were being electronically transferred to foreign bank accounts or were being accessed electronically from outside Ireland by clients no longer resident

²⁴⁹ There is provision under the scheme in certain circumstances for recipients of OPFP to continue to receive payments for up to six months (transition payments), if income from earnings increases above €425 a week.

here. The policy of restricting access to the EFT payment method was subsequently adopted in July 2008 across all regions for new OPFP claims.

Application of Take-on Checks

35.19 New applicants are required to complete a detailed application form, which must be submitted to the relevant social welfare local office, together with relevant supporting documentation. The form requires the applicant to declare personal means, including any maintenance payments received.

35.20 Applications are registered on receipt on the Department's ISTS system. The applications are initially checked for completeness and then are generally referred to a local social welfare inspector who is required to investigate the circumstances of the individual case relevant to the establishment of entitlement. The inspector may visit the claimant and/or the other parent(s) of the children to review the child dependency and maintenance arrangements. He/she then reports on the facts of the case. The inspector's report is taken into account by a deciding officer, who determines the entitlement to payment (if any). The deciding officer writes to inform the applicant of the decision made and the reasons for the decision, and initiates payment.

35.21 Claims may be decided in some cases without referral to an inspector. Where this occurs, the case should subsequently be sent for review by an inspector at an early date.

Completeness of Support Documentation

35.22 The review of current payment case files in the two local offices found that there were instances where one or more of the pieces of documentation required as evidence to support the amounts paid were missing or defective. These included cases where

- Applications had not been date stamped on receipt by the Department's staff (four cases in Mullingar, 12 cases in King's Inns Street).
- While copies of relevant supporting documents — such as bank statements — are required to be provided together with application forms, copies of relevant documents were not on file in eight cases (two in Mullingar and six in King's Inns Street) — instead, social welfare inspectors' reports indicated they had seen the relevant documents.
- Inspectors' reports were not on file in two cases in Mullingar — in both cases, the applicant had been living with parents at the time of application, but had subsequently moved to their own accommodation.
- There was no application on file in support of payments for additional children that had been added to claims in two cases in King's Inns Street.
- In one King's Inns Street case, the deciding officer's authorisation for payment was missing from the file and there was no evidence that the deciding officer had issued the notification of decision to the applicant.

35.23 In response to the audit findings, the Department has stated that

- Since the roll out of the OPFP administration to local offices, the vast majority of OPFP claims are made in person in the local office. The claim is registered there and then on the ISTS system and subsequently maintained on the system, not on the paper file. The computer record includes the date of registration (which is assigned automatically by the system) and the commencement date where different. In addition, the applicant supplies the date of birth of the child that is triggering the claim. While ideally the actual claim form should be stamped, the fact that it is taken in person and entered on the system as part of the taking of the claim is deemed to be the proper procedure.
- Where supporting documentation, such as statements of accounts at banks and other financial institutions, is furnished by clients during the course of home visits, the inspector confirms in writing that the document in question has been seen and makes a written record of its content. This report becomes part of the source documentation upon which the deciding officer relies in making a decision. This reflects both the role of the inspector and the impracticality of making photocopies of documents in clients' homes.
- In relation to both cases in King's Inns Street where there was no application form in support of additional children, the claimants had sent in the birth certificates of the newborn children with a letter or supplied other details by phone and the officers dealing with the cases felt that this would suffice. Ideally, the relevant claim form should have been completed in respect of both claims and steps are being taken to ensure that the form is completed in future for all such cases.
- In relation to the case file where the payment decision of the deciding officer was not recorded and the applicant was not formally notified about the outcome of the claim, a copy of the absent documentation will be placed on the claim.

Checks on 'Liable Relative' Details

35.24 OPFP claimants are required to declare who is the other parent (or parents) of their dependent children, and to supply their addresses, where known. The other parents are legally liable to contribute to the support of their families, depending on their means. social welfare inspectors carry out investigations to locate these parents — referred to as 'liable relatives' — and where possible interview them, both to inform them of their legal obligations and to establish their capacity to provide support. Visits by social welfare inspectors may be carried out to the home addresses of 'liable relatives' to confirm their residency details and any maintenance arrangements, and as a check against the possibility that the parents are cohabiting.

35.25 Some claimants do not declare the identity of the liable relative, and some 'liable relatives' may live outside the State. In cases where it is not deemed possible to interview known 'liable relatives', a social welfare inspector is required to notify them, by post, that they have been associated with an application for OPFP and inform them of their maintenance obligations.

35.26 In the samples of cases examined on audit in the local offices, it was found that

- liable relative details were declared in 78% (36) of the cases examined — 16 out of 23 cases in Mullingar and 20 out of 23 cases in King's Inns Street.
- a total of 38 'liable relatives' were identified (two 'liable relatives' were disclosed in an individual case examined in each office)
- 87% (33) of the declared 'liable relatives' were stated to be resident in Ireland
- only in four cases did the file indicate that home visits to the 'liable relatives' were carried out — all of these were in Mullingar, no visits to declared 'liable relatives' had been carried out in King's Inns Street cases

- of 25 cases where liable relative addresses were known, written notifications regarding OPFP claim association and maintenance obligations had been issued in only five cases – four of ten cases in Mullingar, one of 15 cases in King’s Inns Street.

35.27 The Department has stated that in the past, visits by inspectors to the homes of ‘liable relatives’ were more commonly carried out. However, the ‘rate of return’ from these visits was negligible. Now, because of resource constraints, these visits are carried out only where there are prima facie indications that they will be worthwhile in terms of control and/or maintenance recovery. Given the pressures arising from the increasing Live Register and the associated increased inflows of Jobseeker claims, there is a requirement to strike an appropriate balance between claim processing and control activities. The control aspects must take into account the economic and social circumstances that prevail given the downturn in the economy and the changed labour market environment. In some cases, it is known that the declared liable relative is in receipt of a social welfare payment.

Maintenance Payments

35.28 The Department has established a Maintenance Recovery Unit, based in Carrick-on-Shannon. This aims to ensure payments by the ‘liable relatives’ of children living in OPFP families where they are in a position to provide maintenance support but are not doing so. Liable relatives earning more than €18,000 a year are assessed with maintenance liability. Certain categories of liable relative are not pursued due to personal circumstances or because they have low incomes.

35.29 The OPFP application requires the claimant to identify the liable relative(s) of the children and to indicate what maintenance payments, if any, are already being made. The Department’s procedures require the local office staff to send the relevant details to the Maintenance Recovery Unit. In cases where no maintenance payment is being made, the Unit seeks to trace the individuals concerned to assess their capacity to contribute towards the cost of the OPFP. The Unit issues a letter of determination setting out the amount of the contribution assessed.

35.30 In 2009, the Unit examined a total of around 13,200 cases and issued determination orders for the payment of maintenance in 2,170 cases (16%). Maintenance contributions totalling €851,000 collected directly by the Department were recorded as appropriations-in-aid of the Vote for Social and Family Affairs in 2009.

35.31 In the sample cases examined on audit, it was found that

- Details of ‘liable relatives’ and their maintenance arrangements had been sent to the Maintenance Recovery Unit in only 39% of cases in the Mullingar office (i.e. nine out of 23), even though liable relative details had been disclosed in two-thirds of the cases. Declarations had been sent to the Unit in 87% of cases in the King’s Inns Street office (20 out of 23).
- 19 of the ‘liable relatives’ identified (50% of the total) were recorded as making maintenance contributions in support of their families.
- Maintenance payments ranged from €20 to €85 a week in seven Mullingar cases and from €30 to €248 in twelve King’s Inns Street cases. These amounts had been taken into account in assessing the level of entitlement of the OPFP claimants.
- Of the remaining 19 ‘liable relatives’, only one had been determined to be in a position to make maintenance contributions, but was not actually doing so.

35.32 The audit found there was a difference in current practice between the Mullingar office and the King’s Inns Street office in relation to notifications to the Maintenance Recovery Unit. In

King's Inns Street, a report form (referred to as an LR3) is completed and sent to the Unit in respect of every OPFP award made, irrespective of the amount of information provided about a liable relative. In Mullingar, a form is only sent to the Unit where some details of the liable relative are available.

Payments in Excess of Entitlements

35.33 Large-scale fraud and error surveys undertaken by the Department in 2003 and again in 2007 found that adjustments to current payments were needed in more than a quarter of the randomly-selected cases examined. In some of these 'change' cases, increases in payments were required, but in most, the surveys found that the payments being made were in excess of claimants' entitlements. The results of the 2007 survey suggested that overall expenditure under the scheme was about 7.3% more than it should have been. This implies a loss to taxpayers in the region of €82 million a year at 2009 rates.

35.34 Review activity undertaken by the Department's staff is intended, where possible, to detect excess payment cases early and to stop or adjust the payment entitlement promptly. Where overpayments are detected, the Department seeks to recover the excess payments, where it is feasible and appropriate to do so. This may be through direct repayment by the claimant or by withholding amounts from ongoing entitlements.

Case Reviews

35.35 The Department reports that more than 74,000 case reviews were carried out on OPFP cases in 2009. This is equivalent to an average annual review rate of around 82%. Payment was stopped or reduced in an estimated 18% of the cases reviewed — around 13,100 cases. Control savings associated with these terminations/reductions were estimated at around €14 million²⁵⁰.

35.36 The forms of review of OPFP cases in 2009 included the following

- The Department originally administered OPFP claims on its PENLIVE system but subsequently transferred the information to its ISTS system. At the start of 2009, there were almost 22,400 OPFP claims still on the PENLIVE system and some 19,650 were transferred during the year, to leave a residual group of around 2,750 cases yet to be transferred at the year end. (The transfer was completed in 2010.) Each case transferred was formally reviewed as part of the transfer process, and this resulted in 510 claims being terminated and payments being reduced in 2,795 cases. This means that 17% of the cases transferred were receiving more than their entitlements under the terms of the scheme.
- A 'commencement of employment' data-matching exercise based on data provided by the Revenue Commissioners identified a total of 767 OPFP cases where the claimant had started work. On review, it was found that 43 of the claims should be terminated and 357 others reduced.
- A recipient of OPFP ceases to have entitlement to payments in the event that he/she marries. The General Register Office provides automated notification to the Department of all marriages registered in the State. This is used centrally in a data matching exercise allowing the managers of the OPFP scheme to identify undisclosed marriages of recipients.

²⁵⁰

In calculating savings, the Department applies a multiplier of 136 times the weekly payment in the case of terminated claims and 52 times the amount deducted in reduced payment cases.

35.37 The Department has stated that it is currently pursuing with the Department of the Environment, Heritage and Local Government the possibility of gaining access to information from a database of local authority tenancies and applications, with a view to data matching the information with OPFP claims. This could provide evidence of possible co-habitation or differences in addresses indicating possible changes to entitlements.

Periodic Self Declaration

35.38 The Department has a policy of requiring recipients of OPFP to submit a self-declaration return at least every two years. Declaration forms are issued to the home address recorded for each recipient. Entitlements are reviewed based on the information supplied and further investigations may be carried out by social welfare inspectors, if considered appropriate. Payments are terminated in cases where the return is not received by the due date or where the letter requesting the form to be filled out is returned unopened.

35.39 The audit found that declaration forms are issued every two years to recipients whose claims are administered from Sligo. Forms are issued annually from the Mullingar and King's Inns Street local offices. In three cases examined in the Mullingar office, the file indicated that self-declaration forms were overdue but payment was continuing. The Department has stated that it located the forms subsequent to the audit.

Recorded Overpayments

35.40 At overall scheme level, the Department formally recorded overpayment debts in respect of more than 1,500 OPFP cases in 2009 — equivalent to around one case in nine of the total where payment was stopped or reduced in the year. The total value of the overpayment debts recorded was €9.5 million.

35.41 Figure 167 gives a summary of the Department's classification of the circumstances giving rise to the recorded overpayments. The most frequent reason for recorded overpayments is the discovery of undisclosed means. A significant number of recorded overpayment cases was attributed to evidence that the claimant was cohabiting, or that his/her marital status had changed but not been disclosed. Between them, such cases accounted for two thirds of the value of overpayments recorded.

Figure 167 Recorded overpayments in OPFP cases, by reason, 2009

Reason overpayment arose	Number of cases	% of total	Value of overpayments recorded €000	% of total	Average value per case €
Claimant cohabiting	206	13	5,056	53	24,540
Marital status changed	151	10	1,306	14	8,650
Undisclosed means ^a	595	39	1,541	16	2,590
No qualified child/paid beyond entitlement	123	8	540	6	4,390
Concurrent working and claiming	200	13	262	3	1,310
Absent from the state	40	3	249	2	6,220
Other reasons	219	14	596	6	2,720
Total (all reasons)	1,534	100	9,550	100	6,230

Source: Department of Social Protection

Note:

a Includes cases where means were found to have been under-declared when the claim was made, and cases where means increased afterwards and were not reported promptly to the Department.

35.42 Around 43% of the overpayments debts recorded in 2009 were attributed to deliberate fraud. 55% was attributed to error on the part of the claimants. Just over 1% was attributed to departmental error.

35.43 The audit also examined the sample of current payment cases to see what level of overpayments had been recorded and of the extent to which they had been recovered. The main findings of the examination are as follows

- Case files indicated there had been payments in excess of entitlements in 13 cases – seven in King’s Inns Street and six in Mullingar.
- Overpayments were recorded in two cases one of which was recovered in full and the other was found on audit not to have deductions from the current claim. The Department indicated that it would seek to agree a deduction with the claimant to repay the outstanding amount.
- A Jobseekers’ Allowance overpayment totalling €2,225 was recorded in another of the Mullingar cases examined. This arose because the Department established there had been ‘concurrent working and claiming’ in the period September 2003 to January 2004. Up to the time of the audit, none of the overpayment debt had been recovered from the current OPFP claim entitlements. The Department has indicated that the Mullingar local office was not aware of this overpayment and that the case will be examined to establish if deductions can be agreed as a means of repaying the debt.
- In a number of cases in both offices, OPFP payment levels had been adjusted ‘from a current date’ when it was discovered that income from earnings or maintenance payments were higher than previously declared, but the timing of the changes was not investigated and overpayments were not raised.

35.44 The Department has indicated that it will investigate the issues identified by the audit in relation to a number of individual cases and consider raising further overpayments.

Conclusion

Social welfare support was provided to around 90,000 families in 2009 under the OPFP scheme, at a total cost of some €1.1 billion.

There is evidence of a persistent and material problem of scheme payments being in excess of claimants’ current entitlements. Fraud and error surveys carried out by the Department suggest around 24% of claimants receive more than they should, and that an estimated 7.3% of the amount paid is in excess of claimants’ entitlements. If this level of excess payment applied to the scheme in 2009, the resulting loss to taxpayers in 2009 would have been in the order of €82 million.

Ongoing review activity carried out by the Department confirms the excess payment problem. In 2009, 18% of cases reviewed in a variety of initiatives were found to be paid more than their statutory entitlements and had their claims terminated or payment reduced. The Department estimated that this review work resulted in control savings of some €14 million.

Despite the high level of detection of excess payments, the rate of recording of OPFP overpayment debts is low. In 2009, just over 1,500 cases were recorded, with an aggregate value of €9.5 million.

Given the incidence and scale of the excess payments, the Department should

- carry out fraud and error surveys in relation to the OPFP scheme more regularly — every two years at least — or routinely include a sample of randomly-selected OPFP cases in the review programme for the scheme i.e. in parallel with targeted reviews
- report the results of ongoing review activity in terms of the impact on current payment levels, rather than on the basis of projected control savings
- monitor the cost of the review work that it undertakes in relation to OPFP, so that meaningful cost-benefit information is available to inform resource allocation decisions.

A claimant of OPFP is required as a condition of the scheme to make appropriate efforts to seek maintenance from the 'liable relative' (i.e. the other parent) of a dependent child. Based on the cases examined in the two local offices visited, the Department receives details of the 'liable relative' in a high proportion of cases and most are resident in Ireland. Few of the case files reviewed indicated that social welfare inspectors had carried out visits to the homes of the 'liable relatives' either to verify their place of residence or their maintenance obligations.

Maintenance payments were recorded as being paid in 50% of cases examined in the two local offices with the level of support recorded varying from €20 to €248 per week. The Maintenance Recovery Unit deals mainly with new claims but, since financial circumstances may change over time, there may be a case for referring existing claims to the Unit for assessment.

Chapter 36

Department of Health and Children

National Treatment Purchase Fund

National Treatment Purchase Fund

36.1 The National Treatment Purchase Fund (NTPF) was established on a statutory basis in 2004 in order to facilitate access to treatment for those public patients who have waited longest for elective surgical procedures. As part of its remit, the NTPF also has responsibility for the collation and reporting of national inpatient and day case waiting list data. This information is provided by public hospitals through a Patient Treatment Register (PTR)²⁵¹.

36.2 In 2009, the NTPF was given the function of negotiating nursing home bed charges for the Health Service Executive (HSE) as part of the Nursing Homes Support Scheme Act, 2009. Price agreements were concluded with 440 private and voluntary nursing homes by end 2009. Details of the NTPF expenditure and the numbers of patients treated in respect of the period 2006 – 2009 are included in Figure 168.

Figure 168 NTPF Expenditure and Patients Treated 2006-2009

	2006	2007	2008	2009 ^a
	€m	€m	€m	€m
Cost of Inputs				
Patient Care	74	87	100	86
Salaries and Remuneration	2	2	2	2
Other Administration	3	3	2	2
Annual Budget	79	92	104	90
Staff Complement	35	41	47	46
Outputs				
Elective Treatments	15,003	19,769	20,829	19,995
Outpatient Consultations	7,480	10,569	12,342	6,388
MRIs Provided ^b	1,928	2,300	3,098	2,513

Source: NTPF

Notes:

a The budget of the NTPF was reduced by €14 million (14%) in the course of 2009. Consequently, in May 2009, revised activity levels were agreed.

b MRI – Magnetic Resonance Imaging – a medical imaging technique.

36.3 The NTPF also operates a pilot outpatient initiative.

²⁵¹

The PTR is a register of patients on inpatient and day case surgical and medical waiting lists. Hospitals maintain their own patient waiting lists which are used to submit weekly extractions to the NTPF. These extractions are used to update the PTR.

Chapter Focus

The chapter reports the result of reviews to ascertain

- the current status of the pilot outpatient initiative
- how the patient referral process is operating
- how contracts with private hospitals are managed
- the results of waiting lists validation
- the average waiting time of patients whose treatments were funded from the NTPF distinguishing
 - the average elapsed time on a public hospital waiting list for treatment
 - the time that elapsed between the arrangement of treatment and when that treatment was carried out.

Pilot Outpatient Initiative

36.4 Since 2005, the NTPF has operated a pilot outpatient initiative over a number of surgical and medical specialities. The outpatient initiative is available to all public hospitals and in 2009, 26 hospitals referred patients and the NTPF arranged consultations in 19 public and private hospitals. The NTPF request hospitals to refer patients waiting longest from certain speciality areas where patient numbers waiting are high and where they are experiencing delays in getting an outpatient appointment.

36.5 In 2009, the initiative covered 13 specialties with three of those accounting for over half of all referrals – ophthalmology (21%), dermatology (17%) and ENT²⁵² (16%). Outpatient consultations and how they were processed is outlined in Figure 169.

Figure 169 Outpatient Consultations and Outcomes 2005-2009

Details	2005	2006	2007	2008	2009 ^a	Total	%
Number of patients contacted	10,497	17,795	20,630	23,056	10,166	82,144	100
Number of patients validated off the list	(3,154)	(4,000)	(5,331)	(5,579)	(2,925)	(20,989)	26
Number of patients choosing to remain on hospital list	(2,713)	(1,972)	(2,018)	(2,254)	(397)	(9,354)	11
Number of patients that failed to respond	(216)	(4,343)	(2,712)	(2,881)	(456)	(10,608)	13
Outpatient consultations provided by the NTPF	4,414	7,480	10,569	12,342	6,388	41,193	50
Outcome of Consultations							
Patients contacted and agreed appointment but did not attend on two occasions	795	748	740	617	703	3,603	9
Patients requiring surgery	1,677	3,141	4,016	4,567	1,278	14,679	36
Patients requiring further appointments/ investigations	794	1,197	1,902	2,962	1,469	8,324	20
Patients discharged back to GP or hospital ^b	1,148	2,394	3,911	4,196	2,938	14,587	35

Source: NTPF February 2010.

Notes:

- a The budget of the NTPF was adjusted by the Department of Health and Children during the year which reduced its capacity to deal with outpatients.
- b The patients returned to the care of their GP or hospital are those patients that are deemed more suitable to be treated in that setting.

36.6 Validation work on outpatient waiting lists that ensued created inherent uncertainties as to the true size of outpatient waiting lists and how they are managed. On contacting patients to offer them an Outpatient Department (OPD) consultation through the NTPF, hospitals found that, on average over the last five years, 26% of patients on the outpatient lists could be removed from the waiting list as no longer needing an appointment and that a further 13% of patients failed to reply when contacted by the hospital. Just over 50% of patients contacted agreed to a OPD consultation.

36.7 Patients who require further treatment as a result of the initial outpatient consultation are facilitated by direct referral for treatment under the inpatient system. Over the last five years, 36%²⁵³ of outpatients have been facilitated in this way.

Views of the Department

36.8 The Accounting Officer of the Department of Health and Children (the Department) stated that outpatient waiting list data is currently collected primarily at individual hospital level and is not subject to standardised data definitions and rules for the management of lists. The HSE is developing a system which will provide standardised and comparable national outpatient waiting list data by hospital and speciality. Its aim is to

- address data quality and definitional issues
- capture the demand for services and measure the length of the patient journey from referral to OPD appointment and ultimately, where relevant, to hospital admission.

The HSE is working towards the implementation of those arrangements on a phased basis, commencing in 2011.

36.9 The Accounting Officer stated that in conjunction with this project, the Department has asked the HSE to consider, in consultation as necessary with the NTPF, the most appropriate approach to the validation of existing OPD waiting lists so that the numbers truly waiting for consultations can be quantified and arrangements made to offer them appointments as soon as possible. He also stated that the HSE's 2010 Service Plan is committed to developing new performance indicators in relation to access to OPD services. In addition, the HSE's National Director for Quality and Clinical Care is addressing a range of clinical issues aimed at ensuring that outpatient services are provided efficiently and are clinically appropriate.

Referral Process – Elective Treatments

36.10 Patients may be referred to the NTPF by the public hospital that places them on the PTR, by their consultant or by their GP. They may also contact the NTPF directly themselves. In addition, in 2009 the NTPF wrote to 3,822 patients.²⁵⁴

36.11 In 2009, a total of 19,995 cases were treated, of which 2,634 (13.2%) contacted the NTPF directly with the remainder mainly being referred from hospitals or consultants. Each year, following negotiation, senior management in public hospitals and the NTPF agree patient numbers to be referred to the NTPF. Referrals are based on numbers waiting on the active PTR including specific speciality areas that are experiencing high patient volumes. Indicative volumes of patients are agreed at the start of the year and are reviewed quarterly. These reviews allow for

- a discussion/meeting to take place with those public hospitals that have deviated from the scheduled commitment and for corrective action to be taken

²⁵³ This figure is based on manual returns compiled at the start of the year following the initial appointment. If this was done later in the year, many patients would have progressed further through the initiative resulting in an higher percentage being categorised under this heading.

²⁵⁴ The NTPF wrote to patients who were longest on the waiting lists to inform them that their procedure could be done under the NTPF initiative and to contact them if they wished to proceed with the procedure through the NTPF.

- an overall review of all hospitals referral patterns which facilitates movement of treatment slots between hospitals²⁵⁵.

36.12 While overall the full allocation of slots was disbursed, not all hospitals fully utilise their quota. Figure 170 indicates the extent of variation during the year. The nine hospitals/areas outlined deviated by 21% from the original planned intake and 15% from the revised volume as adjusted in the course of the year.

Figure 170 Hospitals with Allocated Slots Unused in 2009

Hospital	Indicative Volumes Agreed in January	Movement during Year Following Reviews	Final Volume Figures Agreed Following Reviews	Total Number of Slots Used	Total Number of Slots Unused	% Unused
OLHSC Crumlin	450	-	450	427	23	5%
Limerick Regional Hospital and other HSE hospitals within this area	550	(50)	500	320	180	36%
Mayo General	20	-	20	9	11	55%
Mercy Hospital	200	(31)	169	144	25	15%
Tullamore Hospital and other HSE hospitals within this area	900	(56)	844	833	11	1%
Sligo Hospital	450	-	450	342	108	24%
St. James's Hospital	1,400	(170)	1,230	1,105	125	10%
St. John's Hospital	420	(24)	396	227	169	43%
Temple Street	220	20	240	228	12	5%
Total	4,610	(311)	4,299	3,635	664	15%

Source: NTPF

36.13 In the case of Mayo General, the hospital did not participate in the initiative in 2009. The 20 slots provided were for patients that contacted the NTPF directly from that hospital catchment area. Mayo General is, however, participating in the initiative in 2010.

36.14 In 2009, there were eight places offered by the NTPF to OLHSC Crumlin for patients requiring spinal surgery. However, only five patients from OLHSC²⁵⁶ took up this offer.

²⁵⁵ Following reviews in May and October 2009, treatment slots were reallocated to other hospitals participating in the initiative as it emerged that some hospitals were failing to refer patients or their referral rate was low.

²⁵⁶ For 2010, the NTPF agreed with OLHSC Crumlin that they would facilitate eight patients that required spinal surgery. At May 2010, the PTR showed 23 patients waiting more than 12 months for this surgery at the hospital. At the same time, no patient has been referred by the hospital to the NTPF.

Public Hospital Referrals

36.15 The Department permits the NTPF to refer a proportion of patients for treatment within the public system, capping the number of those referrals at 10% of its volume for the year. The rationale for the 10% was to limit public beds being used privately, to curtail consultants referring and treating their own patients and to allow for the treatment of patients who are not suitable to be referred elsewhere. This examination noted that from the data supplied by the NTPF 4.5% of inpatient treatments were performed in public hospitals in 2009.

36.16 Included in this 4.5% are some originally referred to the NTPF by the same hospital. The vast bulk of these are accounted for by five public hospitals as indicated in Figure 171.

Figure 171 NTPF Arranged Inpatient Treatments carried out in the Public Hospitals that referred them

Same Hospital Referrals	Treatments Volumes being referred to NTPF	Treated In-House	Same Hospital Referrals %	Comments
Cappagh Orthopaedic Hospital	393	153	39	This is a single speciality hospital.
OLHSC Crumlin	410	135	33	Limited paediatric services are available in the private sector.
Merlin Park Galway	364	84	23	Referrals from Merlin Park and University College Hospital Galway are combined under this heading.
Navan	136	51	38	
Royal Victoria Eye and Ear Hospital Dublin	1,078	192	18	This is a single speciality hospital.
Total	2,381	615	26	

36.17 It was noted from the data supplied that for 8.5% of treatments provided under the NTPF, the consultant referring and treating the patient was the same. This 8.5% can be further analysed by the status of the treating consultant. It was found that 3.7% of these treatments were provided in a public setting and 4.8% were provided in a private setting. These treatments cost €13.5 million in 2009, which was 16.3% of total treatment costs. The main specialities involved were orthopaedics (35%) and cardiology (17%).

36.18 It was also noted that from the data supplied by the NTPF relating to outpatient referrals that 32% of those were given an appointment in a public hospital. The associated cost was €643,000. Figure 172 outlines the major instances where outpatients on public hospital waiting lists were referred by the NTPF for consultations within the public system.

Figure 172 Outpatient Consultations sent to Public Hospitals

Hospital	Referred to the NTPF	Sent to Public Hospital	%
OLHSC Crumlin	401	363	91
St. James's	1,241	1,055	85
Tallaght	1,555	964	62
St. Vincent's	556	226	41
Temple Street	151	46	31

Source: NTPF

Views of the Department

36.19 The Department stated that a cap of 10% public activity by patient volume has been set and this is intended primarily to enable the treatment of cases where there is limited or no suitable capacity within the private hospital sector. In addition, where the NTPF contracts with public hospitals, the activity concerned must be additional to that which the hospital is committed under its service plan and budget for the year in question.

36.20 The Department has not made any special stipulation in relation to the sourcing of outpatient consultations but in its view, the same principle would apply. The Department is satisfied, having discussed the matter with the NTPF, that there were valid clinical reasons, largely to do with maintaining a continuum of care for the patients concerned, for consultations in a number of fields to be arranged in the public hospitals concerned. It is the Department's understanding that the vast majority of the consultations in St. Vincent's (rheumatology), Tallaght (retinal screening) and St. James's (dermatology) did not lead to a requirement for inpatient treatment. By their nature, outpatient appointments represent a high-volume activity, with 3.4 million attendances in the public system in 2009. As such the number of those consultations funded by the NTPF in public hospitals represents a small proportion of the overall volume in the hospitals concerned.

Cappagh Hospital Review

In 2009, the NTPF paid over €12 million or around 13% of its annual budget for orthopaedic related surgical procedures. As part of this review, arrangements at the National Orthopaedic Hospital in Cappagh, which is both a single speciality referring and treating hospital, were reviewed.

Numbers waiting for orthopaedic services are high in Cappagh and in the greater Dublin area. Most of the orthopaedic surgeons in acute hospitals in North Dublin have a contractual commitment to provide services in Cappagh Hospital. In 2009, Cappagh Hospital performed treatments for the NTPF for which it received over €2 million.

The input cost of orthopaedic implants varies widely. The Financial Controller in Cappagh Hospital carried out an exercise on the cost of surgical implants for procedures carried out at the hospital on behalf of the NTPF. The results show that

- the range of costs for knee implants varied from €2,433 to €10,166 and, over the 77 operations he reviewed, 12 costs were recorded as the same
- the range of costs for hip implants varied from €1,029 to €17,188 and, over the 76 operations he reviewed, only five costs were recorded as the same.

While the treating consultant will decide on the patient's clinical need, the NTPF and the Department should consider an implant procurement review to determine what savings may arise in national procurement and in standardising the range of implants being used (subject to clinical considerations).

The Accounting Officer noted that as with all public hospitals, Cappagh must operate within its financial allocation each year and hospital management are required to take the measures it considers necessary to ensure that this is achieved.

He stated that the issue highlighted in relation to the cost of surgical implants is one for the HSE in relation to ordinary public hospital activity and one for the NTPF as regards services for which it contracts. The Department understands that the HSE is already examining ways of providing orthopaedic surgery in a more cost-effective manner and that the use of lower-cost prostheses unless clinically indicated is among the issues being considered in this regard.

Contract Management – Elective Treatments

36.21 At the start of each year, the NTPF enters into negotiations with private hospitals on prices for a range of procedures. Proposals are compared and considerations such as geographical spread, available capacity and other prices are taken into account before negotiations on final prices are concluded with individual hospitals. Negotiations can take up to three months to complete and are normally carried out in the first quarter of each year. When agreements between the NTPF and private hospitals are reached, NTPF's information systems are updated to reflect the new prices that rule from that point onwards. The agreements provide for terms and conditions including discount arrangements and pricing structure. During the year, some prices may be renegotiated as circumstances change for either the NTPF or the hospital.

36.22 As part of the audit, assurance was sought using computer assisted audit techniques, that payments to private hospitals were being made in line with the contracted prices.

36.23 It was found that 90% of the payments examined could be matched within a reasonable variation to the corresponding price per the pricelist.

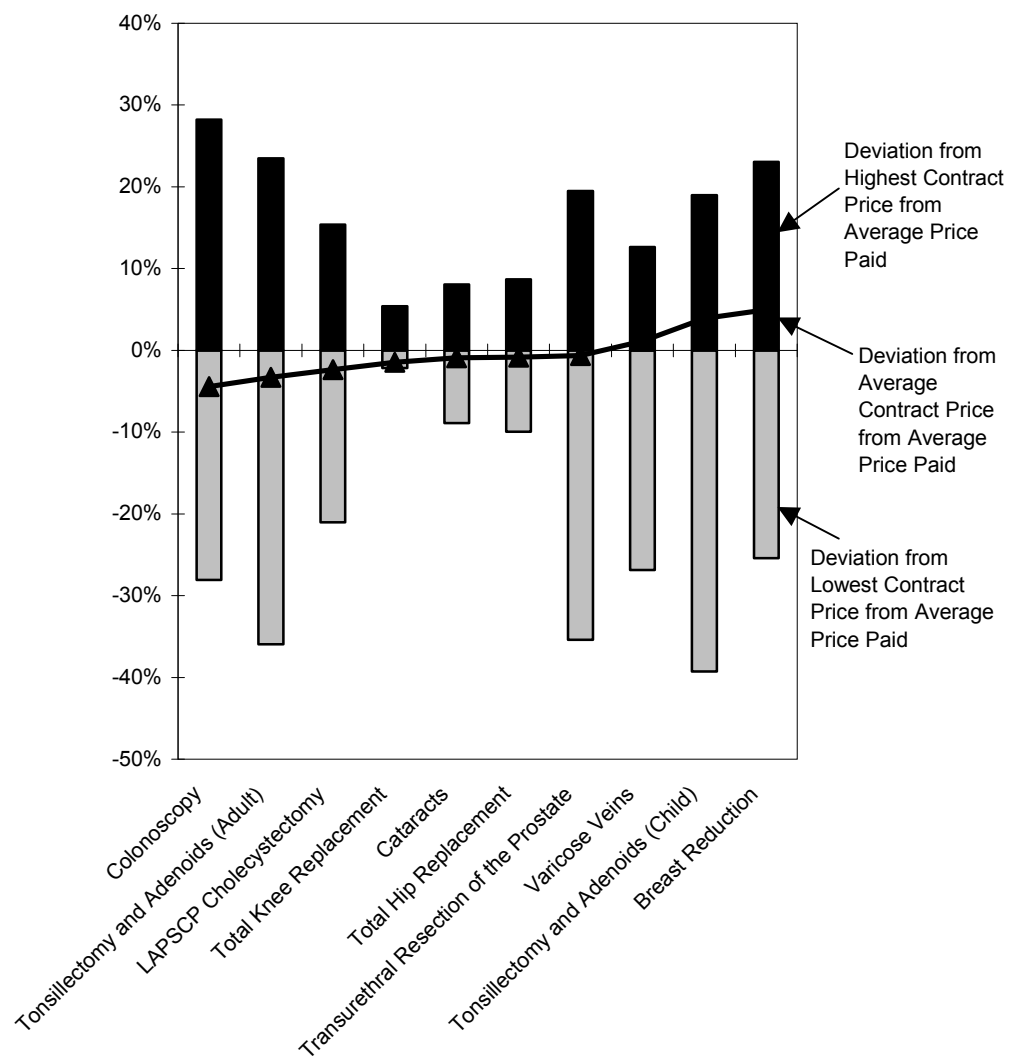
36.24 For the remaining 10% of payments, a sample of 71 payment details were examined and the related papers reviewed. The review showed

- 57 payments could be matched to the price list when account is taken of specific circumstances applying to the procedures in question
- overcharging had occurred in one case
- undercharging had occurred in 13 cases.

36.25 Of the 14 cases of incorrect charging, eight cases related to one hospital with the net amount involved just over €1,900. As a result, there was reasonable assurance that overall payments were materially correct.

36.26 Also as part of the examination, a list of aggregate payments made by the NTPF by procedure was prepared. From this list, ten of the higher cost procedures were selected and the average price paid was calculated. This was then compared with the average contract price.

36.27 There was a wide variation in the contract prices agreed with individual suppliers. However, actual payments made deviated little from the average contract price and overall were 0.2% below the average contract price for the ten procedures examined. These procedures accounted for 38% of the cost of elective procedures. Figure 173 graphically displays this deviation from average price paid from the average, highest and lowest contract price.

Figure 173 Average Price Paid from Average, Highest and Lowest Contract Price

Waiting List Validation

36.28 In view of the results of two sample validation exercises²⁵⁷ carried out in 2009 that reviewed 6,331 patients waiting over nine months for treatment on the PTR, the accuracy of some waiting lists may be subject to some doubt. This appears to be largely due to poor administration practices in hospitals. The validation exercises found that no patients were available for NTPF treatment. The results were broken down as follows

- 28% of cases required treatment in their own hospital as the surgery required was deemed unsuitable for the NTPF
- 5% of cases declined to be treated by the NTPF opting for treatment in their own hospital
- 38% of cases were not available to the NTPF due to administration or follow up issues i.e. those hospitals not adhering to agreed waiting list guidelines
- 29% of cases were incorrectly included on the PTR as per the PTR guidelines.

36.29 Overall, in the validation exercises conducted the NTPF found 33% of the cases examined in the course of validation were either unsuitable for referral to the NTPF or declined NTPF treatment and that 67% should either not have been counted as active waiters or the hospitals were unsure whether patients still required treatment. A small number of hospitals account for this high volume.

36.30 In regard to the 28% of long waiting patients who are considered to be suitable only for treatment in their own hospital, there is an apparent need to examine why public hospitals do not have the capacity to provide procedures for those small number of long waiting patients considering the overall volume being treated annually and the fact that hospitals appear to have the capacity to treat the vast majority of their shorter waiting patients within a more acceptable timeframe²⁵⁸.

36.31 The validation exercise also noted that a small number of hospitals account for a large percentage of the longest waiters and some of these hospitals did not take up all the slots available to them from the NTPF in 2009.

36.32 Some specialities account for a large proportion of the waiting list. For instance, the NTPF stated that the volume of patients waiting on orthopaedic procedures has increased from 1,995 to 2,466 (24%) between May 2008 and May 2010. Patients waiting for hip and knee replacements represent almost half of this increase. Of the total increase for this category of patient, almost 70% were either in the Midland Regional Hospital Tullamore or Tallaght Hospital. Figure 174 outlines the movement in these two common procedures in these hospitals over this period.

²⁵⁷ A validation exercise consists of a review of inpatient waiting list data to ensure (by means of spot checks) that the data is accurate and that the national guidelines for the management of inpatient waiting list data are being implemented in hospitals.

²⁵⁸ The median waiting time for all procedures is 2.5 months. The top 20 adult surgical procedures (approximately 70% of all surgical procedures) have an average waiting time of 2-5 months. Source: **Report on the National Patient Treatment Register**, April 2010.

Figure 174 Patients Waiting over Three Months from May 2008 to May 2010

Period	Hip Replacement		Knee Replacement	
	Tullamore Hospital	Tallaght Hospital	Tullamore Hospital	Tallaght Hospital
May 2008	88	72	59	70
May 2010	142	106	129	109
Increase	61%	47%	119%	56%

Source NTPF

36.33 If these volume changes were replicated in other hospitals, it would impact on NTPF capacity to provide the service outlined in its service agreement with the Department as these are high cost procedures.

Views of the Department

36.34 The Accounting Officer stated that the Department works to ensure that a co-ordinated approach between the HSE and the NTPF is in place for tackling the numbers on waiting lists for longer than 12 months and this has been successfully implemented to a considerable degree. The number waiting for more than 12 months fell from 4,637 in December 2007 to 719 in December 2009. It is noted that a small number of hospitals and specialities within hospitals account for a large proportion of those waiting in excess of a year.

36.35 It has been indicated by the Department to the NTPF that a tight focus should be maintained on numbers waiting to ensure that all patients who require inpatient treatment receive it within 12 months of being placed on a waiting list. In light of the reductions achieved with the “over 12 months” cohort, the NTPF has also been asked in 2010 to place a new emphasis on those patients waiting for nine months or longer for treatment.

36.36 The Accounting Officer stated that the Department is satisfied that the revised National Waiting List Policy Guidelines, which were finalised and promulgated to the hospital system in late 2009, provide the basis for an accurate measure of the numbers awaiting inpatient treatment. The task of applying these guidelines falls to the public hospitals in the first instance.

36.37 The Accounting Officer also stated that waiting lists arise in the face of budget-limited care, and it would be wrong to assume that they can be eliminated entirely by the public system simply increasing its total output marginally. The real challenge is to manage output effectively, and to find efficient ways of minimising waiting times for public patients. The Accounting Officer considers that the NTPF generally meets this target in a cost effective way.

Waiting Time

36.38 The NTPF is required to focus on those patients waiting longest for hospital procedures. Patients that are treated by the NTPF can be sourced from two streams which are

- patients that are on the PTR, have seen a consultant and require a procedure
- patients that have received an appointment under the pilot outpatient initiative and require a procedure. As part of this initiative, arrangements for the treatment of patients that require a procedure as a result of the appointment are made by the NTPF.

36.39 In 2009, 16,782 patients were treated from the PTR and 3,213 patients treated as a result of outpatient appointments arranged by the NTPF.

36.40 A review of data held in respect of patients treated through the NTPF in 2009 found that, on average, patients on the PTR and treated by the NTPF waited 59 days from the time the NTPF ordered treatment to the date they were admitted to hospital. The average number of days from placement on the public hospital waiting list to the date those patients received treatment was 297 days. Figure 175 sets out the waiting times experienced by both adults and children.

Figure 175 Waiting Times by Treatment Category^a

Adult/ Child	Treatment Categories	Number of Patients Treated	NTPF Waiting Time ^b (days)	Total Waiting Time (days)
Adult	Day Case	2,346	29	253
	Inpatient	<u>12,898</u>	65	302
		15,244	60	295
Child	Day Case	113	39	391
	Inpatient	<u>1,425</u>	50	312
		1,538	49	318
Total		16,782	59	297

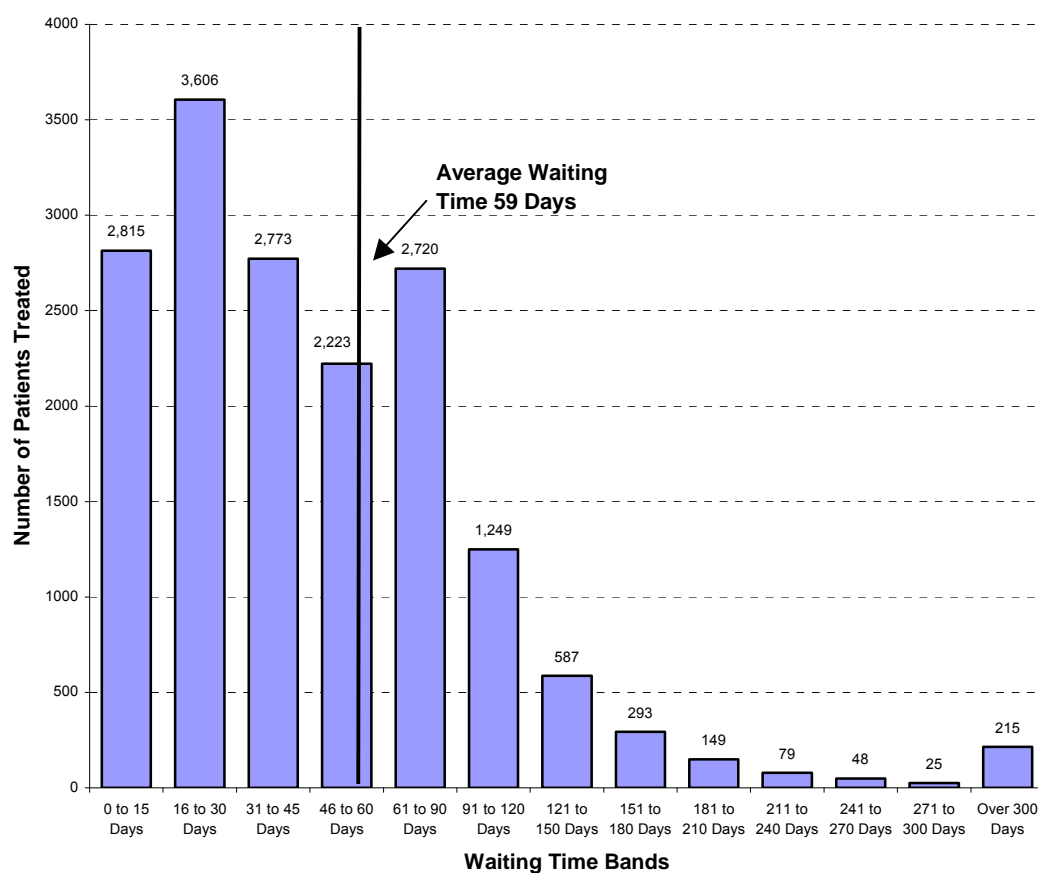
Notes:

- a Some long waiting cases could distort the view by bringing the average up. The median for the NTPF waiting time is 41 days and total waiting time is 248 days. The median is the middle patient in each category.
- b This refers to the average number of days from the NTPF placing the treatment order to admission for procedure.

36.41 Overall in 2009, it was found that patients had been waiting for admission to hospital for at least seven or eight months²⁵⁹ prior to availing of NTPF arranging treatment. On referral to the NTPF, the average waiting time from that referral to admission was 59 days. However, a considerable number of patients waited much longer than this while on the other hand, many patients spent little time on the waiting lists. Figure 176 displays the data on which the analysis is based in graphical format.

²⁵⁹

This depends on whether the average or the median is used.

Figure 176 Waiting Time for Patients Treated^a

Note:

a Waiting time is measured from the date that NTPF ordered treatment to the date of admission to hospital

36.42 It was found that the patients treated under the pilot outpatient initiative had spent on average 554 days from placement on public waiting lists for outpatient consultations to the time of referral to the NTPF for consultation and 139 days from that referral to admission to the hospital. The results of the analysis are presented in Figure 177, which sets out the waiting times experienced by both adults and children.

Figure 177 Waiting Times – Outpatients Treated

Adult/ Child	Number of Patients Treated	Average Number of Days from placing on Public Hospital Outpatient Waiting List to Admission	Average Number of Days from placing on Public Hospital Outpatient Waiting List to Referral to the NTPF	Average Number of Days from Referral to NTPF to Admission
Adult	3,028	694	554	140
Child	185	663	537	126
Total	3,213	693	554	139

Conclusion

The NTPF is treating patients who have been waiting long periods for treatment. On average, patients may expect to wait around eight months before admission to hospital.

Prices paid to private hospitals for procedures carried out under the NTPF system match closely with those contracted for, with variations from the contract price being generally explained by the circumstances of the case.

The NTPF reports that the vast majority of hospitals are now adhering to a revised National Waiting List Policy Guidelines agreed by it, the Department, the HSE and the hospitals and introduced in December 2009. However, five hospitals are still returning data that does not comply with this policy. Consequently, the results of its validation exercises would suggest that scope remains to improve the reliability of the PTR so that it represents the true numbers of patients awaiting treatment for medical conditions.

In the case of outpatient consultations validation exercises found a similar pattern applies in that, following validation, only 50% of patients took up consultations and over one-quarter were validated off the list. This points to the need to address the way outpatient waiting is recorded and managed. The NTPF has pointed out that one of the reasons this percentage was so high is that it targeted those longest on the waiting list who, in many instances, were patients who had waited several years for a consultation and treatment.

Based on the high attrition rate, it would suggest, that outpatient waiting lists would be more accurate and reliable if co-ordinated through a central collection system which could be validated in a manner similar to the validation of the PTR for inpatients. Accurate data on volumes of patients waiting for OPD appointments across the system is necessary to support the more efficient delivery of services, as only by identifying actual demand can the system respond with planned supply.

There is an opportunity to look at this aspect of waiting list management under the new arrangements being developed by the HSE.

Chapter 37

Health Service Executive

SKILL Programme

SKILL Programme

37.1 The SKILL²⁶⁰ programme is a training and development programme for supervisors and support staff employed in health and social services. There are around 32,000 such staff in the health service.

37.2 The programme was established under an agreement negotiated between the health service employers, the Department of Health and Children (DOHC), the Department of Finance and relevant health sector trade unions. It arose out of a Labour Court recommendation made in October 2003 dealing with the pay relationship between non-nursing grades in the health service and health service craft workers.

37.3 The Labour Court had recommended that a training and development programme should be established supported by a fund of €60 million to cover the period 2004 to 2008. Thereafter, a fund of €12 million (index linked) was to be provided on an annual basis. The purpose of the programme was to ensure a standardised approach to meeting the training needs of support staff grades. The Labour Court also recommended that a review of the operation of the programme should be undertaken after three years.

37.4 The aims of the SKILL programme are to

- update and extend the knowledge, skills and experience of staff in order to make them more efficient in the jobs they perform and consequently improve services to patients/clients
- develop areas of expertise in order to progress skill mix requirements of the health services
- enhance job satisfaction and motivation in order that staff may contribute more fully to the attainment of their organisation's mission and
- develop strategies to create opportunities regarding promotional outlets and career path movement.

HSE Statement on Internal Financial Control - 2009

The financial statements of the HSE for the year 2009 upon which I reported on 21 May 2010 recorded the following in the associated Statement on Internal Financial Control

“A HSE internal audit review was initiated in September 2009 on the administration of the SKILL programme, which is a training and development programme for support staff and line managers/supervisors in services such as catering, housekeeping, therapy assistants, technicians, maintenance, portering and other non-clinical, non-administrative staff. The audit identified weaknesses in the governance, control of, and accountability for funds disbursed in respect of administration of the programme. In particular, the audit review identified payments of €2.353 million to one organisation which had been made over the period 2002 to 2009 and where payments were made but not accompanied by adequate supporting documentation. All payments to that organisation have ceased since November 2009. The results of the audit have been reported to the Audit Committee, to the Board and to the Comptroller and Auditor General. Management has directed that a further audit of the programme's training related costs be undertaken the results of which will be reported to the Audit Committee, to the Board and to the Comptroller and Auditor General. The Comptroller and Auditor General has been kept fully informed throughout and the Gardaí have been notified.”

²⁶⁰

SKILL stands for Securing Knowledge Intra Life Long Learning.

37.5 The HSE Internal Audit focused on administration and related matters. There are currently two further internal audits in progress. The subject matter of those audits are SKILL Procurement and SKILL programme Backfill Contributions.

Programme Delivery and Accounting

37.6 Funding of €2.75 million for the SKILL programme was provided to the Health Service Employers Agency (HSEA)²⁶¹ by the DOHC in 2004. During that year, the programme was administered by the Office of Health Management (OHM)²⁶² and the HSEA made the payments under the programme at its direction. The functions of both the OHM and the HSEA transferred to the HSE on its establishment in 2005 along with the balance of unspent funding of approximately €500,000. Thereafter, the programme expenditure was incorporated into the HSE's financial statements.

Governance and Management of the Programme

37.7 In 2004, prior to the establishment of the HSE, a National Steering Group was established comprising representatives of the health employers, the trade unions, and the voluntary health sector to oversee the implementation of the SKILL programme. In August 2005 representatives of the DOHC and the Department of Finance joined the Steering Group. Memoranda of Understanding for the periods 2004 - 2008 and 2009 - 2016 were drawn up between the HSE, the DOHC and the Department of Finance.

37.8 In June 2005, the Acting National Director of Human Resources set out the governance and reporting arrangements for the programme, which were approved by the Steering Group in June 2005. These arrangements covered the following broad areas

- Governance structure – Steering Group and the relationship with the HSE
- Project planning and report systems
- Financial and accountability systems
- Staffing.

Role of the National Steering Group

The role of the Steering Group was to

- develop and agree an overall strategic plan
- agree the overall objectives of the project
- guide, oversee and evaluate the work of project teams
- approve the roll-out of the programmes as they were developed and became available
- develop the accreditation agenda
- review bi-monthly progress reports.

²⁶¹ The HSEA records indicate that the funding was received via the South Eastern Health Board.

²⁶² The OHM was established by the DOHC in 1997 to implement the Management Development Strategy for the Health and Personal Social Services.

37.9 The governance arrangements did not make the Steering Group accountable for financial controls. It provided that the HSE would develop the appropriate financial and accounting arrangements to be put in place including

- establishment of a separate cost centre which would distinguish pay/non pay costs
- determination of who could approve expenditure in particular circumstances and the preparation of an appropriate protocol
- establishment of reporting requirements.

37.10 It also provided for the submission of quarterly reports to the National Director of Finance by the Steering Group. A General Manager was assigned to the SKILL programme with executive responsibility and accountability for the day-to-day delivery of the work set out in the programme plan, including technical development of the training, quality assurance of the training, ensuring compliance with tendering requirements, communications and reporting requirements. In practice, the General Manager acted as budget holder and payments were processed through the HSEA payments system. The General Manager provided quarterly financial reports to the Steering Group.

Chapter Focus

This chapter reviews the outlay under the programme, the extent to which its costs have been accounted for by reference to substantiating documentation, the arrangements for delivery and evaluation of the programme and procurement of training and other services.

Programme Cost

37.11 The programme and related activities is estimated to have cost €47 million in the period 2004 - 2009.

37.12 External training costs of over €15 million were incurred in the period 2004 – 2009 and almost double this sum was incurred in grants to employers mainly as a contribution to staff replacement costs ('backfilling grants'). The broad classifications under which the funds were applied are outlined in Figure 178.

Figure 178 SKILL Programme Expenditure 2004 to 2009

Expenditure Classification	2004	2005	2006	2007	2008	2009	Total
	€000	€000	€000	€000	€000	€000	€000
External Training Cost	-	8	1,133	5,239	4,923	4,430	15,733
Internal Training Cost	2,088	2,474	6,147	5,142	7,166	5,009	28,026
Grants	50 ^a	-	250	250	250	250 ^b	1,050
Reimbursements ^c	3	-	25	92	228	-	348
Other Costs ^d	100	573	387	365	339	132	1,896
Total	2,241	3,055	7,942	11,088	12,906	9,821	47,053

Source: The costs were identified by Internal Audit in the HSE. The classification and notes have been made by Comptroller and Auditor General audit staff.

Notes:

- a According to the HSEA records, the grant of €50,000 in 2004 shown in Figure 178, was paid to SIPTU.
- b The grant paid in 2009 was €208,200. An amount of €41,800 advanced for other purposes in 2008 was treated as satisfying part of the 2009 grant.
- c Some of the payments referred to as 'reimbursements' could be considered as payments made pursuant to further funding applications. For convenience, they are aggregated with amounts paid as reimbursements of expenses.
- d Includes expenditure on SKILL office operations, consultancy, advertising, Kennedy Fellowships, SKILL Grant Scheme, travel and subsistence, hotels, conferences and taxis.

37.13 The grant payments shown in Figure 178 represent expenditure charged to the SKILL programme. From 2006 onwards, annual payments to SIPTU were included in the charge to the programme. The cheques were made payable to the SIPTU National Health and Local Authority Levy Fund and were lodged to a bank account with that name. SIPTU has informed HSE Internal Audit that this account is not an authorised account of the Union.

37.14 Prior to this, the OHM had, in 2004, paid grants totalling €225,000 to the SIPTU National Health and Local Authority Levy Fund and a grant of €10,000, under the Action Plan for People Management initiative, to SIPTU. In 2005, a cheque was issued for €250,000 which was stated to be for the "SIPTU Health Division". Thus, the total received, in the form of grants, by SIPTU or the SIPTU National Health and Local Authority Levy Fund, from the HSE or its predecessor bodies, in the period 2004 to 2009 was €1,535,000. In addition, reimbursement payments of €348,322 were made.

37.15 An amount of €876,000 under the Action Plan for People Management was paid by the Health Services National Partnership Forum in the period 2004 to 2008 with the cheques being made payable to the SIPTU National Health and Local Authority Levy Fund. The accounting for these payments will be reported upon separately when certifying the 2008 accounts of the Forum.

37.16 The SKILL programme also provides funding for the following two other initiatives

- John F Kennedy Fellowship Scholarships²⁶³ - The programme co-funded 16 fellowships over the period 2006-2010 totalling €17,952.
- SKILL Grant Scheme²⁶⁴ - The programme paid €52,855 in grants for the period 2005 to 2009.

External Training Cost

37.17 Under the supervision of the Steering Group, competency frameworks were devised based on research including an education and training survey. These frameworks informed the content and design of the training programmes, which then obtained FETAC²⁶⁵ accreditation under the National Qualifications Framework²⁶⁶.

37.18 Participants returning to education after many years absence and requiring additional support in the area of literacy, language or IT are referred for that support at FETAC Level 3 or 4. Thereafter, they can progress to FETAC Level 5 or 6. Each course comprises eight modules, normally completed over 12 months with each module generally requiring four days paid leave of absence.

37.19 Three training providers were engaged to provide the education and training

- SKILLVEC – a consortium of Vocational Educational Committees (VECs) led by the City of Dublin VEC – provided courses nationally.
- The Open Training College provided two specialist modules for the disability sector.
- University College Dublin provided two specialist modules for radiography services.

37.20 These external providers deliver programmes for all support staff including Health Care Assistants. The payments²⁶⁷ to each provider in the period 2004 to 2009 were as follows

- €15,157,855 to City of Dublin VEC
- €489,325 to the Open Training College
- €27,749 to University College Dublin.

37.21 In addition, Centres of Nursing Midwifery Education (CNME) provide courses to health care assistants. The programme offers two sector specific, FETAC certified courses

- FETAC Level 5 award (Certificate in Health Service Skills) aimed at support staff
- FETAC Level 6 award (Advanced Certificate in Supervisory Management Skills) aimed at supervisors

²⁶³ This is a scholarship and career mentoring programme under which fellows receive \$1,500 payment per annum for 2 years academic study. The fellowship includes a period of academic study abroad.

²⁶⁴ The scheme provides grants for the purchase of schoolbooks and class materials to individuals undertaking certain approved courses of study. Grants are up to a maximum of €300 for Junior Certificate level, €500 for Leaving Certificate level and €1,000 for Diploma/Degree Level.

²⁶⁵ The Further Education and Training Awards Council (FETAC) is the statutory awarding body for further education and training. FETAC makes quality assured awards that are part of the National Framework of Qualifications 1-6.

²⁶⁶ The National Qualifications Framework (NFQ) is a system of 10 levels with each level based on nationally agreed standards of knowledge, skill and competence i.e. what an individual is expected to know, understand and be able to do following successful completion of a process of learning.

²⁶⁷ There were miscellaneous payments totalling €58,291 to five other education providers.

37.22 Figure 179 sets out the number of students who are either currently participating or have participated and completed the programme for the period 2004 – 2010. The actual number of VEC participants in any one year may be somewhat higher due to the fact that participants who complete more than one level over a period of years are counted only once.

Figure 179 Number of Participants 2004 to 2010

	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10	Total
CNME Participants	456	820	743	657	528	428	261	3,893
VEC Participants ^a	-	-	-	1,365	895	1,076	1,049	4,385
Total	456	820	743	2,022	1,423	1,504	1,310	8,278

Note:

- a VEC participants includes those graduated, awaiting graduation and currently actively participating on modules and are based on the number who registered in the year less subsequent withdrawals.

Audit Findings – External Training Costs

A number of concerns were raised following a review of training costs.

- While a tendering notice was published in the European Journal on the 13 April 2005 for the procurement of the external training providers and a detailed request for tender document was prepared, no evidence was available to my staff of how tenders were evaluated and selected to provide the training.
- A payment to the Open Training College of €11,712 in August 2008 included €5,312 in respect of training 372 students in two modules between September 2007 and August 2008. The related database (which was updated by the course provider) only recorded participants of 245. This discrepancy would need to be reviewed by HSE management.
- In the case of SKILLVEC payments, individual module sheets are submitted with invoices. These include details of college location, modules delivered, date of delivery and number of attendees. A minimum charge was set, based on groups of 15 attending each module. A sample of one hundred module delivery sheets was selected for analysis. It was noted that fifty-five modules had an attendance of 15 or more, forty-five modules had an attendance of less than 15 with twenty-five of these with 10 attendees or less. Since the payment structure is based on modules delivered rather than attendees it does not, in this case, impact on the accuracy of the charge. However, low levels of attendees per module has value for money implications.
- A sample of twenty-five module delivery sheets was cross-checked against the related database. 72% of the sample did not reconcile with the attendance figures on the database. This would raise concerns regarding the accuracy of the database data and the output figures reported.

Internal Training Costs

37.23 The SKILL programme provides a grant to employers in respect of each participant (currently €3,500). These backfilling grants are a contribution towards costs associated with the release of staff to participate in the SKILL programme. In addition, each CNME receives an allocation of €1,554 per participant from the SKILL programme.

Audit Concern – Internal Training Costs

I asked the Accounting Officer how the amount of the backfilling grant was determined having regard to an October 2007 decision of the Steering Group to increase the value of backfilling contributions *“in order to fully utilise SKILL funding”* and whether these amounts were appropriate in each case.

37.24 In regard to whether backfilling was appropriate or necessary in every case the Accounting Officer stated such replacement had been identified as a key service need to enable participation on the programmes. Because the staff involved are key frontline workers they are essential to day-to-day patient care and integral to staffing rosters. Existing HSE budgets do not have the capacity to fully fund temporary replacements for support staff.

37.25 The Accounting Officer stated that in 2007 the Steering Group undertook an exercise to examine the actual backfilling costs required. Based on one-to-one replacement, a shortfall was identified between the actual costs and the grant paid by SKILL. The Steering Group decided to increase the backfilling contribution as the SKILL budget, at the time, had the capacity to facilitate this based on the throughput of numbers. Based on the average pay across the support staff categories, the full replacement cost associated with release of staff is €4,384 excluding employer PRSI. The backfilling grant value is €3,500. The decision was based on the need to support employers in meeting these backfilling costs. He said that organisations are required to meet the difference between the cost of full replacement and the backfilling grant from within their own budgets. Any shortfall would affect frontline service provision.

Audit Findings – Internal Training Costs

Reviews by my staff indicated that

- A €10,000 payment to Mental Health Ireland was made based on an application received to “promote mental health training for health care assistants”. This payment was approved by the Steering Group.
- A €30,000 payment to the Disability Federation of Ireland and the National Federation of Voluntary Bodies (€15,000 each) for ad-hoc projects. There were no related applications on file. These payments were approved after a presentation to the Steering Group.
- In the case of CNME courses, the SKILL programme records indicate that payments have been made in respect of 4,241 participants. Based on information supplied by the Nursing and Midwifery Planning and Development Unit, HSE Internal Audit reported that 4,592 individuals had registered and 699 had subsequently withdrawn resulting in only 3,893 completing the course.
- A sample of four backfill contributions totalling €96,500 was examined. While requests for payments were on file in each case only two of the four had listings of individual participants. Thus, there was no evidence that the payments had been linked to actual participation in the programme. In the light of this, there did not appear to be an adequate process in place to link programme delivery with the payments made to the CNMEs.

Grant Payments

37.26 In addition to the direct SKILL expenditure certain expenditure arose out of commitments originally entered into by the DOHC and which predated the programme. Annual grants of €190,000 were made to the SIPTU National Health and Local Authority Levy Fund up to 2004 and from 2005 onwards grants of €250,000 were paid.

37.27 In 2001, the DOHC had entered into an arrangement to fund the provision of training to frontline supervisors in the health services (frontline supervision programmes). The DOHC asked the Office of Health Management (OHM) to develop a training package and pilot the programme. A programme objective was the enhancement of leadership skill of frontline supervisors. Subsequently, the OHM commissioned the University of Limerick to assist with the programme. The DOHC arranged for the funding to be paid to the OHM via the former Midland Health Board, both of which were subsumed into the HSE upon its establishment in 2005. The DOHC directed the OHM to make the payments to SIPTU.

37.28 The OHM paid two other grants in 2004 – €35,000 to the SIPTU National Health and Local Authority Levy Fund in respect of costs associated with research and development in industrial relations and human resource management programmes and €10,000 to SIPTU in respect of research undertaken to identify management skills and attributes for support services. €50,000 was paid by the HSEA to SIPTU in 2004 in respect of a frontline supervisors programme.

37.29 When the DOHC increased the funding to €250,000 from 2005 it confirmed to SIPTU that ongoing funding of this amount would be made available out of the SKILL programme budget. The grant was expressed to be for the purpose of *“maintaining support for SIPTU’s human resource/personnel development schemes and the development of management union/partnerships of best practice in health enterprises.”* The approval also stated *“This funding has been provided in the Midland Health Board’s letter of determination for 2005, on the basis that it will be channelled to SIPTU via the Office for Health Management, as in previous years.”*

Audit Concern – Grant Payments

In the period 2004 to 2009, SIPTU and/or the SIPTU National Health and Local Authority Levy Fund received grants of €1,535,000. In addition, certain administrative expenses were initially met from the SIPTU National Health and Local Authority Levy Fund Account on behalf of the SKILL programme on a reimbursement basis. These are dealt with under Administrative Expenditure.

I sought the views of the Accounting Officer of the DOHC in relation to

- the purpose of grants which it had provided for SIPTU, the conditions attached to those grants and how the Department satisfied itself that those conditions were met
- outputs obtained for the grants paid.

37.30 The Accounting Officer of the DOHC informed me that Frontline Supervision Programmes were a partnership initiative between the Department and SIPTU to develop training for frontline supervisors in ancillary services and that SIPTU's human resource/personnel development schemes are a continuation of that partnership initiative. He considered that the following would be among the activities comprehended by the schemes

- provision of training and personal development programmes
- training and development programmes for frontline supervisors
- employer/union partnership initiatives in best practice
- development and piloting of new work practices
- study visits to other health systems.

37.31 The view was that service reform and improvement, which was underpinned by a partnership approach, could assist in delivering both health service goals and improved job satisfaction for frontline workers. In this context, training and career progression for frontline staff were identified as beneficial in improving both service quality and staff satisfaction. The approach to the Department's funding approval in this case reflected the general position that prior to the establishment of the HSE, specific allocations were made to health boards and these set out at a reasonably high level the purposes for which the funding was intended. The approach was to make funding provision for certain purposes while leaving a health board to operationally determine, within the parameters of the overall purpose, the best usage of the funding and any specific performance or accountability conditions arising.

37.32 Although the DOHC might take the initiative in providing funding for a particular purpose, including to support activities on the part of another organisation, at a minimum a health board would still be expected, in acting as an agent, to exercise financial oversight and monitor the use of the funding provided. In this case, it would have been expected by the DOHC that the OHM and the Midland Health Board would have fulfilled this function and put in place the necessary arrangements in relation to the conditions attached to the grants and the validation of expenditure.

Administration and Other Costs

37.33 In June 2005, members of the Steering Group noted that there were delays in the payment of hotel invoices. The SIPTU representative on the Steering Group suggested that SIPTU would pay these invoices in the interim and be reimbursed later by the HSE. From December 2004 to March 2009, a total of €348,322 was paid to the SIPTU National Health and Local Authority Levy Fund by way of reimbursement of costs including SKILL conference expenses, master classes, Kennedy Fellowships and travel and subsistence.

37.34 The payment requests for the most part described the claims for grants in general terms and were not supported by substantiating documentation. All payment requests for reimbursement stipulated that the cheques should be issued to the SIPTU National Health and Local Authority Levy Fund. So far, the HSE has been unable to satisfy itself that all of the amounts claimed and paid as reimbursements represented expenditure properly incurred for the purpose of the SKILL programme. As part of the HSE Internal Audit process, the HSE contacted SIPTU seeking documentation to support the reimbursement of costs. SIPTU informed the HSE that it had not received the grant payments lodged to the SIPTU National Health and Local Authority Levy Fund and neither had it paid any costs on behalf of the HSE nor sought recoupment from HSE for such costs. The HSE has notified An Garda Síochána of this matter and it is currently under investigation by An Garda Síochána.

37.35 In addition, while HSE Internal Audit identified the fact that foreign travel had occurred at least part of the cost of which had been met by the SIPTU National Health and Local Authority Levy Fund, the HSE could not directly link the payments with the reimbursement claims.

37.36 HSE Internal Audit found that the SKILL programme incurred expenditure of €12,746 on taxi services over the period 2006 to September 2009 and did not use the HSE taxi contract in operation at the time. In its review of invoices submitted for taxis, HSE Internal Audit found that a number of journeys had been undertaken between home and office and between hotels, restaurants and pubs and these journeys took place outside of office hours.

Non-Competitive Procurement

37.37 HSE Internal Audit reported that the HSE procurement policies were breached and existing HSE contracts were not utilised. In particular, it found some services had not been tendered for, including

- consultancy services costing €429,708 (which included payments of €72,873 to a Steering Group member)
- advertising and promotion services costing €241,446.

Audit Concern – Control over Administrative Expenditure

I sought the views of the Accounting Officer on the findings in the HSE Internal Audit report in relation to the shortcomings in control in relation to administration expenses.

37.38 The Accounting Officer stated that the examination by Internal Audit was initiated at the request of the HSE National HR Director as a positive act of good governance. He accepted the finding of HSE Internal Audit that *“the culture as operated in the SKILL office resulted in a significant number of breaches of public sector requirements and HSE policies and procedures in relation to procurement and utilisation of HSE contracts”*. He said that he fully accepted the recommendations of the Internal Audit report and that there is an active programme of implementation in place. The HSE Board had also taken the matter very seriously, both at Audit sub-committee and Board level and had received briefings on the audit findings and the status of the recommendations. The recommendations included that

- all SKILL overseas travel arrangements and costs should be transparent, approved in advance and incurred in accordance with public sector travel guidelines and public financial procedures
- staff should be reminded that all overseas travel arrangements for HSE staff should be made through the HSE Business Travel Unit in accordance with HSE policy
- all HSE policies, including the National Financial Regulations and the HSE Procurement Policy must be implemented and adhered to by the SKILL Office
- all services should be tendered in accordance with HSE policies, only approved subsistence rates should be paid where officers are away on business overnight and taxi usage should be strictly in accordance with HSE taxi usage policy
- HR should take action to ensure that the HSE is compliant with its employment control rules and public sector recruitment obligations.

37.39 In regard to non-competitive procurement, the Accounting Officer informed me that the consultant had been selected by way of interview; however there is no evidence of a competitive process having been undertaken. He also stated that it was totally unacceptable that the Steering Group should have ignored procurement policies in making this appointment. It was also unacceptable that the Steering Group should appoint one of their own members to a consultancy position.

Accountability for the Programme Funding

37.40 The HSE's annual estimates made provision for funding of €13.8 million per annum for each of the years 2005 to 2008 and €12 million for 2009 in respect of SKILL related activity – a total of €67.2 million. The figures were identified each year in an annual letter from the Department of Finance granting the sanction of the Minister for Finance in respect of the HSE's proposed expenditure. These letters were transmitted to the HSE by the DOHC.

37.41 Each year the HSE Finance Directorate was requested to release funding to the HSEA on the basis of a budget which took account of proposed payments to training providers and of backfilling costs which were based on the proposed number of participants. Expenditure returns were made monthly to the HSE Finance Directorate by the HSEA (which included the SKILL programme expenditure) and these were incorporated into monthly returns to the DOHC.

37.42 At the broad programme level, the Department of Finance had set the following requirements

- that delegated sanction did not apply to this funding and it should be used for the express purpose for which it had been provided and
- that the training initiative would be managed in line with normal government accounting practice and any surplus at the end of each financial year would be returned to the Exchequer.

37.43 In the period 2005 – 2009, the amount provided exceeded the amount directly applied by some €22 million²⁶⁸. In practice, the Department of Finance ring-fencing requirement was met through the surrender by the Vote of surplus funds at year-end. In all years, the surplus on the Vote exceeded any savings on the programme.

37.44 However, in the case of grant and reimbursement payments of €1,595,502 made by the HSE to SIPTU and/or the SIPTU National Health and Local Authority Levy Fund since 2005 and included in the overall outturn, the HSE has not been able to confirm that the amounts in question were fully applied for the purpose granted since the related invoices were general in nature and the amounts claimed were not vouched in detail.

General Observations of the Accounting Officer

37.45 In response to audit queries the Accounting Officer stated that that some elements of the approved governance and reporting arrangements were not implemented. In particular, there had been no formal determination of who could approve expenditure and quarterly reports had not been provided to the National Director of Finance as envisaged by the arrangements agreed by the Steering Group. The Accounting Officer said that the arrangements actually implemented created

²⁶⁸ In addition, there was unspent funding from 2004 of approximately €500,000 transferred to the HSE on its establishment.

a “silo” in which the Skill programme was overseen by the Steering Group rather than the HSE’s National Human Resources Directorate.

37.46 The Accounting Officer said that the direct notification by the DOHC to a third party organisation that it had arranged to channel funds, to the third party organisation, through the then Midland Health Board and subsequently the HSE caused difficulty. He said that there was no communication with the Accounting Officer of the HSE on this matter following the establishment of the HSE. In any event, there was a lack of clarity from the DOHC regarding the specific purposes and uses for which the grants were to be awarded to SIPTU.

37.47 The Accounting Officer also stated that the programme would be restructured in line with the recommendations of an independent value for money evaluation which is being undertaken. He accepted an internal audit recommendation that the Steering Group be stood down until a new governance structure is determined and implemented.

37.48 He stated that if, following the evaluation it is decided that the SKILL programme be continued, its activities should be incorporated into the HSE Human Resource Leadership, Education and Development Department, where it should be subject to the full range of HSE’s policies and procedures including provision of full monthly financial and operational reports for review by the National Director of Human Resources.

37.49 He stated that a clear governance structure should be drawn up and approved by the National Director of Human Resources identifying the respective roles, responsibilities and accountabilities of the National Human Resources Directorate, the General Manager and the Steering Group (if any) and clearly identifying the direct line reporting relationship from the General Manager to the National Human Resources Directorate and from the Steering Group (if any) to the National Human Resources Directorate. The approved governance structure should be documented, signed and dated.

Evaluation of Effectiveness

37.50 Over the course of the programme, the Steering Group commissioned a number of studies. These fell into two broad categories

- evaluation of the delivery process and
- evaluation of the impact of the programme.

Delivery Evaluations

37.51 Evaluation of the delivery process focussed on

- the programme modules
- the implementation process
- the process by which the VECs involved subject matter experts in the development of the course modules.

Evaluation of Modules

37.52 The broad conclusion of the evaluation of the modules – which was undertaken over the period June 2006 to October 2007 – was that 29% required no revision, 60% required minor revision and 11% required major revision. It also found that participants rated an average of 77% of assignments/materials on the courses as relevant to the HSE and that the average level of satisfaction among participants was in the range 75%- 100%. The Accounting Officer has assured

me that all revisions were made and this was done in collaboration with subject matter experts and then subject to further review by external evaluators.

Evaluation of Implementation Process

37.53 The evaluation of the implementation process was based on interviews and focus groups with key project stakeholders. It concluded that SKILL was seen as a positive initiative in the health service but that

- management commitment and clear accountability would be important in ensuring a better take up of places
- there was a need for better communication about aspects of the programme such as cover arrangements and how funding should be used to provide cover
- there were some logistical concerns centering mainly on the question of whether modules could be delivered on site so as to avoid staff having to travel and the use of half day modules rather than full day to facilitate staff release.

37.54 The evaluation noted that lack of cover to release staff was a key impediment for SKILL. There were also concerns among staff that managers did not promote the SKILL programme, that other training such as health and safety may have taken precedence and that there was no link between SKILL and the normal staff appraisal and development system.

37.55 The Accounting Officer noted that in terms of releasing staff to attend the SKILL programme there was initial local management resistance in some areas of the health service. In more recent times there had been some concern at the impact of the public sector moratorium on staffing and the need to ensure continuity of care and service provision. To provide reassurance, extensive communication has taken place with managers throughout the system through newsletters, the HSE website as well as local briefing and information sessions by Human Relations structures. Demand for programme places is now greater than the supply of places. Managers know and have experience of the value of having a knowledgeable, adaptable, up to date workforce that possesses an educational qualification that meets HIQA standards requirements.

37.56 The SKILL programme is now viewed as addressing the Personal Development Planning needs of support staff. Some hospitals have integrated SKILL into their team based performance management/staff appraisal and development system. Information packs outlining module content is available for managers to access and become familiar with. With regard to logistical concerns during the last two to three years increased energy has been focused on working with hospitals and community services as critical mass sites (CMS)²⁶⁹ of which there are now about thirty at various stages of development throughout the country.

37.57 Programmes are delivered either onsite or off site to meet the needs of the individual and the organisation and in doing so ensure continuity of service delivery for the patients/clients. There is also an ongoing process of contextualisation of modules to ensure module content and design is 'fit for purpose' and responsive to service needs.

²⁶⁹ The CMS approach ensures that a large number of support staff from one particular employer will go through the programme at the same time. This way the impact of the courses and the programme on the workplace is more transparent.

Involvement of Subject Matter Experts

37.58 The evaluation of the process by which the VECs involved subject matter experts in the development of the course modules concluded that some subject matter experts experienced inconsistencies in the way the VECs dealt with them and suggested that this partly explained why the modules did not always cover the required competencies. It recommended that a clear process be drawn up so that the VEC and subject matter experts could work together to revise or develop modules. The Accounting Officer assured me that this had been done.

Evaluation of Longer Term Impact

37.59 The Steering Group also commissioned two evaluations of the longer term impact of the programme aimed at

- determining whether completion of the SKILL modules increased skills and knowledge across the competencies identified as critical for the role of support staff and supervisors
- measuring the business impact of SKILL.

37.60 Both evaluations recognised that there were limitations in such exercises. Increased skills and knowledge might best be measured through observation but since this was considered impractical in a health setting, the evaluation relied on an analysis of before and after questionnaires completed by participants and their managers. As regards business impact, there were difficulties in selecting appropriate measures and in some cases distinguishing the impact of participation of staff in the SKILL programme from other factors that might have affected the particular measure.

37.61 The evaluations concluded that SKILL level 5 courses were making a clear impact on participants' self-assessment of behavioural change and that this was also noted by line managers. SKILL level 6 courses did not admit of a clear conclusion but it could be said that based on participants' self-assessment there was substantial competency improvement in a number of areas as a result of participation in SKILL.

37.62 The evaluation of the business impact concluded that there were some improvements in business level results as a result of SKILL but that many other improvements could not necessarily be attributed to SKILL. It suggested that measures such as staff turnover and absenteeism had not been the most appropriate for measuring the impact of participation in SKILL. It also noted that some managers had expressed concerns about the relevance of some modules and overlap with internal courses, as well as the logistics of arranging cover and rostering.

Associated Study Visits

37.63 HSE Internal Audit reported that travel to the US, Australia and Hong Kong had taken place by SKILL Steering Group members. However, the financial records of SKILL did not record any travel, hotel or other expenditure in relation to such trips. Figure 180 summarises foreign travel identified by HSE Internal Audit.

Figure 180 Overseas Trips Identified by HSE Internal Audit

Destination	Year						Total Number of Trips
	2004	2005	2006	2007	2008	2009	
New York	1	1	2	2	1	2	9
UK ^a	-	3	3	3	3	4	16
Australia	-	1	-	-	-	-	1
Los Angeles	-	-	-	1	-	-	1
Multiple Sites ^b	-	-	-	-	1	-	1
Boston	-	-	-	1	-	-	1
Savannah, Georgia	-	-	-	-	1	-	1
Brussels	-	-	-	-	1	-	1
Total	1	5	5	7	7	6	31

Notes:

a UK includes trips to London (10), Oxford (2) Southampton (2), Sheffield (1) Birmingham (1).

b These included Los Angeles, Australia and Hong Kong.

37.64 The details of foreign travel are based on information provided to HSE Internal Audit by a number of past and current Steering Group members and the SKILL Project Team. HSE Internal Audit reported that Steering Group members indicated that the study visits, including the travel and accommodation arrangements, were organised by a SIPTU official who was a member of the Steering Group. However, it also noted that the minutes of the Steering Group do not refer to long haul foreign travel and only a small group of members were aware of, and participated in, these study visits. Based on explanations provided by the SIPTU official there appeared to be two types of study visit

- journeys to London, Southampton, Sheffield, Newcastle and Manchester which were funded from the reimbursement claims submitted to the SKILL programme
- other foreign travel, in which SKILL personnel and some Steering Group members participated – these were not SKILL programme visits but partnership visits and were funded from partnership moneys.

Audit Concern

In view of the findings of the Internal Audit Report I sought the observations of the Accounting Officers of the Department of Health and Children, the Department of Finance and the HSE.

Observations of the Accounting Officers – Foreign Travel

37.65 The Accounting Officer of the Department of Health and Children informed me that the Department's former and current Steering Group members consider that foreign travel was not undertaken under the aegis of the Steering Group or at its behest. The only exceptions were trips directly associated with the JFK Fellowships for support staff. Other than those, relevant officials do not believe that any other trips referred to in Figure 180, or the funding for them, were discussed or approved by the Steering Group. He stated that while some Department representatives on the Steering Group participated in some of the trips this is not so in all cases and Department officials who were not members of the Steering Group also travelled on visits.

37.66 In general, feedback from the Department officials who were members of the Steering Group and others aware of the study visits is that the visits were not at the time specifically seen as being associated with SKILL and had their basis in wider efforts under partnership to improve industrial relations and develop a shared understanding of the scope for change and reform in the health services.

37.67 The Accounting Officer of the DOHC informed me that the Department's Personnel Officer had reviewed travel claims made since January 2000 by officials in respect of study visits which might have been connected with the SKILL programme or other management/union partnership activities. The Personnel Officer had also received information from serving and former staff in relation to visits where travel and subsistence claims were not made to the Department. In some, but not all such cases, subsistence expenses were paid by SIPTU. The relevant visits amongst those listed in Figure 180 where officials participated are New York (2004, 2005, 2006 and 2009), Australia (2005 and 2008), Boston and Savannah. In addition, officials participated in study visits to Vancouver (2003) and St.Paul/Minneapolis (2004) which were not listed in Figure 180 but which are considered similar in purpose and organisation to the management/union visits listed there. In summary, the review identified that there were ten study visits in which Department officials participated, involving seven different officials. The content of these visits supported joint management/union study of the reform of service delivery. The participation of officials on study visits was undertaken with the knowledge of their superiors.

37.68 The Accounting Officer advised that one former official who retired in 2006 subsequently travelled on foreign visits in a personal capacity. His input included acting as a rapporteur on four study visits and as a participant in five visits to UK universities specifically related to SKILL training. (These Universities had assisted the NHS with similar up-skilling of staff through training and education.)

37.69 The Accounting Officer confirmed that a total of eight travel and subsistence claims were made to the Department in connection with the study visits outlined above. In all cases the conference rate²⁷⁰ was claimed. Records indicate that the Department did not pay accommodation or flight costs in respect of any of the above study visits and it is the understanding of the relevant officials that in all cases flight and accommodation costs were met out of the annual grant provided by the OHM/HSE to SIPTU.

²⁷⁰ The conference rate is a reduced rate of subsistence that takes account of the fact that accommodation is paid for or reimbursed separately. Under Department of Finance rules, the conference rate should not normally be granted for fact finding journeys.

37.70 A review of the foreign travel claims of the Department of Finance official who was a member of the Steering Group identified four claims where the purpose of the travel was stated to be related to the SKILL project. These were visits to Southampton University, Newcastle University/Hospital, London Hospital Trust and City University of New York in respect of a JFK Scholarship Conference.

37.71 The official also made a claim for subsistence, at the conference rate, in respect of the visit to Savannah, Georgia identified in the HSE Internal Audit report. The purpose stated for this trip made no reference to SKILL but was described as Health Partnership/Local Partnership. Apart from one visit to London, on no occasion was a claim made on the Vote of the Office of the Minister for Finance in respect of air travel. The participation of the official on each of these visits was undertaken with the knowledge of his superiors. The Accounting Officer of the Department of Finance informed me that he believed that the official may have participated in a small number, not exceeding five, of additional SKILLS related trips in late 2008 and 2009 for which no travel and subsistence claim was made against the Department. The extent of the latter trips is currently being investigated by the Department's Internal Audit.

37.72 The HSE Accounting Officer informed me that an internal investigation into the matters pertaining to a number of significant issues in the operation of the SKILL programme has commenced. It was envisaged that the independent investigator will report back to the HSE in autumn 2010. The terms of reference are as follows

- Confirm the HSE staff, and partners where applicable, who took part in SKILL related overseas travel.
- Determine the purpose of this travel.
- Determine how this travel was arranged and paid for.
- Identify expenses and subsistence claimed by HSE staff associated with this travel.
- Identify if travel costs were reimbursed. If there were reimbursements to where was it submitted to.
- Determine appropriateness of the overseas travel identified and whether it represented value for money.
- Make recommendations to improve the management of overseas travel to HSE staff having regard to the code of governance and existing travel regulations.
- In relation to the SKILL programme ascertain if HR and financial regulations, that were in place at the time, were complied with.

Conclusion

A review of the minutes of the Steering Group indicates that the Group undertook its role diligently. However, any arrangement that involves a steering group with participants drawn in part from outside an organisation carries the risk that accountability will be weakened through misunderstanding or confusion of roles.

There is a need to ensure that the relationship between such groups and the Accounting Officer is fully transparent and that all parties are clear that control, management and accountability rest with the Accounting Officer.

While tenders were sought for the programme's major external cost viz. provision of training, a proper record of evaluations was not maintained. There were breaches of procedures in relation to the procurement of other services.

There is a need to ensure that procurement is transparently conducted and an adequate record maintained of the process followed and of how decisions are made.

There were a number of instances involving breaches of the HSE's financial regulations.

The HSE should obtain, on an annual basis, confirmation from all budget holders that controls have operated in their areas of responsibility.

While the rationale put forward for the backfilling payments appears reasonable, there is no evidence that the backfilling payments were, in fact, used to provide cover for the absences of staff who were participating in the programme. Neither is it clear that the level of payments aligns with the record of numbers participating.

The HSE should review the extent to which programme output and participation correlates with expenses paid.

The terms in which the funding paid into the SIPTU National Health and Local Authority Levy Fund Account were described would have been of limited use in enabling either the OHM or the HSE to determine what was expected to be provided by the funding.

It is essential that there be clarity about the nature and purpose of funding, the outputs expected and how accountability will be discharged by the recipient.

The relevant correspondence refers to "funding" without making it clear whether the payment was a grant or a grant-in-aid. Public Financial Procedures provide that grants must be fully vouched and any balance remaining unexpended at the end of the year must be surrendered. A grant-in-aid does not require detailed vouching but the grantee is obliged to provide audited accounts.

There is a need for the Department of Finance to clarify whether and to what extent grants may be made on a block basis (not requiring detailed vouching) and to provide related guidance.

Study visits were financed out of grants paid to the SIPTU National Health and Local Authority Levy Fund. Some of the visits were not integral to the SKILL programme and their only connection is the fact that the costs were met out of funding provided out of the SKILL budget.

The arrangements for the discharge of travel costs associated with the visits was not satisfactory in that flight and accommodation costs were met out of the SKILL budget and other subsistence costs were met by the DOHC and the Department of Finance.

In order to ensure clear and transparent management and accountability, all costs relating to the public business of a Department or State body should be charged to the account of that Department or Body.

Reimbursements were made to the SIPTU National Health and Local Authority Levy Fund in respect of expenses of €348,322 which had been met by it on behalf of the SKILL programme.

All payments should be processed through the relevant public account in order to give assurance that there is adequate control over the initiation, authorisation and charging of expenditure to public funds.

In the case of travel and subsistence costs, it is not clear that the use of the conference rate was appropriate in the circumstances of the study visits.

The Department of Finance should consider reiterating to public bodies the rules relating to the use of the conference rate.

The Steering Group commissioned a number of reviews of the effectiveness of the training provided under the programme. However, the results, particularly in relation to level 6 courses, are not conclusive.

It would be useful for the HSE to re-evaluate the courses. It might also be appropriate to pilot new arrangements to address the logistics issues identified in the evaluations.

Chapter 38

Health Service Executive

Property Management

HSE Property Management

38.1 At December 2009, the HSE's land and buildings asset base was valued at €4.3 billion²⁷¹.

38.2 In late 2006, the HSE established an Estates Directorate, which has responsibility for the strategic development and management of its entire estate portfolio including the management of its property transactions and infrastructure. In May 2010, it had a staff of 476 of which 290 were maintenance personnel. In 2009, the cost of running the Estates Directorate was €26.8 million.

38.3 The Corporate Plan of the HSE covering the period 2008 - 2011 includes a commitment to "maximise the value of the HSE properties and facilities, reduce costs by introducing rigorous controls and ensure appropriate infrastructure is in place when required." A key deliverable identified was the finalisation of a national property database (NPD) already in train since late 2006 when the Estates Directorate had commenced a national database project. The project was delivered using a systems provider who had previously supplied software and support to four former health boards at a cost of €54,000.

38.4 The HSE did not tender for the national extension of this project upon which it has spent €224,000 between 2007 and July 2010. While the HSE did not agree formal deliverables with specified timelines for the project with the systems provider the scope of the work was outlined in a document prepared by the systems provider in December 2008. The milestones and reported deliverables as set out in the document are outlined in Figure 181.

Figure 181 National Property Database Milestones

Milestone	Reported Deliverable
December 2007	A listing of HSE properties compiled and presented to the Property Management Committee.
March 2008	IT infrastructure upgraded and implemented to facilitate access to the database.
March 2008	The Dublin region gained access.
May 2008	Commencement of local validation.
October 2008	Web software installed to facilitate access to the database over the web ^a .
December 2008	Cross-check of the property listing completed.

Note:

a Fees were paid in 2009 and 2010 to support this software.

38.5 The HSE Service Plan Deliverables Report for 2008 stated that the national database was completed by December 2008 with the management and administration of the property database being an ongoing process. By March 2010, 3,379 properties had been recorded on the NPD.

38.6 The Accounting Officer informed me that, on the basis that the existing database software and licences were in place, no tendering was required for the national database. He also stated that it was confirmed to the project team by the supplier of the existing software in December 2006 that the software in place (in four of the HSE entities) could be used for the national database covering all ten of the HSE entities. The HSE also stated that from December 2006 to June 2010 costs relating to these licences amounted to €17,470 and these payments would have continued even if a national database project were not instigated.

²⁷¹ HSE accounts for 2009 show that land and buildings make up the majority (83 per cent) of assets.

Chapter Focus

The chapter reports the result of an examination that sought to establish

- the progress that has been achieved in creating a complete and accurate national property database
- how HSE assets are utilised and protected.

Completeness of Property Database

38.7 In order to test the completeness of the National Property Database (NPD), its content was compared with

- the HSE properties registered by the Property Registration Authority (PRA)
- source records maintained by the HSE
- the registers maintained for accounting purposes.

Comparison with PRA records

38.8 A comparison of data recorded on the PRA's database²⁷² where title was registered under HSE ownership with data on the NPD indicated that three properties out of 172 were not recorded in the NPD. The results are set out in Figure 182.

Figure 182 Results of Completeness Testing from PRA Records

Extent of Recording of Sampled Properties	Number
Recorded on NPD	169
Not Recorded on NPD	3
Total Records Sampled	172

38.9 Since the audit, the HSE has stated that two of these properties have now been listed on the database and the other was inadvertently omitted during the initial data migration stage but will be listed shortly.

²⁷² The Property Registration Authority (PRA) is responsible for the management and control of the register of land in the State.

Comparison with Source Records

38.10 A review was carried out on the 169 properties that were recorded against source records²⁷³. Interviews were also conducted with property staff to clarify details where files were inadequate. The results as outlined in Figure 183 were that site details were incomplete in 91 cases and the site classification was incorrect in 32 cases. The results suggest that a comprehensive validation exercise is required to ensure that data is correctly recorded and complete.

Figure 183 Database Accuracy

Site Details ^a	
Complete	78
Incomplete	91
Total Records Reviewed	169
Site Classification ^b	
Correct	137
Incorrect	32
Total Records Reviewed	169

Notes:

- a Site Details: This includes details such as location type, tenure and size.
- b Site Classification: This includes details such as site user and status (in use/vacant).

38.11 The HSE has stated that the audit findings in relation to database accuracy reflect the fact that the data has yet to be validated and that the necessary data will be validated, amended or inputted shortly.

Comparison with Accounting Records

38.12 As part of the creation of the NPD, HSE fixed asset registers were used to populate the database.

38.13 In the course of this examination, a two-way test was carried out from the fixed asset register to the NPD and from the NPD to the fixed asset register. In the first test, the fixed asset registers held by Finance Divisions in four HSE areas were compared with the NPD. The limited sample test found that 10% of sites recorded on the fixed asset registers were not recorded on the NPD. The results are as set out in Figure 184.

²⁷³

Source records in this case were records held in hard copy for the property.

Figure 184 Results of Review of Fixed Assets Registers with the NPD

Status of Recording	Number
Recorded on NPD	36
Not Recorded on NPD	4
Total Records Reviewed	40

38.14 Two of the four properties not recorded are the only buildings on these sites. The other two buildings are new community nursing units that have both been finished and capitalised by the Finance Division in 2009. These properties are also in an area where the database was rolled out and in use since March 2008.

38.15 Responding to the audit findings, the Accounting Officer stated that the initial data recorded in the NPD was entered at 'location' level only and these 40 records were recorded at that level and that the individual building level will be addressed in the next stage of the project.

38.16 Currently, as the HSE acquires property, details are submitted to the Finance Division from the local Property Service Division²⁷⁴. A sample was taken from the NPD and compared to the fixed assets register currently in use and the results are as outlined in Figure 185. The results show that three sites recorded on the NPD are not recorded on the fixed asset registers at March 2010.

Figure 185 Results of review of NPD with the Fixed Assets Registers

Status of Recording	Number
Recorded on Fixed Asset Register	36
Not Recorded on Fixed Asset Register	3
Total Records Reviewed	39

38.17 The three properties not recorded on the fixed asset register were properties that had been in HSE/Health Board ownership for a number of years.

38.18 Although the design of the NPD provided for the recording of the financial records identifiers, entering these reference numbers was not one of the early deliverables of the project. Consequently, it is difficult to compare both sets of data as no direct cross-reference between the fixed asset registers and the NPD is available²⁷⁵. If these reference codes had been recorded on the NPD at the time of updating the records in 2008, this would have facilitated the reconciliation of the financial and property records. The HSE has informed me that this task is one of the database refinement deliverables in the current stage of the NPD project.

38.19 The Accounting Officer noted that the recording of fixed asset register classification numbers on the NPD has been identified for discussion at the Property Database Steering Committee²⁷⁶ and if this were done, it would facilitate both meaningful reporting and easier data cross-referencing between the two asset recording systems. In regard to the disparity between the database and the HSE financial records, the HSE stated that the financial regulations governing the transfer of projects/properties from work in progress to buildings within the fixed asset schedule is

²⁷⁴ Within the Estates Directorate, there are nine areas and each area has a Property Service Division.

²⁷⁵ Each asset recorded in the fixed asset registers reviewed has its own unique reference code.

²⁷⁶ This committee comprise of personnel representing regional and corporate Estates functions.

governed by Finance Directorate protocol considerations and this can result in timing issues around when a property will appear on the NPD and the fixed asset registers.

Accuracy of Datasets

38.20 As part of the examination, a review was carried out on the accuracy of the information held on the NPD against the source records²⁷⁷ and the results are outlined in Figure 186.

Figure 186 Database Accuracy

Database Accuracy	Total Reviewed	Correct	Incorrect
Status - Vacant, in Use or Let	80	70	10
Tenure - Freehold/Leasehold	80	73	7
Service User Category	80	59	21
Site Name	80	77	3
Floor Area	80	17	63

38.21 The examination found that for the sample of 80 reviewed ten had the incorrect status recorded and over a quarter had the incorrect service listed as occupying the premises. It was also found that the floor area was only available and correct in 17 cases.

38.22 As part of the database, property details such as type of service provided from that building are recorded. However, there are over 100 classifications without any hierarchy system²⁷⁸. The classifications currently used are, therefore, ineffective in providing any meaningful reporting information across operational categories.

38.23 The HSE states that errors noted in the audit reflect the stage that the property database has reached and that further work is required which will be addressed in the near future.

38.24 The audit found that data files were being regularly updated on the systems that are used in those areas. However, there was an inadequate review process in place to ensure files are updated correctly and accurately because there was no validation of input accuracy. The HSE states that the validation of input accuracy is being addressed through the review process under way in the current stage of the database project.

²⁷⁷ Records held in hard copy for each property.

²⁷⁸ A system based on the main areas of the HSE such as Primary Care\ Mental Health\ Administration and then subdivided into the related areas.

Use of the NPD for Management Purposes

38.25 In November 2009, the HSE formally issued the database to the 11 Estates Managers and their staff in nine locations. The expectation was that the database would become the primary reference source thereafter. The status of implementation and use in four offices visited as part of this examination varied as follows

- one office that had the software prior to the development of the national database continued to use it throughout its development and is currently using the new system which has been developed on the same software
- another office that had the software prior to the development continued to use it up to January 2009, and then commenced using an alternative system and did not revert back to the NPD after it went live in November 2009
- the other two offices continued to use alternative systems throughout this period of development and did not switch over to the new system in November 2009.

38.26 Overall, only one office of the four visited in the course of this examination utilised the new software. Since then, implementation has been further affected by industrial action in February 2010. The Accounting Officer acknowledges this is correct in the light of the current stage of the NPD project. He stated that one office had continuous access to the server on which the new national database was created while the other three offices did not. The office with access to the software was able to switch immediately to the NPD as soon as the national dataset was created as it is operating in the same region. The other offices (and indeed all the other regional Estates locations) could not.

Review of Deeds and Leases

38.27 As part of this examination, the sample of records selected at random from the NPD were reviewed to establish whether deeds and leases were available and in order.

38.28 The audit found that the HSE could not provide a file in three cases that were listed as leased property on the database. Deed information was not available in four cases and some legal work²⁷⁹ is required in ten cases.

38.29 Since 2006, approval and signing of leases were done in line with a centrally promulgated protocol²⁸⁰ in seven of the 13 cases reviewed. The protocol was not followed in three cases and, in one of these cases, an amount of €126,000 was paid in advance to lease a property over three years.

38.30 In 31 cases where leases commenced prior to 2006, seven had a signed lease agreement on file, nine had an approved but unsigned lease on file and 12 files had no formal lease in place. It was also noted that in four of these 12 cases, a third party providing a service on behalf of the HSE had no agreement with the HSE to regularise its responsibilities for managing the property. The details are summarised in Figure 187.

²⁷⁹ The complexity of the work to be done cannot be accurately quantified as issues differ from file to file.

²⁸⁰ This sets out the specific procedures to be followed when the HSE acquires or disposes of any property.

Figure 187 Reviews of Deeds and Leases

Type of Document	Available	Number examined	Totals
Deeds	On Site	16	36
	Off Site ^a	6	
	Title rectification required	3	
	Deed of discharge required	3	
	Title of transfer required	4	
	Deed Information	4	
Leases			
Leases Pre-2006 ^b	No file available	3	31
	Signed lease on file	7	
	Approved but lease not signed on file	9	
	No formal lease	12	
Leases Post-2006	Approved and signed lease on file	7	13
	Approved and no signed lease on file	3	
	No lease in place ^c	3	
Total Properties			80

Notes:

- a Off site refers to deeds being reported as held by solicitors.
- b Different criteria were in place prior to the protocol being implemented in 2006.
- c Following the audit, details relating to one lease became available.

38.31 Since March 2010, the HSE has established a legal department. One of its functions relates to property. It is expected that this department will improve the handling of title deeds and leasing arrangements within the HSE. It is also planned that all title deeds will be handled at one location in Dublin. No targets or timelines have been established yet to achieve this. It was planned, as part of the development of the NPD that during 2007 the title deeds would be reviewed and corrective action taken if required. This plan did not proceed due to resource issues.

38.32 When the need arises to acquire a property or rent a space to meet an unforeseen emergency situation, a mechanism such as a licence can be used. A licence is generally a short-term contract, usually for a fixed period of time, with the licensee paying a fee. While a lease confers exclusive right of occupation to the entire property on a tenant, this is usually not the case with a licence. Licences are required to be authorised and approved by the National Director of Estates (NDE) and the board when the transaction is over €2 million and only by the NDE when under €2 million.

38.33 Ten licences were reviewed to determine whether the arrangements duly approved were subject to formal agreements. No approval or sign off could be located for two of the licences. While it is necessary to have an emergency procedure available, allowing properties to be acquired or rented to meet unforeseen situations, the appropriate approvals should always be sought. The results of the review are outlined in Figure 188.

Figure 188 Licence Arrangements

Details of Licence	Total
Approved and Signed Licence by Service Director only	4
Approved and Signed Licence by Estates Director only	4
No Signed Licence in place	2
Total Licences	10

38.34 For the two licences not signed, the HSE have stated that work is underway to rectify this.

Utilisation and Protection of Assets

38.35 The property assets used by the HSE are extensive and diverse, ranging from large hospital complexes to small health centres. The audit noted that property surveys are only done when property has a rent review due or the property is being considered for disposal. No structured procedures to conduct periodic surveys are in place.

38.36 As part of the overall Estates Directorate strategy, there is a requirement for each area to develop strategic property plans. At March 2010, no such plans were available for each area. However, draft property plans are currently being developed. These plans, which are intended to cover a three to five year period, will include components such as

- the current and scheduled capital plan
- transactions underway (leasing, freehold disposals and acquisitions)
- primary care rollout implications and
- mental health service proposals.

38.37 According to the HSE, the maintenance departments review building conditions regularly and this information is fed into the Estates Managers. Also there are periodic meetings between Service Divisions and Estates Managers where property requirements are one of the items discussed. However, it was noted that

- in two areas that the maintenance staff report property information in an ad hoc and informal way to the property sections within the Estates areas.
- in one area, the maintenance staff are responsible for checks of each property but the regularity may depend on instances when services such as boiler servicing or the fire alarm maintenance are required.

38.38 In addition to having no strategic property plans in place, limited details are available on the NPD in respect of building condition, maintenance costs, functional suitability and utilisation of the property occupied, owned or leased by the HSE. It is unclear, therefore, how the HSE can make cost-effective decisions and plan strategically in relation to its property portfolio in the absence of comprehensive and centralised data in this regard.

38.39 According to the HSE, the creation of property plans for each of the Regional Estates Areas is a key objective for the effective management of the HSE estate. These plans have been commenced in many of the Regional Estates Areas and they will be developed and refined during 2010. The target is to have the Property Plans in place for the end of 2010 with the combined plans forming a key strategic estates management document. The creation of the plans will also streamline the property transaction approval process and add a further dimension to the planning and decision making tools available to the Directorate.

38.40 An example of the potential exposure of the HSE when informal transactions are effected is provided by the experience in acquiring the Killybegs Resource Centre.

Killybegs Resource Centre

38.41 In 2002, a need was identified for a resource centre for the Donegal Learning Disability Services in the Killybegs area. In 2006, the then Regional General Manager for Intellectual Disability Services gave a written commitment to take a 6,000 square foot property at a cost of €69,000. In 2009, the portion to be acquired was increased to 9,134 square feet at a cost of €105,000.

38.42 This project was reviewed by Internal Audit in October/November 2009 and it found that while at no stage was there a deliberate intention to avoid due process for this project, a number of control lapses over the previous eight years had been identified. These included

- All acquisitions of this size should be procured according to the HSE or the former Health Board guidelines. No public procurement or advertising exercise was carried out to identify sites.
- There was a lack of communication between the Estates Manager and Property Manager during the process. There was a fragmented reporting arrangement in that the Property Department in the North West reported to the Regional Finance Department in Galway while the Estates Manager reported to the Estates Corporate in Dublin.
- There was a lack of communication between the Regional General Manager and the Property Manager in the earlier period (2002 – 2003).
- It was agreed with the landowner that if planning permission for the resource centre was refused, the HSE was to pay 50% only of the design fees. Planning was refused in 2003 and the HSE paid the full design fees. When subsequently, planning permission was granted, the landowner indicated that a reimbursement for €7,500 would be paid. This is still outstanding.
- Certified requisition forms outlining that accommodation was needed for Donegal Learning Disability Services and the Physical and Sensory Department was received in the Property Division in April 2005. However, the Internal Audit unit was unable to find evidence that these forms had been presented to either the former Health Boards Property Committee or the HSE Property Committee, which would have been the required practice at that time.
- Difficulties were encountered due to encroachment by development on the site onto an adjoining landowners site. There was evidence on file that the Property Manager informed the Regional General Manager in November 2005 of these difficulties and advised him not to continue with the project.
- A written commitment was given by the Regional General Manager to acquire the property subsequent to receiving advice to the contrary from the Property Department in early 2006.
- The HSE Property Committee refused to approve the lease in October 2008 and the Assistant National Director for Estates contacted the NDE with concerns around governance and procurement issues.
- Approval was given by the NDE to take the lease and a second lease in August 2009.

38.43 The leases were signed in October 2009 by the NDE with the main lease for five years and the other lease for ten years.

38.44 In March 2010, the Property Manager received a letter from an owner of property adjoining the resource centre land informing him that an out-of-court settlement (€100,000) had been agreed

with the landlord in May 2009, in relation to encroachment on land that forms part of the car park at the resource centre. The landowner then informed him that the settlement was still outstanding and that he wished to advise the HSE of the circumstances and request it to refrain from occupying the property.

38.45 During the audit in April 2010, it was confirmed that this property is unoccupied.

Views of the Accounting Officer

38.46 The HSE has stated that correspondence was received from a third party in March 2010 which raised concerns in relation to title over part of the property. On receipt of this information Property Management immediately forwarded it to the HSE's solicitor for urgent advice. Following legal advice, Property Management issued instructions that no further payment of rent be processed and that all involvement with this project be put on hold until the HSE's solicitors are satisfied that the out-of-court settlement has been finalised between the landlord and the adjoining owner. The €100,000 out of court amount was settled between the landlord and the adjoining landowner. The money is payable by the landlord and the HSE has no liability in this regard. The HSE has stated that it is awaiting resolution of the matter concerning the out of court settlement between the landlord and the adjoining landowner.

38.47 The HSE stated that it is not satisfied with the initial arrangements entered into in relation to the procurement of this property. Although outside HSE protocol, the process did achieve value-for-money. However, the process followed could not ensure this would be the case on other transactions. All actions taken since this matter came to the attention of HSE Estates have been designed to ensure that the State's interests were protected with regard to safe title through independent legal advice in the drawing up of a lease on the property.

Conclusion

Although the HSE Service Plan Deliverables Report 2008 stated that the national property database had been completed by December 2008 the audit noted deficiencies in the database. In order to get value from its investment the HSE needs, *inter alia*, to

- validate its content
- integrate it into the day-to-day work of staff
- use the information to manage its assets by matching resources to service need
- reconcile the property database with financial records.

Chapter 39

Health Service Executive

ICT Governance

ICT Governance in HSE

39.1 The Department of Finance requires that bodies incurring expenditure on information technology and telecommunications projects, systems and infrastructures should have appropriate governance and project management processes in place. In 2005, it issued guidance on how those requirements should be met by the HSE.

39.2 In my 2006 Annual Report progress made by the HSE in developing appropriate governance arrangements in relation to Information and Communication Technology (ICT) was reviewed. The review was conducted against a background that the HSE had been unable to secure delegated approval from the Department of Finance in relation to its ICT expenditure and it was, therefore, required to obtain sanction for ICT expenditure on a case-by-case basis.

39.3 In 2007, the Accounting Officer had indicated that

- A short-term plan/strategy for 2007/2008 had been put in place while a longer-term strategy for the following five to ten years was being developed.
- New ICT governance arrangements had been put in place since the start of that year and these complied with the principles set out by the Department of Finance.
- It was intended to implement a new organisation structure for ICT with a strong corporate ICT division.
- A corporate ICT Programme Office would be established that would assume responsibility for ICT performance management – including budgeting and reporting.

Chapter Focus

The chapter reports the result of audit enquiries into

- whether an ICT strategy had been developed and was subject to regular review and update
- the extent to which ICT governance arrangements and project management processes specified by the Department of Finance were in place in the HSE
- the progress made in the implementation of major systems.

Strategy

An ICT Strategy is important in order to align ICT developments with business needs.

39.4 The Accounting Officer informed me that the HSE does not currently have an ICT strategy that has been formally adopted by the Board. In the meantime, a draft ICT strategy, developed during 2007 and 2008, is used to validate project proposals and guide decisions on capital investment in ICT. This draft, however, does not take into account changes required in order to reflect subsequent alterations to the HSE business model i.e. the impact of the HSE Reconfiguration Programme.

39.5 He stated that work on updating the strategy is continuing and a summary strategy has been prepared and reviewed with members of the HSE management team, the Department of Health and Children and the Health Information and Quality Authority.

39.6 The strategy will provide a revised list of priority programmes and projects that need to be pursued over the next three to five years in order for the strategy to be implemented. Some analysis has been carried out on the resourcing implications (ICT and non ICT). Resolution of issues associated with significant shortfalls in resources need to be resolved prior to the publication of the strategy. Assuming this can be done, the strategy will be published by the end of 2010.

39.7 The Accounting Officer indicated that, irrespective of whether the ICT strategy is in draft or published form, it must still align with the HSE's overall business strategy and objectives as expressed by the HSE Transformation Programme. The HSE has continued to ensure that ICT investments are made in accordance with the following, documented and published, HSE Transformation Programme priorities

- develop integrated services across all stages of the care journey
- configure Primary, Community and Continuing Care services to deliver optimal and cost effective results
- configure hospital services to deliver optimal and cost effective results
- implement a model for the prevention and management of chronic illness
- implement standards based performance measurement and management throughout the HSE
- ensure all staff engage in transforming health and social care in Ireland.

ICT Governance Arrangements

In 2005, the Department of Finance specified that the HSE should have one ICT Steering Committee for making priority and activation decisions in relation to all major project proposals.

39.8 The Accounting Officer informed me that the last meeting of the ICT Steering Committee had taken place in November 2008. Because of restructuring within the HSE, representation from various areas declined over time as staff were reallocated new areas of responsibility. Delays in the appointment of an ICT Director militated against the re-formation of the Steering Committee.

39.9 The HSE intends to reinstate its ICT Steering Committee when the new CEO is appointed in September 2010. In the meantime, depending on its nature, decisions that would otherwise be made by the Steering Committee, are made by

- the ICT management team (National Director and Assistant National Directors)
- the Director of Commercial and Support Services – to whom the ICT Directorate reports and who is a member of the HSE Senior Management Team
- the HSE Senior Management Team itself.

Central Decision Making

The Department of Finance guidance to the HSE was that there should be one central source of decision-making in relation to implementing ICT strategies, plans and projects that would also be the normal interface with the Department of Health and Children and with the Department of Finance.

39.10 The Accounting Officer informed me that decisions that fall solely within the remit of the ICT directorate e.g. day to day running of IT departments and minor projects, are made by the ICT management team which is composed of the ICT Director and senior staff at Assistant National Director level.

39.11 The ICT directorate delivers a large volume of projects each year. It completed 45 projects in 2007, 99 in 2008 and a further 60 in 2009. It currently has 72 sanctioned projects in progress with a further four undergoing peer review. Of the 72 projects, 43 are at the detailed definition or procurement stage and 29 are at the implementation stage.

39.12 Decisions that are not within the remit of the ICT Directorate are escalated to the Director of Commercial and Support Services. Depending on the nature of the issue/decision required, the Director of Commercial and Support Services will then bring the matter to the attention of the HSE Senior Management Team.

39.13 Local HSE functions can raise project proposals but all capital funding requests must follow the HSE project approvals framework process. In relation to non-project activity, local HSE functions are allocated a budget at the start of each year and the local IT manager is responsible for how that funding is managed. Most of this budget is pre-committed insofar as it is used to fund staff costs, pay telecom charges and cover the cost of annual support and maintenance contracts for installed systems. In practical terms, therefore, the local IT manager has quite finite discretionary influence over local ICT revenue spend. The HSE submits a return to the Department of Finance annually that describes how revenue funding was actually spent during the previous year.

Project Management

The Department of Finance advised that project boards should be established for every significant project, reporting to the ICT Steering Committee and using a project management methodology chosen by the HSE and using the capital appraisal guidelines issued by the Department of Finance.

39.14 The Accounting Officer stated that the ICT Project Management Office (PMO) is now well established. The ICT PMO is responsible for project management methodology and implementing a standard process for the delivery of projects within ICT. While the methodology is still at the pilot stage, in the interim, all sanctioned projects are required to submit monthly status reports in standard format to the ICT PMO. A dashboard has been developed to present this information in summary form to the HSE ICT management team. The PMO maintains a projects register with key information related to each project such as the project owner, project manager, spend to date, sanction status, lifetime costs remaining and lifecycle status.

39.15 In the absence of an ICT Steering Committee, the ICT PMO is the essential single point of contact that has visibility of all projects that seek external approval (sanction).

39.16 The ICT PMO can, therefore, independently

- confirm the proposal is supported by senior management, commensurate with the scale of the project and, in the absence of the ICT Steering Committee, confirm the support of the relevant ICT delivery director
- check the validity of proposals against HSE and HSE ICT strategies, objectives, corporate business plans and service plans
- identify opportunities for local/regional initiatives and projects to be deployed on a broader basis
- check for overlaps with prior proposals from other functions
- identify possibilities for national contracts and/or framework agreements and
- identify anomalies in costing based on previous project proposals.

39.17 Once these checks have been performed, the PMO works with the relevant team to prepare the request to the Department of Health and Children and Department of Finance for sanction in accordance with the governing circular²⁸¹.

39.18 An ICT delivery director (at Assistant National Director level) is assigned for each category of project i.e. one for corporate projects, one for hospital projects, one for Primary, Community and Continuing Care projects and one for ICT infrastructure type projects. The ICT project manager assigned to each project reports to the relevant ICT delivery director. Formal project boards are established for large or complex projects.

ICT Procurement

The Department of Finance recommended the use of one central management point under the control of the IS Director for all purchases of hardware, software, telecommunications, ICT development or advisory services in all of the HSE including hospitals, medical centres and other units under its funding control.

39.19 The Accounting Officer informed me that ICT procurement is not a function within ICT but part of the overall HSE Procurement function. The HSE is pursuing the establishment of national contracts and framework agreements that procurement functions can leverage – irrespective of location – so as to bring improved value for money based on national purchasing volumes, even in the absence of a centralised purchase function within ICT. This has happened in the area of telecoms, PCs and laptops bringing considerable savings to date, with potential for further savings in the future. Framework agreements in the pipeline include competitions for the supply of IT storage systems and local area network equipment.

39.20 The Value for Money (VFM) programme within the HSE is tackling areas of large revenue spend. The programme is headed up by an Assistant National Director of Finance. Within ICT one of the earliest areas to be investigated was telephony costs. To date, the following actions have been taken to reduce mobile and telephony charges

- national procurement frameworks have been established for mobile telephone services. Functions within the HSE now select the service that best meets their needs locally, whilst at the same time being able to leverage national purchasing power

²⁸¹

Circular 02/09 - Arrangements for ICT expenditure in the Civil and Public Service

- routing of landline calls to mobile operators is now done via the HSE network. Prior to this, calls to mobile phones from HSE landlines were routed through third party networks resulting in additional call charges.

Progress on Major Projects

Four key projects which have potential system-wide implications are in train or being planned. These are

- the National Finance and Procurement System
- the National Integrated Medical Imaging System
- the Patient Management System
- the Laboratory Information System

I sought information from the Accounting Officer on the status of development in each case.

39.21 Overall, progress in implementing the projects can be summarised as follows

- The National Finance and Procurement System was initiated in 2006 but a final draft of the business case was only submitted to the Department of Health and Children in June 2010. In the interim, the HSE was in discussions with the Department of Health and Children and the Department of Finance and a number of iterations of the business case were produced. In early 2010, the approach to be adopted in developing the business case was agreed with the Departments and the business case has been completed and submitted for approval.
- A National Integrated Medical Imaging System (NIMIS) has been contracted in early 2010 and the system building is currently ongoing. It is intended that NIMIS will be introduced on a phased basis across the hospital system once the testing is completed.
- A Patient Management System was approved for national implementation by the HSE Board in February 2005. However, this would require significant change processes and national standardisation. In the meantime, taking account of operational risk, the Department of Finance sanctioned the replacement of certain hospital information systems and the introduction of the system at Tullamore, Mullingar and Portlaoise. The wider implementation of the system is under review.
- A tendering process was completed for a Laboratory Information System and although a preferred supplier was identified and draft contracts drawn up, the project did not proceed based on a due diligence exercise completed by the HSE. The HSE has now decided to go back to the market.

More detailed information on progress in implementing those projects is set out at Annexes A to D.

Views of the Accounting Officer of the Department of Health and Children

39.22 The Accounting Officer stated that the Department views ICT as an essential component of health service modernisation and service improvement and that it is clear that significant further work will be required by ICT, operational management and clinical/professional staff to ensure that ICT is fully exploited for the purposes of improved service delivery and organisational efficiency.

39.23 The Accounting Officer emphasised that the deployment of a single financial system throughout the HSE is regarded as a key priority by the Department. The project poses a substantial challenge to the HSE with considerable project risks and it is crucial that it is planned and evaluated in a proper and realistic manner. The Department has worked with the HSE to ensure that its proposed approach has the necessary clarity, risk identification and management, and meets procurement and legal considerations. It was the judgement of the Department that the initial proposals made at the end of 2008 did not fully meet these considerations.

39.24 The HSE subsequently revised its proposal to incorporate a new procurement approach which reflects legal advice received by the HSE. Delays to date are explained by weaknesses in the proposal put forward and the time taken to revise the approach to address these weaknesses. It is important that with such a large scale project covering the essential day to day functions of finance and procurement, proper regard is had to the quality of project planning and management and that, while seeking to move the project forward as quickly as possible, objective assessment is made on these matters prior to the commitment of major resources.

39.25 Revised proposals in relation to the National Finance and Procurement System were received from the HSE in June 2010 and subject to clarification on a small number of particular elements it is intended to formally submit the proposal to the Department of Finance.

Conclusion

There has been considerable delay in developing the Health Service's ICT infrastructure.

Large-scale ICT projects inevitably involve protracted planning, procurement and implementation phases. The risks inherent in such projects are magnified when an organisation is also attempting large-scale business change.

In these circumstances, it is important that the HSE develops a clear ICT strategy that is fully aligned with its transformation and reconfiguration objectives and puts appropriate ICT governance arrangements in place.

Annex A National Finance and Procurement System

The objectives in implementing a National Finance and Procurement System (NFPS) are

- to enable the HSE to continue its transformation programme through the development of National Shared Services
- to deliver on the Vote management requirements of the Accounting Officer
- to enhance existing controls and compliance
- to free-up resources to report and analyse information to support the front-line
- to maximise HSE purchasing power and control by supporting consolidation of demand, enforcement of contract compliance, establishing spend visibility throughout the procurement lifecycle and control of logistics and inventory management.

The need for a national system arises in the context of a HSE budget of over €14 billion in 2010 and a Finance organisation that is large and complex with Finance related functions in 31 Acute Hospitals, 184 Primary Community and Continuing Care (PCCC) locations and eight regional offices throughout the country. The Finance function deals with approximately

- 93,000 active vendor accounts (2008 figures)
- 2.2 million accounts payable invoices per year
- 500,000 accounts receivable invoices per year.

A recent review of inventory and logistics management has concluded that the absence of a single integrated national system is a fundamental constraint to the achievement of a cost-effective service in those areas. The variety and inconsistency of systems in use poses great difficulties in obtaining management information.

Progress to Date

To date almost the entire focus of the project has been on developing a business case with sufficient detail to underpin a robust decision regarding what is likely to be a significant capital investment decision.

There have been several previous iterations of the business case, which were all based on a SAP type solution. Following deliberations by the Department of Health and Children it was agreed that a new business case was required without an assumption that the final solution may be based on the extension of existing (SAP) installations nationally. The latest draft business case has been developed in that manner.

Whilst it was generally accepted that a new national financial system was required, there were some reservations in committing to such a large investment following on, as this project did, from the Personnel, Payroll and Related Systems (PPARS) and the Financial Information Systems Project (FISP). The FISP project was formally stopped by the Department of Finance in 2006. The apparently protracted timeline associated with getting the business case ready for Department of Health and Children and Department of Finance approval, which is set out in Figure 189, has to take account of that context.

Figure 189 Timeline for Development of National Finance and Procurement System

June 2006	Initial draft of first business case created
2007	Internal financial processes (52) designed to work with an assumed SAP solution
Sept 2008	Initial draft completed and reviewed internally and submitted to the Department of Health and Children.
December 2008	Summary proposal submitted to the Department of Health and Children
Q1 2009	Multiple engagements with Department of Health and Children to review proposals and business case
Q2 2009	Various approaches discussed with Department of Health and Children
July 2009	Legal advice received that the HSE would need to go back to market for both the solution and the implementation services. Previously, it was assumed that it would only be necessary to go to market for implementation services and that the use of SAP as a solution could be extended.
September 2009	Final version of Summary Proposal with revised approach submitted to the Department of Health and Children
January 2010	Meeting with Department of Health and Children – agreed proposed approach
February 2010	Department of Finance meeting to review agreed approach
February 2010	Draft of new business case starts
June 2010	New business case approved internally and submitted to the Department of Health and Children.

This project is still subject to internal and external approval. The scale of the project is such that it will also be subject to Department of Finance Peer Review.

Subject to sanction, the following steps are still outstanding

- Tendering
- Contracting
- Core design and testing
- Deployments to sites throughout the country.

The draft business case which has been submitted for approval indicated that it will take at least 14 months to establish the project from the time the business case is sanctioned. The business case also indicates a period of at least two years for project implementation. This is considered to be a best-case scenario based on the HSE's experience of implementing projects of this magnitude and complexity in the past. The actual implementation time will be dependent on the

- number of staff assigned to the project
- product and supplier selected
- extent to which existing processes are re-engineered and the complexity of the change management task associated with implementing these new processes.

Annex B National Integrated Medical Imaging System

The use of X-ray film in the Health Service represents one of the largest risk factors and bottlenecks to service delivery within the medical imaging arena. This is as a result of the film representing a single instance of a key diagnostic procedure that is

- regularly unavailable when required
- difficult to store and manage and
- does not readily follow patients as they move through care pathways.

Picture Archive and Communication Systems (PACS) store, manage and display a patient's images electronically, removing these risk factors. Over the period 1998 to 2008, PACS systems were installed in 18 hospitals. The benefits of PACS are greatly enhanced by integrating them with Radiology Information Systems (RIS) and Speech Recognition facilities. The resulting solution provides the required functionality to significantly re-engineer and improve the radiology imaging service.

The National Integrated Medical Imaging System (NIMIS) project has a number of over-arching objectives. These are the

- installation of PACS/RIS solutions in all hospitals that currently do not have them
- facilitation of remote reporting and the reconfiguration of radiology reporting services
- elimination of significant risk factors relating to the use of film based imaging.

Interfaces will be required to ensure interoperability with existing systems locally. Detailed requirements for those interfaces are currently being developed and, subject to sanction, the HSE will proceed to tender to have those interfaces developed.

Costs

There has been no ICT capital expenditure on this project to date. Costs incurred to date have been non-ICT related and entirely associated with the procurement, launch and start-up of the project. NIMIS is funded from non-ICT capital except for ICT specific items for which specific sanction is sought.

The NIMIS system is being deployed on a phased basis. Each phase consists of a number of physical sites. In agreement with the Department and CMOD, the HSE will submit separate sanction requests for each phase of the project and actual ICT capital spending will only take place as sanction is received.

The estimated cost to completion of the project is €50 million. The NIMIS contract which was signed in February 2010 covers the supply of PACS including RIS for all hospitals which do not already have PACS as well as the replacement or upgrading of a number of existing systems. In addition, it covers all existing HSE PACS sites to send data to the central archive.

Progress to Date

Figure 190 Timeline for Development of NIMIS

August 2007 – January 2008	Development of business case for NIMIS project
February 2008	Business case approved by Project Board and Head of Estates (HSE) and approval to go to tender
March – July 2008	System specification development
July 2008	OJEU tender issued
December 2008	Short-listing of tenders and Attorney General's review of procurement process on request of Department of Finance
March 2009	Approval to proceed to finalisation of procurement with short-listed vendors
July 2009	Preferred vendor selection completed
1 September 2009	Approved by HSE Management Team
10 September 2009	Approved by HSE Board
September 2009 – February 2010	Contract finalisation discussions
23 February 2010	Contract signed
March 2010	Project planning commenced
May 2010	Vendor's team in situ
June 2010	Detailed design phase with sites commenced, including specification of interfaces with local Patient Administration Systems and other systems

The future development of the project is planned to be as follows

Milestone	Project Stage
August – October 2010	System configuration/design
November 2010	Testing commencement
February 2011	Testing completion and training commencement
March 2011 to February 2013	All sites to go live

Annex C Patient Management System

The basic computer application for an acute hospital is the patient administration system (PAS), providing the necessary functions for managing the range of patient administrative processes including, *inter alia*, referrals, waiting lists, inpatients (admissions/discharges/transfers), outpatient department appointments and medical records management.

Implementation Progress

In February 2005, the HSE Board approved a project comprising an initial phase to replace the then at-risk legacy PASs, principally in the North East and North West and thereafter to begin building a national solution based on unique patient ID, standard processes, and a standardised configuration. The proposal envisaged that this could cost €366 million. The system chosen was the *iEPR* product suite supplied by iSoft. This suite comprises a patient administration module – iSOFT Patient Manager (iPM) and a clinical support module – iSOFT Clinical Manager (iCM).

In the event, the Department of Finance sanctioned the initial phase of the project i.e. the replacement of the then at risk legacy PASs. Additional sites have been sanctioned since then as they too became at risk. The new hospital at Tullamore, which had no PAS, was also sanctioned for a system as were Mullingar and Portlaoise Hospitals.

During 2009, an Internal Audit report raised concerns about the implementation of the Patient Management System (iPMS). Specifically, it found that

- there were significant differences in the implementation and configuration of the system across sites. This could prove problematic if, in due course, it was decided to use the system to deliver a single standard shared patient record
- there was no national iPMS roll out strategy
- there are inconsistent patient identifiers across sites which could result in multiple records for the same patient in an integrated system
- implementation and configuration decisions are made primarily at a local level
- benefit analysis is not happening at a national level despite implementation across more than 30 sites.

I asked the Accounting Officer for his observations on these findings. He informed me that whilst the HSE Board approved a national implementation, which would have required significant change processes and national standardisation, what was subsequently sanctioned by the Department of Finance was a much more conservative approach. As a result, one would expect to see

- some differences in the configuration between sites
- different patient identifiers across sites
- implementation and configuration decisions made primarily at a local level
- benefit analysis not being carried out at a national level – as the benefits prior to a national rollout are primarily accrued at local level.

Because of the manner in which iPMS had to be deployed, separate instances were implemented in different sites. This led to some local site-specific configurations being built into the solution that may or may not have been accommodated if the systems were deployed at a regional or national basis. That said, the most significant benefit from the deployment of a PAS solution is to the hospital itself, with additional benefits being achieved as the solution is expanded to cover clusters

of hospitals regionally and nationally. Provided there is some uniformity on the use of data models and how data is recorded, national data warehousing and reporting can still be used to extract the data centrally. Such warehousing and reporting capability may provide a national view of key statistics even in the absence of a single instance, albeit producing operational rather than clinical data.

The Accounting Officer assured me that there have not been issues of interoperability between sites as the sites that need to interoperate the most have tended to be set up on the same instance of the database in any event – e.g. the hospitals in Cork. The scope of the implementation work to date has not included electronic transfer of patient information between disparate hospitals – e.g. between secondary and tertiary centres. This would involve a major investment in time and resources and it has not been possible to extend the scope of the project to include this. The priority for interoperability is within the clusters of reconfiguration hospitals, which involve groups of hospitals working together, within the same region, on provision of services in a shared manner in their catchment area. These clusters will share a common instance of iPMS, supporting a common patient record across the sites.

The plan going forward with all sites sanctioned by the Department of Finance since late 2009 is to deploy iPMS with one instance per hospital ‘cluster’. These clusters are defined by the HSE Reconfiguration Programme. This programme is currently defining what hospitals make up each cluster and what services are to be offered by each site within the clusters. The installation of iCM has commenced at one location.

However, the proposed approach with regard to future implementations and existing deployments is currently under review following recent discussions with the Department of Finance.

There are also plans to carry out additional work on sites where iPMS is already deployed so they too can operate as clusters. It should be noted that prior to iSOFT being considered a national project, the former Southern Health Board had adopted iSOFT as its product of choice for PAS in a number of sites throughout the region. The list of the sites to be considered within scope for this additional work will, therefore, also include former Southern Health Board sites running iSOFT. In the South, the cluster will be based around Cork University Hospital.

The HSE is currently only implementing the “pre-Lorenzo” version of the software. This is in line with what was approved by the Department of Finance. The HSE’s assessment of the situation with regard to development of Lorenzo is that progress has been slow and therefore the pre-Lorenzo version continues to be the dominant product offering. As such, the pre-Lorenzo version of the software will continue to be fully supported. The contract between the HSE and iSOFT obliges the company to develop and support the product in any case until at least 2015 (and longer, if necessary, given the contract extension rights that the HSE has).

Costs

The capital expenditure on iPM and iCM in the period 2005 – 2010 amounted to €29.1 million. At this point, iPMS is live on 29 sites.

The nature of the contract with the vendor iSOFT is such that the licence fees are capped once the system has been deployed to an agreed number of acute hospital sites. Thereafter, the system can be deployed to all other acute hospitals without incurring additional licence costs. The costs associated with additional sites thereafter will be confined to once off deployment and implementation costs. Any further deployments of the PAS system will be provided, subject to sanction, on an ‘as needed basis’ i.e. as legacy systems reach ‘end of life’ and require replacement.

Annex D Laboratory Information Management System

Laboratory Information Management System (LIMS) is a computer system which automates the clerical activities associated with the processing of the laboratory test results. Its benefits include improved accuracy, shortened turnaround times in test results and improved productivity.

The purpose of this project is to procure and deploy a single product that will meet the needs of hospital based laboratory information systems throughout the country. There is a need to replace aging systems on major hospital sites where such systems have reached end of life and also to install systems on sites that current operate manual, clerical and operationally intensive processes.

The LIMS project is identified in the draft HSE ICT Strategy as one of the key projects that should be progressed on a national basis. It is aligned with the HSE Transformation Programme because it is designed to streamline the patient journey, reduce risk and eliminate waste arising from re-tests.

There has been no ICT capital expenditure on the project to date. Any costs incurred have been associated with meetings of the project team (travel and subsistence) and with some legal advice around procurement and contract issues. Local revenue budgets have covered such expenditure to date.

The LIMS project was progressed to the point where the tendering process was complete and a preferred supplier was identified. Draft contracts were drawn up but never concluded.

The Accounting Officer informed me that, in this instance, the project approval and management processes established since 2006 ensured that this project was stopped before implementation based on due diligence carried out before contracts were entered into by the HSE.

The HSE is now going back to the market. This will also provide an opportunity to update requirements to take into account developments since the original tender exercise was commenced. These will take account of the results of a major review of laboratory services nationally commissioned by the HSE. That review recommended fundamental changes in the organisation of laboratory services including the separation of laboratories providing services to major acute hospitals from those providing services to non-acute hospitals and Primary Care. The HSE Board accepted the recommendations of the review in May 2007. It is therefore appropriate that the LIMS project should now take on board these recommendations as requirements when preparing to go back to the market.

Once procurement is complete, contracts have been put in place and the project has been through peer review, based on previous experience, it is expected to take approximately six months to deploy these systems by area (group of hospitals) and on that basis, that it will take approximately two years to deploy the systems to all sites currently within scope. The assumed scope for this project continues to be all sites that are out of support with their legacy systems.

Chapter 40

Health Service Executive

Management of Patient Income

Management of Patient Income

40.1 The timeliness of collection of maintenance charges due from private patients and the causes of delay in collection were reported on in the 2008 Annual Report. The vast bulk of maintenance charges is collected from patients' private insurers. The 2008 report concluded that there were substantial delays in collecting debts from private insurers due to

- outmoded administration systems and
- delays in sign off of claims by consultants.

Chapter Focus

This chapter reviews collection performance during 2009 to seek to establish whether there had been any improvement in the collection of debts from private insurers.

Information was sought from the Accounting Officer in regard to the action taken or proposed to improve timeliness of collection.

Collection Performance

40.2 The debt outstanding at 31 December 2009 increased marginally but there was a slight drop in the period of credit in both the larger Health Service Executive (HSE) hospitals and the major voluntary hospitals. Figure 191 sets out the debt outstanding at 31 December 2009 and the average number of months income it represents for the larger HSE hospitals, along with the comparative figures at 31 December 2008.

Figure 191 Debt Outstanding for Larger HSE Hospitals at 31 December 2009

Hospital	Due at Year End		Income of the Year		Debtors	
	2009	2008 ^a	2009	2008	2009	2008
	€m	€m	€m	€m	Months	Months
Waterford Regional Hospital	8.5	12.3	14.1	13.2	7.2	11.1
Sligo General Hospital	3.9	5.7	8.9	7.6	5.2	9.0
Cork University Hospital ^b	13.0	9.4	36.5	26.3	4.2	4.3
UCH Galway	13.1	11.9	23.7	21.8	6.6	6.5
Limerick Regional Hospital	11.4	8.9	22.8	18.2	6.0	5.8
Our Lady of Lourdes Hospital	6.7	8.4	13.1	13.9	6.1	7.2
All HSE Hospitals	92.5	89.8	195.2	170.8	5.7	6.3

Source: Analysis provided by the HSE.

Notes:

- a The HSE completed a review of the categorisation of income during 2009 which resulted in adjustments to the debt outstanding from private insurers at the end of 2008.
- b In 2009, Cork University Hospital incorporates the maternity services previously provided by the Erinville and St. Finbarr's Hospitals and the prior year figures are restated. In the 2008 Annual Report, the Erinville and St. Finbarr's Maternity Hospitals were referred to as Unified Maternity.

40.3 Figure 192 sets out the corresponding information for the voluntary hospitals.

Figure 192 Debt Outstanding for Larger Voluntary Hospitals at 31 December 2009

Hospital	Due at Year End		Income of the Year		Debtors	
	2009	2008	2009	2008	2009	2008
	€m	€m	€m	€m	Months	Months
Mater Misericordiae ^a	12.0	8.7	10.6	8.8	13.6	11.8
AMNCH - Tallaght	13.8	15.5	28.3	23.8	5.8	7.8
Beaumont	11.4	10.1	19.6	15.8	6.9	7.7
St. James's ^b	7.3	6.9	26.5	22.2	3.3	3.7
South Infirmary	3.8	3.5	12.9	10.3	3.5	4.1
Holles Street	4.5	3.2	12.5	10.0	4.3	3.8
Mercy Hospital	6.5	4.1	16.0	13.2	4.9	3.7
All Voluntary Hospitals	82.6	70.4	190.6	153.5	5.2	5.5

Source: Analysis provided by the HSE.

Notes:

- a The Accounting Officer informed me that the figures for the Mater Misericordiae Hospital had not been verified.
- b As a result of the introduction of electronic processing of claims, St. James's Hospital completed a review of total debtors outstanding during 2009 which resulted in adjustments to the debt outstanding from private insurers at the end of 2008.

Debt Management Initiatives 2009

40.4 The HSE reports four initiatives, designed to reduce the length of time it must wait for income due from private patients, that have either been taken or are proposed

- establishment of targets for collection at hospital level
- more frequent claim submission to insurers
- movement to electronic processing of claims
- centralisation of billing.

Hospitals Targets

40.5 From the final quarter of 2009 targets have been set for cash collection for each hospital based on the difference between their actual debtor days and a target debtor days of 65 (35 days to submit the claim and 30 days for the insurer to process and pay). The HSE informed Hospital Managers, Executive Boards and Clinical Directors of the importance of this project to the HSE and they were requested to support the initiative. The Hospitals redeployed staff to help support the project and in some instances recalled staff from leave. Clinical Directors and Hospital Managers contacted individual consultants to assist completion of claim forms. Progress is monitored by HSE senior management on a weekly basis. Notwithstanding these efforts, the period of credit has not decreased to any significant degree.

Private Insurers

40.6 From December 2009, the method of dealing with insurers was changed, moving to the daily submission of claims as opposed to monthly submission, heretofore. A pilot scheme was introduced with the VHI and Aviva Healthcare in six selected hospitals, which allows a secondary consultant involved in the case to sign the claim form after a defined period of time. This pilot has since been extended to a further six hospitals and a further change agreed whereby the VHI would accept claims without the primary consultant's own invoice. These initiatives were suspended during the recent industrial relations dispute but were being reactivated in August 2010.

Electronic Submission of Claims

40.7 The Accounting Officer stated that negotiations are ongoing with private insurance providers to implement electronic exchange of data which will significantly speed up the claims and payment process. The HSE is working with the Department of Health and Children (the Department) and the Department of Finance with a view to implementing electronic submission of claims data, in the first instance, in the ten biggest Voluntary and HSE hospitals. The business case for the implementation of electronic processing of claims has been submitted to the Department. St. James Hospital has piloted this project and succeeded in reducing average debtor months from 3.7 months in 2008 to 3.3 months in 2009.

Shared Services National Credit Management Facility

40.8 Approval has been obtained from the Department and the Department of Finance to commence the centralisation of the entire HSE billing system. This is designed to streamline the process and focus attention on collection of all outstanding debts. Tender documents for the project were issued in January 2010 but the initiative had been affected by the recent industrial relations dispute. The HSE has reactivated this process and the expectation is that a contract will be signed in the last quarter of 2010 and that the centralised unit will be ready to commence processing of all HSE bills in the second half of 2011.

Proposals for the Future Management of Patient Income

40.9 The Accounting Officer informed me that the HSE believed that, while all the actions taken so far will in their own ways improve income collection and facilitate acceleration of cash collection, the private income claims and collection process, as it exists, is fundamentally flawed and needs to be radically altered. The HSE had proposed two options to the Department of Health and Children in July 2010 for the future management of patient income. The first option related to agreed cash limits and payments with insurers and the second involved the decoupling of hospital inpatient charges and private fee payments.

Cash Advances

40.10 The first option would entail an annual payment on account equivalent to 95% of the previous year's payments which would be agreed with the private insurers in advance and which would be paid to the HSE by way of an agreed schedule over the current year. Subsequent audit of particular cases could be undertaken by the private insurers at an agreed statistical level and any appropriate cash adjustments made to individual hospital balances as required. This would eliminate the cash collection problem as well as reduce debtor days to a maximum of 60.

40.11 The HSE estimates that the financial benefit would result in a once-off improved cash flow of approximately €16 million to the public hospital system. It also estimated that the reduction in administrative overhead in the HSE and voluntary hospitals would result in a minimum saving of 200 whole time equivalent posts in the public health system.

Decoupling

40.12 The second option involved the decoupling of the billing of hospital inpatient charges from the billing of private fees of the medical consultants. It is the view of the HSE that the inpatient charges are a statutory charge determined by the Minister for Health and Children and are due for payment within 30 days of discharge in accordance with normal business terms and in keeping within the spirit of the Prompt Payments of Accounts legislation. The HSE would be prepared to continue to process private fee bills on behalf of the consultants provided agreement was reached with the private insurers that private inpatient charges are paid within 30 days of discharge.

Conclusion

There has been a marginal reduction in the length of time debts remain outstanding in respect of patient maintenance. The HSE has proposed taking a set of actions to improve the collection of inpatient charges. Any substantial effect of most of these actions will only be realised from 2010 onwards. The HSE should keep the impact of the measures under review on an ongoing basis.

Chapter 41

Health Service Executive

Long-Stay Repayments Scheme

Long-Stay Repayments Scheme

41.1 Under 1976 regulations long-stay patients who did not have full eligibility for free inpatient services were required to contribute a proportion (based on personal circumstances) of their income to pay for their care. However, the former health boards also levied that charge on long-stay patients who either had, or would have been deemed to have had, full eligibility.

41.2 The validity of these charges came into question and in December 2004 a direction was given by the Minister for Health and Children to suspend all charges to long-stay patients (irrespective of eligibility) with immediate effect.

41.3 Following legal advice, the Government introduced legislation²⁸² to provide a legal basis for the levy of a charge on all long-stay patients (irrespective of eligibility) in respect of their maintenance in long-stay institutions. However, in February 2005, the Supreme Court found the retrospective nature of the Bill unconstitutional. The 1976 regulations were repealed and new legislation (enacted on 14 July 2005) legalised charges for long-stay patients from that date.

41.4 The Health (Repayment Scheme) Act, 2006 (the Act) was enacted in June 2006 to provide a legal basis for the repayment of long-stay charges which had been imposed on persons with full eligibility since 1976 i.e. those persons who had a medical card or who were entitled to a medical card.

Ex-Gratia Payments

Prior to the introduction of the statutory repayment scheme, living patients with full eligibility and who had paid charges prior to 9 December 2004 were entitled to an *ex-gratia* payment of up to €2,000 immediately. This was a goodwill gesture put in place by the Minister for Health and Children. A total of 11,322 *ex-gratia* payments issued amounting to €21.9 million.

41.5 The repayments scheme was introduced in August 2006 with a closing date for claims of 31 December 2007.

41.6 An entitlement to repayment arose in the case of

- residents of public long-stay facilities and public contracted beds who were alive on 9 December 2004 and had been charged at any time since August 1976
- estates of eligible persons who were charged and had died after 9 December 1998
- the spouses or children of eligible people, who paid recoverable health charges.

41.7 Repayment entitlements included recoverable health charges and an amount to take account of inflation²⁸³ but reduced by the amount of any *ex-gratia* payment received.

41.8 The Act also provided for a fund to be established by the HSE (the Repayments Scheme (Donations) Fund) into which claimants could make a donation, to fund once-off improvements in public health services for dependent older persons and persons with disabilities. The fund could

²⁸² Health (Amendment) (No.2) Bill, 2004.

²⁸³ Calculated in accordance with the Health (Interest Payable on Recoverable Health Charges) Regulations 2006 (SI 445 of 2006).

not be applied to meet expenses that would, in the ordinary course of the provision of public health services, have otherwise been expenses met by a State allocation.

Scheme Administration

41.9 A consortium comprising a firm of accountants and a firm of solicitors (the Scheme Administrator) was engaged by the HSE to design and manage the scheme with the purpose of ensuring that the repayments were made to the correct people, in the right amount and as speedily as possible. The Scheme Administrator was to

- provide information to claimants in the initial stages
- handle all claims for repayment under the legislation
- verify eligibility through the Department of Social Protection
- calculate claims and notify claimants of the status of claims.

41.10 Claimants completed and swore an application form and submitted it to the Scheme Administrator. The Scheme Administrator then established whether the person had or was entitled to a medical card. The Scheme Administrator reviewed relevant records in the various long-stay facilities determined to be within the remit of the scheme, in order to ascertain the amount of repayments due. Where records were incomplete the Scheme Administrator and the HSE agreed a set of rules to allow estimation of the repayment due, having regard to the available records and/or comparable claims from residents in other long-stay facilities.

41.11 When the Scheme Administrator had calculated the amount of charges to be repaid, deductions were made for any *ex-gratia* payment and any outstanding charges properly payable under the Health (Charges for Inpatient Services) Regulations 2005 and the result adjusted for inflation. This amount was then notified to the claimant in an offer letter. Following acceptance of the offer by the claimant the payments due were notified to the HSE for payment.

Claim Activity

41.12 Eligibility of living patients in long-stay care was established using all available information including institutional records, medical card records and Department of Social Protection data. There were 13,673 applications from living persons.

41.13 In respect of persons who died after 9 December 1998 and where probate had been extracted, the executor or administrator was entitled to make an application.

41.14 In cases where a grant of probate had not issued in respect of the estate, a person could request a certificate of entitlement from the Scheme Administrator. When the Scheme Administrator was satisfied that the requester was entitled to make the claim, a certificate of entitlement was issued enabling that person to submit an application. There were 18,543 such requests resulting in 11,778 applications. In total, 21,693 applications were received in respect of deceased persons.

41.15 The number of applications received under the scheme as at 14 May 2010 was 35,366. Of these 21,301 were accepted as valid and 14,038 were rejected while a decision had yet to be reached on the remaining 27 cases. In addition, there are instances in which certificates of entitlement have been issued but no application has been made. This could yet result in up to 165 follow-on applications.

41.16 The outturn of the processing of applications to 14 May 2010 is set out in Figure 193.

Figure 193 Application Activity from Scheme Commencement to 14 May 2010

	Living Patients	Deceased Patients	Total
Total Applications	13,673	21,693	35,366
Yet to be Processed	(5)	(22)	(27)
Applications Processed	13,668	21,671	35,339
Rejections	(5,850)	(8,188)	(14,038)
Valid Applications^a	7,818	13,483	21,301

Source: HSE

Note:

- a 4,582 offers were made to living patients whose applications were submitted by the HSE on their behalf where the patient did not have the capacity to claim themselves and where there was no legally appointed person who could claim on their behalf.

41.17 The 21,301 valid applications received include instances in which, due to the death of the claimant, an application had to be re-submitted by another person. Because of this overlap, the HSE has estimated that the final number of claims that will result in a repayment will be in the order of 20,000.

41.18 215 valid applications did not result in a payment to the claimant as the gross repayment including inflation adjustment, less charges due (if any) was less than the value of the *ex-gratia* payment already paid to the claimant.

41.19 As the proportion of applications rejected seemed high at 40% I asked the Accounting Officer to summarise the reasons for rejected claims. Figure 194 outlines those reasons.

Figure 194 Reasons for Rejection of Claims

Reason	Number of Claims
Institution outside the scheme	5,136
No recoverable charges paid	2,161
Withdrawn due to death of patient	1,946
Duplicate claim	1,638
Date of death pre 9 December 1998	812
Withdrawn by claimant	387
Date of admission after 10 December 2004	285
Other ^a	1,673
	14,038

Source: HSE

Note:

- a This covers approximately 20 further reasons for claim rejection.

Uptake of Scheme

41.20 Originally the HSE estimated that between 15,000 to 20,000 people who were still alive and a further 40,000 to 50,000 estates would be eligible for the scheme at a total cost of approximately €1 billion. The estimate for the living cohort, which was based on numbers at 9 December 2004, was considered by the HSE to be fairly accurate. The figures for estates were less reliable given the varying quality of institutions' records over a 30-year period.

41.21 A total of 129,156 application forms were issued through Post Offices, HSE centres and on foot of requests to call centres.

41.22 The Accounting Officer informed me that it was not possible to be definitive about the reasons for the low uptake as no specific survey had been undertaken but the following factors seemed to play a part

- patients and their relatives were satisfied with the care received and did not seek a repayment
- taxation and Revenue Commissioners issues may have arisen
- in some cases there were no next of kin
- the level of documentation required may have inhibited claims.

Chapter Focus

The chapter reports the result of a review to ascertain

- the cost of the repayments under the scheme to 31 December 2009 and the projected final cost of repayments
- the cost of administering the scheme to 31 December 2009 and the projected final administration cost
- the status of appeals and legal actions arising from the scheme
- the application by the HSE of donations made to the Donations Fund.

Repayments

41.23 Expenditure to end 2009 came to approximately €446.9 million. Expenditure on the scheme over the years 2006 to 2009 is set out in Figure 195.

Figure 195 Health Repayments Expenditure to 31 December 2009

	2006	2007	2008	2009	Total
	€	€	€	€	€
Payments to Claimants	13,382,473	119,804,063	214,928,756	73,138,689	421,253,981
Administration Costs	2,966,464	4,890,425	12,851,682	4,901,445	25,610,016
Total	16,348,937	124,694,488	227,780,438	78,040,134	446,863,997

Source: Special Account for the purposes of the Health (Repayments Scheme) Act, 2006.

41.24 A further €10 million in payments issued to claimants up to 30 June 2010. Of the total €31 million paid to claimants up to mid-2010, €35 million relates to repayments and €6 million relates to the inflation adjustment.

Charges after 9 December 2004

41.25 While most institutions followed the Minister's direction to suspend charges with effect from December 2004, some institutions did not. The HSE has identified approximately 600 patients who were charged after that date.

41.26 The Scheme Administrator has only processed repayments based on data from the HSE up to December 2004 and accordingly most repayments under the scheme to date have only included charges levied up to December 2004. The Act provides for repayment of amounts charged to relevant persons with full eligibility under the Regulations in force at any time before July 2005.

41.27 HSE policy is to process repayments only in respect of persons who claimed and it is rechecking to ensure that all charges in the period up to July 2005 have been refunded. It has no plans to refund persons or estates where a claim for repayment has not been received.

Cost of Scheme Administration

41.28 The payments made by the HSE to administer the scheme over the period to end 2009 are set out in Figure 196.

Figure 196 Administration Cost to 31 December 2009

Administration Costs^a	2006	2007	2008	2009	Total
	€	€	€	€	€
Scheme Administrator Costs ^b	1,202,901	2,284,119	10,058,972	2,981,748	16,527,740
HSE Pay Costs	312,002	962,846	1,256,912	1,197,371	3,729,131
Advertising	823,909	452,998	70,858	-	1,347,765
Legal and Professional Fees	485,725	749,601	1,189,208	608,646	3,033,180
Office Expenses	141,927	440,861	275,732	113,680	972,200
Totals	2,966,464	4,890,425	12,851,682	4,901,445	25,610,016

Source: Special Account for the purposes of the Health (Repayments Scheme) Act, 2006.

Notes:

a Includes €1.2 million in respect of the independent Appeals Office payroll costs.

b The VAT exclusive element of the €16.5 million figure above is €13.04 million.

41.29 The terms of the contract between the HSE and the Scheme Administrator limit the total cost to €15 million (excluding VAT) regardless of the number of claims processed or the date of completion of the last claim processed.

41.30 The Accounting Officer informed me that the limit of €15 million, under the contract will not be exceeded since the terms of the contract compel the Scheme Administrator to complete the processing of all claims. He also informed me that, as there were only a small number of outstanding claims at 30 June 2010, it was expected that the Scheme Administrator would

complete the processing of these claims and all outstanding work under the contract in 2011²⁸⁴. There is also an obligation on the Scheme Administrator to complete the processing of claims where the Appeals Office overturns the original decision of the Scheme Administrator.

Appeals Process

41.31 The legislation provided for an independent Appeals Office. If a claim is rejected by the Scheme Administrator or if a claimant is not satisfied with the amount offered, an appeal can be lodged within 28 days.

41.32 The appellant has the option of having the appeal determined on the basis of documentary evidence or having an oral hearing before the Appeals Office. Up to the end of December 2009 1,729, or 42% of all appeal cases finalised involved an oral hearing.

41.33 The number and status of appeals taken at 2 July 2010 is set out in Figure 197.

Figure 197 Appeals Office Activity to July 2010

	2007	2008	2009	To July 2010
Carried over from previous year	-	1,679	2,644	1,708
Appeals notified in year	2,131	3,902	754	83
Notified and withdrawn	(43)	(702)	(226)	(126)
Decisions taken	(409)	(2,235)	(1,464)	(515)
Appeals yet to be determined at end of period	1,679	2,644	1,708	1,150

Source: Appeals Office Annual Reports.

41.34 The Appeals Office informed me that a final decision on 514 of 1,150 appeals awaiting determination will remain on hold pending the outcome of proceedings before the High Court at present. The Appeals Office expects to have completed the balance of these cases by April 2011.

41.35 4,623 decisions were taken by the Appeals Office to 2 July 2010. The results of the appeals process was as follows

- In the 1,391 cases where the amount of the award was challenged, the Appeals Office upheld the offer made by the Scheme Administrator in 51% of cases. In 45% of cases the offer made was increased and in the remaining 4% the offer was reduced.
- In the 3,232 cases where the claim was rejected by the Scheme Administrator, the Appeals Office upheld the decision in 87% and overturned the decision in 13% of cases.

41.36 In total therefore, 76% of Appeals Office decisions confirmed the decision of the Scheme Administrator.

41.37 The Appeals Office informed me that the vast majority of decisions where it has agreed with the decision of the Scheme Administrator to reject a claim are based upon the fact that the scope of the scheme does not extend to charges incurred in privately-contracted care or in community-based long-stay care.

²⁸⁴

This timescale may be affected by the outcome of appeals.

41.38 Furthermore, the vast majority of decisions where it has disagreed with the decision of the Scheme Administrator to reject a claim are based either upon an incorrect identification of a patient as not having full eligibility, or upon an incorrect identification of a publicly-contracted bed as a privately-contracted one (and the patient having had recoverable health charges imposed upon him/her while occupying that publicly-contracted bed).

Legal Actions

41.39 There are a number of legal actions that may have implications for the close out and ultimate cost of this scheme.

41.40 The Appeals Office issued decisions in three sample cases. The decisions reversed the Scheme Administrator's rejection of applications in respect of three voluntary organisations that had submitted applications on behalf of their clients. The rejection of the applications by the Scheme Administrator was on grounds that the

- clients were in a private nursing home or community residence and thus outside the scope of the Scheme and
- charges paid by them did not meet the definition of "*recoverable health charges*" as defined by the Act.

41.41 The HSE and the Minister for Health and Children have appealed these decisions of the Appeals Office to the High Court on a point of law²⁸⁵. This has potential implications for a further 511 claims on appeal.

41.42 The Appeals Office has yet to resolve appeals from three other voluntary organisations (approximately 250).

41.43 In addition, there is one judicial review, and three appeals before the High Court. The Accounting Officer of the Department of Health and Children stated that the judicial review before the courts is essentially a challenge to the terms of the Repayment Scheme and raises the issue of the exclusion of certain categories of institution from the scheme. The three appeals to the High Court were taken by those who applied for a repayment under the scheme but had their application declined by the Scheme Administrator and their appeal dismissed by the Appeals Office (the Appeals Office is the Respondent, the HSE and the Department of Health and Children are notice parties). The circumstances of the cases vary, but the issues raised include the exclusion of private nursing homes/community residences from the Repayments Scheme and/or the miscalculation of repayments.

41.44 The Scheme received some applications relating to patients in private nursing homes which were turned down on the basis that they were not contemplated within the scope of the Scheme. Proceedings have been instituted in 306 cases, involving patients who spent time in private nursing home facilities. None of the cases have yet proceeded to a hearing.

²⁸⁵

Under Section 16(6) Repayments Scheme 2006 Act.

Donations Account

41.45 The value of donations received to the end of 2009 related to the Long-Stay Repayments Scheme is €344,343. Some claimants who have expressed an interest in making a donation have indicated that they would make their donation directly to their local institution. Donations made to the Fund and grants paid from the Fund are set out in Figure 198. €335,584 was held in the Fund at 31 December 2009.

Figure 198 Repayments Scheme (Donations) Fund^a

	2007	2008	2009
	€	€	€
Opening balance	-	73,593	279,373
Donations	73,613	210,101	60,629
Bank interest	(20)	679	28
Available proceeds	73,593	284,373	340,030
Grants made	-	(5,000)	(4,446)
Closing balance^b	73,593	279,373	335,584

Source: Health Repayments Scheme (Donations) Fund Account

Note:

a There were no transactions in 2006.

b To end July 2010, a further €98,554 had been transferred from the fund on foot of approved applications received from the relevant locations and applications to the value of €82,000 were being evaluated.

41.46 The Accounting Officer has informed me that the HSE, having considered the provisions of the Act, has decided that the following specific items can be met from the fund

- patient holidays/breaks
- provision of therapy facilities
- personal comforts
- provision of Music in Care, Arts and Crafts
- assisted visitation.

Conclusion

The final outturn for the scheme is likely to be somewhat less than half the original projection. This is due to the low uptake of the scheme. Only half the estimated number of people entitled to claim did so and only one in four application forms that issued resulted in claim submission.

Administration costs, including HSE expenses amounted to €25.6 million to end 2009. The scheme was managed by an administrator whose costs are capped at €15 million (excluding VAT).

Donations to the Repayments Scheme (Donations) Fund amounted to €344,343 by December 2009. Substantive spending out of the Fund only commenced in 2010.

There are a number of legal matters before the Courts that may take some time to resolve. This could impact on the final cost and timely close out of the scheme.

Following the enactment of the Health (Amendment) Act 2005, charges now apply to long-stay inpatient services. In 2009, the HSE levied charges of €87.8 million in respect of those services.

Chapter 42

Health Service Executive

National Cancer Screening Service

National Cancer Screening Service

42.1 A Strategy for Cancer Control was published by the Department of Health and Children (the Department) in 2006. The aim of the Strategy is to have a system of cancer control that will reduce cancer incidence, morbidity and mortality rates relative to other EU15²⁸⁶ countries by 2015. The Strategy focuses on

- an integrated and cohesive approach to cancer that involves prevention, screening, diagnosis, treatment, and supportive and palliative care
- measurement of need and addressing inequalities by ensuring that all elements of cancer policy and service are delivered to the maximum possible extent
- reform and reorganisation of the way cancer services are delivered to address the variation in survival between regions and the fragmentation of services for patients.

42.2 The Strategy made 55 recommendations over a number of areas. It made the following recommendations in relation to cancer screening

- breast screening should be extended to include all women aged between 50 and 69
- a cervical screening programme should be introduced nationally
- a colorectal cancer screening programme should be introduced in Ireland and aligned with breast and cervical cancer screening.

42.3 The Strategy also recommended that the Department, the Health Service Executive (HSE) and BreastCheck²⁸⁷ should align the management and governance of population-based screening programmes and that any future development in relation to colorectal cancer screening should be aligned with breast and cervical cancer screening.

Chapter Focus

This chapter focuses on

- the extent to which the recommendations made by the Cancer Control Strategy in relation to cancer screening have been delivered
- financial control procedures of the National Cancer Screening Service Board^a.

Note:

- a The National Cancer Screening Service Board was responsible for developing and providing cancer screening programmes until it was subsumed into the HSE on 1 April 2010.

²⁸⁶ The EU15 comprises Austria, Belgium, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, Netherlands, Portugal, Spain, Sweden and the United Kingdom.

²⁸⁷ The national breast screening programme which is funded by the Government and offers women aged between 50 and 64 years a free mammogram every two years.

National Cancer Screening Service

42.4 The National Cancer Screening Service (the NCSS) was established on 1 January 2007 with the creation of the National Cancer Screening Service Board²⁸⁸. The establishment of the NCSS brought together the services of the former Irish Cervical Screening Programme²⁸⁹ and the BreastCheck programme under one framework of governance. The NCSS is responsible for

- developing and providing quality cancer screening programmes in Ireland
- advising on the benefits of carrying out other cancer screening programmes where a population health benefit can be demonstrated
- advising the Minister for Health and Children on health technologies, including vaccines, relating to the prevention of cervical cancer
- implementing special measures to promote participation in its programmes by disadvantaged people.

BreastCheck

BreastCheck was established in 1998²⁹⁰ with the aim of reducing deaths from breast cancer by finding and treating the disease at an early stage. The service offers free mammograms to women aged between 50-64 on a two yearly cycle, on an area-by-area basis. It maintains a register of all eligible women which has been compiled from a number of sources, mainly the Department of Social Protection, the General Medical Services Scheme and private insurance companies. The arrangements for service provision are set out in Annex A.

Availability of Services

42.5 From 1998 until 2005, BreastCheck Phase 1 was only available to women in the North East, East, Midlands and parts of the South East with two static clinical units and eight associated mobile screening units serving these areas. One unit is located on the campus of the Mater Misericordiae University Hospital (Eccles Unit) and the other unit is located on the campus of St. Vincent's University Hospital (Merrion Unit). There are also eight mobile screening units serving these areas.

42.6 In May 2005, the Department approved the national expansion (Phase 2) of the service and allocated €24.6 million towards the construction of two new static units – one located adjacent to the South Infirmary Victoria University Hospital in Cork (Southern Unit) and the second on the campus of University College Hospital, Galway (Western Unit). The associated works also included a remote laboratory and refurbishment of a theatre. Construction of both units was completed in November 2007 and screening commenced in both units in December 2007. This was in line with the target set for the national implementation of the programme by 2007. There are also eight mobile units associated with the static units serving the Western and Southern areas.

²⁸⁸ National Cancer Screening Service Board (Establishment) Order, 2006 (S.I. No. 632 of 2006).

²⁸⁹ This service was provided by the Mid-Western Health Board from 2000 to 2005 and then by the HSE from 2005 to 2007.

²⁹⁰ The first phase of BreastCheck was established under the National Breast Screening Board (Establishment) Order, 1998 (S.I. 319 of 1998). It was established on a pilot basis serving the former Eastern Health Board, Midland Health Board and North Eastern Health Board regions.

Output and Performance

42.7 The NCSS has developed a number of performance targets for the BreastCheck programme which it reports on annually. The performance parameters measured include

- rate of acceptance of invitation to screening
- minimum notice of appointment received (7 days)
- timeliness of results issued
- timeliness of follow-up action.

42.8 The target acceptance rate for invitation to screening is 70% and the target for the remaining performance parameters is 90% or greater.

42.9 Figure 199 outlines the target population and the numbers of women that were screened between 2007 and 2009.

Figure 199 Screening carried out, 2007-2009^a

	2007/2008	2008/2009
Known target population ^b	89,383	122,737
Number screened	66,527	92,061
Known target population screening rate	74.4%	75.0%
Number of women invited for screening	87,156	118,971
Number screened	66,527	92,061
Acceptance rate	76.3%	77.4%

Source: BreastCheck Programme Reports 2007/2008 and 2008/2009.

Notes :

a The increase from 2007/2008 to 2008/2009 is due to the national expansion of the BreastCheck programme.

b 'Known target population' refers to all women of screening age that are known to the programme.

42.10 The acceptance rates in 2007/2008 and 2008/2009 exceeded the programme target of 70%.

42.11 A number of performance parameters have been set for the programme. These focus on timeliness of care and the results are set out in Figure 200.

Figure 200 Performance Parameters Achieved in 2008

Performance Parameter	Target	Outturn
Percentage of women who received 7 days notice of appointment	≥90%	98.6%
Percentage of women who were sent results of mammogram within 3 weeks	≥90%	98.6%
Percentage of women offered an appointment for assessment clinic within 2 weeks of notification of abnormal mammographic result	≥90%	90.8%
Percentage of women given results from assessment clinic within 1 week	≥90%	95.6%
Percentage of women eligible for screening invited for screening within 2 years of becoming known to the programme	≥90%	94.7%

Source: BreastCheck Programme Reports 2007/2008 and 2008/2009.

42.12 There were two areas where BreastCheck did not achieve target performance

- 81.7% of women were offered hospital admission for treatment within three weeks of diagnosis of breast cancer. The target was 90%. However, over 90% of women were offered a bed within three weeks and five days. This was mainly due to the pressures that host hospitals were experiencing.
- In regard to women who are re-invited for screening, BreastCheck achieved 86.5% against a target of 90% for screening within 27 months of their invitation at previous round of screening. However, 93% of women were re-invited within 28 months of receiving an invitation for the previous round of screening.

CervicalCheck

The purpose of cervical screening is to identify and to treat pre-cancerous cell changes before they have a chance to develop into cancer. Free tests are provided in primary care settings to women aged 25-60 years.

42.13 In 1996, the Report of the Department of Health Cervical Screening Committee recommended the introduction of a National Cervical Screening Programme. Phase 1 of the Irish Cervical Screening Programme (ICSP) began in the Mid-West region in 2000. It was established as a pilot programme in advance of the introduction of a national cervical screening programme. The programme originally operated under the aegis of the Mid-Western Health Board but moved to the HSE from 2005.

42.14 A review²⁹¹ of the operation of the first phase of the programme was conducted in 2004 with the aim of identifying improvements needed before the programme was established on a national basis. The report stated that Phase 1 of the programme had worked well and that a national cervical screening programme should be introduced.

42.15 Governance of the ICSP transferred to the NCSS on its establishment in 2007. In September 2008, CervicalCheck – Ireland's first population-based national cervical screening programme – was established by the NCSS. Initially, screening was offered on an open access basis, however, from September 2009, CervicalCheck moved to an organised call, recall and opt-in system of screening. The arrangements for service provision are set out in Annex B.

Output and Performance

42.16 The target uptake level of the programme is 80%. In 2009, just over 306,000 women opted into the programme and attended for repeat tests at varying intervals. The programme moved to a call/recall system on 1 September 2009. Approximately 280,000 women were screened in 2009.

²⁹¹

Report on the Irish Cervical Screening Programme, Dr. Euphemia McGoogan, July 2004.

Conclusion – Programme Development

The Cancer Control Strategy recommended that the governance and management of screening programmes in Ireland be aligned. The National Cancer Screening Service was established in January 2007 in response to this recommendation. Its establishment brought the development and provision of cancer screening under one framework of governance.

BreastCheck was implemented nationally by December 2007 in line with the target set, however, the first round of screening was not completed in all areas within the 24 months originally envisaged. The programme has achieved the performance targets set in a number of areas, including the rate of invitation to screening. However, performance has not been achieved with regard to the percentage of women offered hospital admission for treatment within three weeks of diagnosis and the number of women who are re-invited for screening within 27 months.

Phase 1 of the Irish Cervical Screening Programme began in the Mid-Western region in 2000. CervicalCheck, the first national cervical screening programme in Ireland was introduced in September 2008. The target uptake of the programme is 80%, however, as the programme moved to an organised call, re-call and opt-in system of screening from September 2009 uptake levels cannot be confirmed until data for another few years are available.

In January 2010, the Minister for Health and Children approved the introduction of a colorectal cancer screening programme. The programme will commence in 2012 offering screening to approximately 400,000 people aged between 60-69 years of age.

Funding and Accounting Procedures

42.17 In April 2010, the National Cancer Screening Board (NCSSB) was dissolved and its functions transferred to the HSE. It had previously been funded by the Department of Health and Children. In 2007, it received approximately €52 million from the Department, of which almost €20 million was capital funding. The Department provided this funding on the basis of specific items of capital expenditure. The drawdown of capital funding from the Department is permitted only on the basis of matured liabilities. The capital grant claim form states that “*only claims in respect of matured liabilities should be submitted.*” Unless contract conditions stipulate otherwise, this is normally when the goods or services have been delivered and invoiced. Similarly, expenditure should only be charged to the accounts when the goods or services have been delivered.

42.18 In December 2007, the NCSSB requested and received 15 invoices²⁹² from five suppliers totalling €5.9 million. The invoices related to equipment and supplies which were required for its screening programmes but which had not yet been delivered. 14 of the invoices related to the purchase of capital equipment for the national expansion of the BreastCheck programme and one of the invoices, totalling €2.7 million, related to the purchase of test kits for the CervicalCheck programme which is funded from current expenditure. On receipt of the 15 invoices, the invoice values were posted to the NCSSB’s books of account thereby charging the amounts to the relevant expenditure headings and creating a corresponding financial liability to the suppliers. In December 2007, two claims for capital funding totalling €4.5 million were submitted to the Department. 12 of the invoices received, totaling €3 million, formed part of the claims submitted

²⁹²

These invoices were received between 10 and 20 December 2007.

to the Department. This amount requested was received by the NCSSB from the Department on 20 December 2007.

42.19 The NCSSB entered into an arrangement whereby 75% of the value of the 15 invoices (€4.4 million) was paid into an escrow account²⁹³ which was opened in the name of its solicitors. Since the escrow account was in the name of the solicitors it was not recorded as an asset in the financial statements of the NCSSB. There was no evidence that Board approval was sought prior to opening the escrow account nor was there evidence that approval was sought from the Department of Health and Children.

42.20 The transfer to the escrow account in December 2007 was by way of five cheques, totalling €4.4 million, in amounts equal to 75% of the amount invoiced by each of the five suppliers. When the payments were made to the escrow account, the supplier accounts were debited with the relevant amounts leaving the remaining 25% of the value of the invoices as a creditor in the NCSSB's accounts for 2007.

42.21 Between February and May 2008, five payments totalling €1.3 million were made from the escrow account to four of the suppliers. These transactions were carried out by the NCSSB's solicitors on written instruction from the NCSSB which were signed by two of three individuals – the CEO, the Head of Corporate Services and the Acting Finance Manager.

42.22 The escrow account was closed at the end of June 2008 and the balance of €3.2 million was transferred to the bank account of the NCSSB. The €3.2 million which was transferred was made up of the unpaid balance at that date (€3.1 million) and €1,000 in interest earned. When the amount was returned to the NCSSB the related creditor amounts were reinstated.

42.23 In the course of the financial audit of the 2008 accounts the NCSSB confirmed that it had subsequently received all the goods relating to these five payments.

Impact on the Accounts of the NCSSB

42.24 The payments into the escrow account were presented as discharging liabilities that had matured for payment. The existence of the escrow account was not disclosed in the course of the 2007 audit and the accounting records treated the transactions as finally completed purchases. As a result, the charge to the 2007 accounts was overstated. The accounts for 2008 have restated the prior year figures to correct the overcharge. In my audit report on the financial statements of the NCSSB for the year ended 31 December 2008 I included the following reservation.

²⁹³

A legal arrangement in which an asset is held in trust by a third party until a specific requirement is met.

Reservation in Audit Certificate of the 2008 Accounts

It was noted in the course of audit that invoices in relation to undelivered goods to a value of €5.9 million were recorded as charges or assets in the financial statements for the year ended 31 December 2007 although they had not matured for payment. Payments into an escrow account of €4.4 million were treated as discharging part of the unmatured liabilities.

I draw attention to Note 17 to the financial statements which discloses how the 2007 comparative figures were restated in the light of the foregoing. I intend to report on this matter in my 2009 Annual Report on the Accounts of the Public Services.

Observations of the NCSSB

42.25 In December 2007, the bulk of the capital projects which related to BreastCheck's national expansion were being brought to conclusion. One such national project included the conversion to digital mammography in the Eastern area and the replacement of all existing mobile units and the purchase of new mobiles with digital mammography equipment for the Southern and Western areas. As at December 2007, it was the preference of the NCSS to defer the delivery of a number of the new mobile units and associated equipment until 2008.

42.26 The main reasons for deferring delivery of the goods arose out of the following

- Operational conditions, in particular, the total number of available radiographers meant that it would not be possible to commission and operate all of the new mobile units at that time. For this reason, it was considered appropriate to defer delivery in order to avoid triggering the commencement of the warranty period and in order to avoid the storage and potential reputational issues that would arise if a number of BreastCheck units were to be delivered but not deployed.
- At the end of 2007, NCSS became aware of a mobile unit manufacturer in the UK that had gone into receivership. As a result of this, the NCSS sought advice from its solicitors as to the best way of protecting the NCSS from any risk of financial loss from any of the suppliers of equipment.

42.27 On establishment in January 2007, the NCSSB inherited a commercial arrangement from the HSE whereby a year's worth of test kits were pre-purchased at the end of 2005 and 2006 to be delivered incrementally to smertakers throughout the following year. In order to continue optimum activity within the CervicalCheck programme, the NCSSB decided to continue this arrangement in 2007 but to defer payment to the supplier and instead to release funds on delivery of the kits to the doctors and practice nurses carrying out the tests.

42.28 The NCSSB believed that it was necessary for the full capital grant allocated to be drawn down before the end of the year and that any funding not drawn down would be lost and consequently the funds would not be available to pay for committed expenditure. Accordingly, arrangements were made with the equipment suppliers to have relevant invoices issued and the grant funds were drawn down from the Department. Having arranged the drawdown of funds, the NCSSB wished to find a mechanism for transmitting funds to the suppliers while also protecting the NCSSB from any risk of financial loss in respect of any equipment/goods not in its physical possession.

42.29 NCSSB sought the advice of its solicitors on the matter and the firm recommended that an escrow arrangement was a normal commercial solution for this requirement. This was accepted by the NCSSB and the funds were paid over to the solicitors who administered the escrow arrangements on behalf of the NCSSB until June 2008 when, as a result of changes in the Law Society of Ireland's approach to escrow arrangements, the solicitors returned the remaining funds to the NCSSB together with accrued interest.

Views of the Accounting Officer of the Department

42.30 The Accounting Officer stated that the Department was not informed by the NCSSB about the establishment or existence of the escrow account nor was it aware that the claims for capital funding submitted to it in December 2007 did not, in part, relate to matured liabilities. The first time the Department became aware of the existence of an escrow account was in December 2009. The Department's Cancer Policy Unit queried the nature of this transaction at its monthly meeting with the NCSSB on 14 January 2010.

42.31 The Accounting Officer noted that *Public Financial Procedures* deals with escrow arrangements and makes it clear, *inter alia*, that in the case of Government departments any agreement to use these forms of payment requires the prior sanction of the Department of Finance. It had confirmed with the Department of Finance that this provision applies to State agencies in receipt of grants from Voted funds.

42.32 In addition, he noted that the *Framework for Corporate and Financial Governance* issued by the Department in 2006 applies to all agencies funded by the Department. The Framework highlights the importance of a Board's role in meeting its accountability to the Secretary General of the Department as Accounting Officer and the need for the Chief Executive Officer to put in place procedures to allow the Board to meet its accountability in this regard. The introduction to the Framework specifically refers to the need for agencies to comply with Government approved guidelines including *Public Financial Procedures*.

42.33 The Accounting Officer stated that while the Department wished to see the major cancer projects that were being managed by the NCSSB completed in an expeditious manner for both service and financial planning reasons, at no stage would the Department have advised the NCSSB that the full capital provision should be drawn down regardless of actual matured liabilities or that funding would not be available in 2008 to pay for committed expenditure.

42.34 The Accounting Officer pointed out that the Department would have been aware of the facility under Section 91 of the Finance Act, 2004 whereby Government departments may apply to carry over up to 10% of any net under spend on their capital Vote to the following year. If approved by the Minister for Finance, provision for such carry over is made in the Appropriation Act for that year. In actuality, under this provision €2 million had been carried over into 2007 and, of the €10.6 million surrendered to the Exchequer at the end of 2007, the Department received approval to carry over €4.1 million into 2008. In addition, if precise information in relation to delayed projects is available in sufficient time it can inform the finalisation of the Estimates for the subsequent year. The Accounting Officer stated that it was in the above context that the Department would have sought to maintain pressure on the NCSSB to deliver major projects on time and where this was not possible to accurately inform the Department of the cash flow implications and the requirements in 2008.

42.35 The Accounting Officer stated that the Department found it necessary during 2008 and 2009 to raise and pursue with the NCSSB a number of serious issues in relation to its financial procedures. The issues raised included inappropriate use of revenue funding for capital purposes,

the draw down of revenue funding in excess of expenditure and inappropriate holding of cash balances, failure to seek the Minister's sanction for a property lease as required under the NCSSB Establishment Order and the provision of inaccurate reporting to the Department in relation to financial matters. In response to the Department's concerns, the Chair of the NCSSB informed him that a comprehensive review had been initiated by the Board to ensure compliance with the recently published *Code of Practice for the Governance of State Bodies* and the terms of the NCSSB Establishment Order and *Public Financial Procedures*.

42.36 The Accounting Officer stated that he appreciated that the matters giving rise to the issues addressed in this chapter have their origins at the end of 2007, however, in addition to expressing his dissatisfaction with the breaches of financial procedure identified in the chapter, particularly the putting in place of an unauthorised escrow arrangement, it is necessary for him to record his unhappiness that the NCSSB did not itself bring these matters to the attention of the Department during 2008 or 2009. For example, the previous existence of the escrow account was not disclosed in the NCSSB response of 17 June 2009 to the Department's query on the number of bank accounts set up by it since its establishment in 2007. While technically the account was, it seems, held by the solicitor it was of undoubted relevance to the Department's request.

Conclusion – Funding and Accounting

The NCSSB obtained invoices for goods which had not been delivered and for which payment was not due.

The charging of these invoices to the 2007 accounts overstated the relevant expenditure and was in breach of normal accounting procedures. The use of the invoices to support claims for drawdown of capital funds was in breach of Department of Health and Children funding arrangements which stipulate that only claims in respect of matured liabilities should be submitted.

The resultant liability created in the NCSSB books of account was discharged by payment into an escrow account. These arrangements were not disclosed during the course of the audit. The NCSSB breached internal procedures by not obtaining Board approval in advance of opening the escrow account. The Department of Health and Children were also not aware that the account existed.

Conclusion

The NCSS has been subsumed into the HSE in 2010. Progress in extending cancer screening in recent years is as follows

- BreastCheck – the national breast screening programme was extended nationally in December 2007 and, in 2009, approximately 280,000 women were screened.
- CervicalCheck – the national cervical screening programme was introduced in September 2008 and as of December 2009 there were approximately 1.4 million women on the cervical screening register.
- Ireland's first colorectal cancer screening programme will commence screening in 2012 with screening initially being offered to approximately 400,000 people aged between 60-69 years of age.

The accounting and funding arrangements operated during 2007 were not in accordance with procedures. While all funds were ultimately applied for the purpose intended it is important that true and fair accounts be rendered in respect of all activities and that overall State cash resources be released only in line with the maturity of liabilities.

Annex A BreastCheck Service Provision

Phase 1 of the programme is well established and is currently in the fifth round of screening. Phase 2, which began in December 2007, is in its first round of screening. BreastCheck now has a total of four static clinical units and 16 mobile digital screening units carrying out screening throughout Ireland.

The first round of screening in the Southern and Western regions was estimated to take approximately 24 - 27 months to complete, however, this target was not achieved in all counties in Phase 2 and it is now estimated that screening will not be completed until December 2010 in the Southern area and June 2011 in the Western area. The delay in completing first round screening was partially due to the unavailability of suitably qualified mammography staff at the start of Phase 2. The NCSS has stated that the fact that the first round of screening has not been completed in all counties has not compromised the commencement of second round screening in some counties in both the Southern and Western areas.

The static unit is the main clinical facility in each of the BreastCheck regions and each static unit is located on the campus of or adjacent to a host hospital. Each static unit is responsible for organising the schedules for the screening to be carried out in its area and all readings are completed in the static unit by consultant radiologists. In addition to screening mammography, each static unit holds the assessment clinics and results clinics for all women who are re-called for further assessment following their initial screening mammogram. The static unit also issues results letters to women and their GP and is also the base for all administrative staff for the location.

Each static unit has three digital mammography screening rooms and has approximately three times the screening capacity of a mobile unit when fully staffed. The capacity of the static unit to carry out screening is also dependent on the number of assessment and results clinics carried out in the unit as screening does not take place when clinics are being held.

The sole purpose of the 16 mobile digital screening units is to provide mammography screening to women in areas close to where they live thereby reducing the need for women to travel long distances. Each mobile unit operates with a single mammography machine and two radiographers and is capable of carrying out approximately 40 mammograms per day. Invitation rates are set higher than this to ensure the maximum use of resources.

Annex B CervicalCheck Service Provision

CervicalCheck maintains a Cervical Screening Register which has the details of eligible women aged between 25 and 60. The information on the register is collated from the Department of Social Protection and self-registration details. The Register can identify women in age cohorts based on their date of birth which allows the programme to target lower uptake age groups if required. All women who have not had a test in the last three years can also opt into the programme by registering online, completing a registration form and returning it by freepost or by calling CervicalCheck on their freephone number. As of December 2009, there were approximately 1.4 million women on the Cervical Screening Register.

All women between the ages of 25 and 60 will be offered cervical screening. Under the programme, after the first test, women aged 25 to 44 are recommended to have a test every three years and women aged 45 to 60 are recommended to have a test every five years once they have had two 'no abnormality detected' test results.

As CervicalCheck is organised as a call, re-call, population-based screening programme, a letter of invitation is issued to a woman in order for her to avail of a free test²⁹⁴. Once the letter is received the individual can arrange an appointment to have a free test with a CervicalCheck registered doctor or practice nurse of their choice. There are over 4,150 such professional staff registered with CervicalCheck in over 1,400 locations nationwide.

Women must give explicit signed consent to allow their health information to be transferred to a programme register that is held in a central cervical screening database in the programme office in Limerick. Once a woman has attended for a test she will automatically be recalled when her next test is due.

²⁹⁴

Certain women are eligible for a free smear without receiving a letter from CervicalCheck, these include women aged over 60 that have never had a smear and women of any age that have had a colposcopy examination.

Chapter 43

Health Service Executive

Nursing Resources

Nursing Resources

43.1 Nursing resources have traditionally been provided by staff directly employed, agency staff or by nurses on overtime. In 2009, €44 million was spent by the HSE on agency nursing. Other State funded hospitals also use agency nurses. More recently, some innovative resourcing solutions have been tried in some hospitals.

Chapter Focus

This chapter reviews

- the response to internal audit findings on the management of agency staffing
- the extent to which alternative resourcing options are available.

Management of Agency Costs

43.2 HSE Internal Audit reviewed agency costs in the South region in November 2009 and identified a number of issues including

- the fact that the cost of utilising agency staff can exceed the cost of employing HSE staff by as much as 36.5%
- the absence of national or local contracts between recruitment agencies and the HSE which would set terms, conditions and costs of agency staff and that this has led to inconsistencies in relation to administration fees. In particular, it was found that these fees ranged between 9% to 15% depending on the agency used
- certain nurses supplied by agencies were in fact nurses on career breaks from the HSE which contravened the terms of the Career Break Scheme.

43.3 A number of managers interviewed by the audit team indicated that the moratorium on the recruitment of staff in the HSE which prohibits the employment of temporary staff within the HSE (other than specified staff grades) meant that they have no option but to utilise agency staff to maintain frontline services, irrespective of the additional costs.

43.4 In response to an audit query the HSE stated that

- the HSE South has implemented a policy of utilising overtime and redeployment prior to engaging agency staff.
- the HSE has contacted all known nurse agency providers and agreed a national maximum agency rate to be paid against specified service requirements. The new service requirements flags if the agency staff member has been a HSE employee in the last five years. These arrangements are applicable nationwide.
- the HSE has the development of a career break database under examination. One of the potential benefits of the database would be the provision of clarity to those hiring agency staff as to whether or not individuals were on a career break from the HSE.

Alternative Resourcing Options

43.5 My review examined an alternative resourcing approach utilised in St. James's Hospital and at Beaumont Hospital. The arrangement involves creating a bank of nurses to meet needs on a drawdown basis. Nurse Bank units have also been developed in at least three other hospitals – St. Vincent's University Hospital, Mater Misericordiae University Hospital, and the Adelaide and Meath Hospital.

Features of Nurse Bank

Nurses register with a Nurse Bank unit to provide nursing services, either on a specific bank contract or if already a staff member by providing additional hours. The employment methods used within the Nurse Bank structure are

- **Bank Contracts** – This involves qualified nurses being employed on “if and when required” basis contracts. The nurses are paid hourly pay rates. Pro rata terms and conditions are applied based on hours worked. Hours are notified to each nurse at the commencement of each period of employment with contracts varying in duration
- **Additional Hours** – Some part time nurses in the hospital may wish to work additional hours. These nurses inform the Nurse Bank unit that they will be available to work additional hours. They are paid normal pay rates for the additional hours until they reach the core hour threshold. Overtime rates will apply after this threshold
- **Overtime** – Some full time nurses in the hospital may wish to work additional hours as overtime. These nurses inform the Nurse Bank unit that they would be available to work over their core hours and overtime rates are paid. Additional hours worked are subject to compliance with the European Working Time Directive.

43.6 Both St. James's Hospital and Beaumont Hospital supplied estimates of the savings projected from the use of their Nurse Bank schemes.

St. James's Hospital

43.7 An exercise carried out by the Finance Section in St. James's Hospital compared the cost of a nurse employed on a Nurse Bank contract with an agency nurse for the three most common rostering schedules²⁹⁵. A saving in the region of 14% to 16%²⁹⁶ was estimated to have been made in the period reviewed. A second exercise was carried comparing the cost of a nurse on overtime with the cost of an agency nurse and savings in the region of 6% to 8%²⁹⁶ were estimated.

²⁹⁵ Two different rosters one for day duty and another for a full week of nights were used.

²⁹⁶ Costs from two different agencies were used.

Beaumont Hospital

43.8 A costing exercise for its Nurse Bank was also done by Beaumont Hospital and a saving of 17% was estimated when comparing a one-month roster²⁹⁷ of bank nurses to the corresponding shifts if covered by agency staff. In May 2010, 62 whole time equivalent (WTE) nursing posts provided their services under the Nurse Bank system. It also operates a similar system for healthcare assistants. In May 2010, 30 WTE healthcare assistants posts provided a service under that system.

43.9 Some of the other benefits identified by nursing management at St. James's and Beaumont Hospital were that

- bank nurses are more familiar with hospital policies and procedures than agency nurses
- better planning and greater operational efficiency is achievable as nurses can be contacted directly and at short notice
- mandatory training such as formal induction and infection control is given to all staff registered on Nurse Bank which facilitates greater safety standards
- the skill mix of nurses available in the Nurse Bank is taken into consideration when filling a vacant position.

Conclusion

With the advent of employment control frameworks and constrained budgets it is necessary for management to seek maximum capacity within existing resources.

The matters noted on audit suggest the need for the HSE to continue to ensure that the learning from the internal audit review of HSE-South is spread throughout the organisation. In addition, it may be possible to utilise the Nurse Bank concept, pioneered in the Dublin Academic Teaching Hospitals and being operated on a pilot basis, more widely.

The HSE has stated that it has no national plans at present, but matters such as this are kept under review. The CEO of St. James's Hospital informed me that the hospital has already implemented a healthcare assistant bank and is considering implementation of a similar system for clerical staff.

While there are limits to health employers capacity to deploy these resources especially where specialisation is required such a system holds out the prospect of maintaining capability at reasonable cost. It may be also possible for a similar system to be developed for health care assistants in hospitals and for nursing staff at primary care level.

²⁹⁷

Two different rosters for day duty and two different rosters for nights were used over the month period.

Chapter 44

**Health Service Executive
Consultants Private Practice**

Consultants Private Practice

44.1 Under Consultant Contract 2008 the private practice limit for new consultants is 20%. The Contract also makes provision for limits up to 30% for consultants who had existing contracts of employment that permitted levels of private practice in excess of 20%. Four contract types now exist under Consultant Contract 2008 with different levels of permitted private practice. Figure 201 describes the levels of permitted private practice under each contract type and the number of consultants on each at the end of December 2009.

Figure 201 Types of Consultant Contract under the New Contractual Arrangements

Type	Number of Consultants at 31 December 2009
A Consultants who work exclusively for the public hospital and are solely remunerated by way of salary.	682
B Consultants who may engage in private practice including	
• new entrants who may engage in limited private practice on-site in a ratio of 80% public to 20% private.	320
• existing consultants who may engage in private practice in a ratio of 70% public to 30% private practice and retain off-site outpatient private practice.	685
B* Existing consultants who may engage in private practice in a ratio of 70% public to 30% private practice and retain off-site inpatient and outpatient private practice.	338
C New consultants entitled to engage in off-site inpatient and outpatient private practice.	-
Total	2,025

Source: HSE

Note:

a In addition to the above, there were also 335 consultants on previous contracts of employment.

Chapter Focus

The focus of the audit reported in this chapter was to update previous reporting and ascertain the extent to which the HSE had put arrangements in place to enable it to implement provisions of Consultant Contract 2008 that provide for excess income from private practice to be remitted to a special fund.

Compliance Monitoring Arrangements

44.2 Consultant Contract 2008 requires that each consultant reports to a Clinical Director whose responsibility includes monitoring and managing consultants' public/private practice. To date 49 Clinical Directors²⁹⁸ have been appointed across the hospital system from among those consultants who accepted the new contract. While Clinical Directors are contractually obliged to report to the Hospital Manager/CEO on matters regarding monitoring and managing consultants' public and private activity, at the current time there are no mechanisms in place to record the extent to which this is performed.

44.3 Consultant Contract 2008 provides for measurement and monitoring of the volume of consultants' public and private workloads. Consultants are regarded as in breach of their contract terms if they exceed the specified levels of private practice in any of their clinical activities which include inpatients, day cases, outpatients and diagnostics. In accordance with Consultant Contract 2008 the volume of practice is measured on the basis of patient throughput with an adjustment for case complexity based on casemix weightings. It does not include consultants' non-clinical activities²⁹⁹.

Basis of Monitoring

Casemix is an internationally accepted system that measures consultants' activity, public and private, taking place on the public hospital campus. It provides a weighting for consultants' clinical activities whereby the volume of consultants' practice workload is adjusted for the complexity of the treatment involved and is based on patient throughput established from patient discharge records. Treatments are classified into a number of discrete manageable groups called Diagnostic Related Groups (DRGs). These are groupings of consultant treatment services based on each patient's clinical condition and resource consumption.

Data is gathered on each episode of patient care through a Hospital Inpatient Enquiry (HIPE) system. Consultants (or a member of the Consultant's team), enter information onto a standard form which is processed using DRG coding and data entered into the HIPE database by local Casemix Units. The system then allocates each episode to one DRG and also attributes that episode to the consultant that delivered the service on a weighted basis. The HIPE system allows the data to be produced in the form of a hospital report or an individual consultant report. Casemix is the basis for the monthly reports for inpatient and day cases. They are provided to each consultant and to Clinical Directors or Hospital Managers, as appropriate, for compliance monitoring purposes.

²⁹⁸ 35 Clinical Directors were appointed to acute hospitals and 14 to mental health services.

²⁹⁹ Consultant's non-clinical activities include teaching, patient chart updating/review, meeting relatives of patients, arranging and reviewing tests, medical audit, managerial duties, interview boards, meetings and participation on committees.

Measurement of Practice

44.4 The HSE National Hospitals Office (NHO) issued a number of guidance documents to hospital managers during 2008 and 2009 relating to the measurement and organisation of consultant public and private practice.

44.5 The guidance relates to the implementation of revised arrangements for processing and treatment of public and private patients to reflect changes to the interpretation of eligibility legislation. The new arrangements were introduced to ensure that persons attending public hospitals would have access to services on an equitable basis, irrespective of their status as public or private patients. The guidance also described the data sources and systems to be used to record consultant inpatient, daycase, outpatient and diagnostic activities.

44.6 New measurement systems have been developed by the HSE, in conjunction with the Economic and Social Research Institute (ESRI), to monitor consultants' private practice levels individually in the manner envisaged in the Consultant Contract 2008 (i.e. volume of clinical inpatient and day case activity adjusted for casemix). These measurement systems have been installed across the 49 acute hospitals. However, at this point adequate systems for monitoring outpatient and diagnostic activity have yet to be developed.

44.7 Consultant clinical activity, both public and private, is reported insofar as it takes place on a hospital campus. Measurement does not extend to non-clinical activities.

44.8 Information on consultants' public and private inpatient and day case activity levels (as weighted for casemix) are generated monthly from the HIPE system in the 49 acute hospitals. The resulting monthly reports are provided to consultants and to their Clinical Directors or Hospital Managers and to the national HSE Consultant Contract Implementation Group for compliance monitoring purposes.

Reporting Private Practice

44.9 Two main types of reports are being generated

- the practice mix of individual consultants
- summarised reports on practice mix.

Individual Consultant Practice Reports

44.10 Arrangements, introduced in January 2009, for monitoring consultants' private practice levels require every consultant in the employment of the public health service – irrespective of whether they hold Consultant Contract 2008 or not – to be issued with a public/private mix measurement report every month. This should document their activity in relation to inpatient, outpatient and day patient cases activity. For the purposes of compliance monitoring, the work of consultants is measured on a three-month basis in arrears.

44.11 From the January 2009 reporting period onwards, reports on individual consultant compliance have been provided to Clinical Directors and Hospital Managers.

44.12 There is a time lag of about four months (under normal circumstances) in providing consultants and managers with reports. This is due to the time required to code activities from patient records. Compliance reports for the first activity measurement period, January – March 2009, were issued to individual consultants in July 2009.

HSE Summary Reports - Internal

44.13 As well as notifying consultants individually, an overall status report is also prepared for the HSE for internal monitoring and management purposes. The HSE have compiled summary reports for three-month periods of consultant activity as set out in Figure 202.

Figure 202 Summary Reports on Consultant Activity

Report Date	Activity Period Covered
September 2009	February – April 2009
October 2009	March – May 2009
November 2009	April – June 2009
January 2010	June – August 2009
April 2010	September – November 2009

HSE Summary Reports – Public Reporting

44.14 The HSE publishes summary reports, which show the levels of public and private inpatient and day case consultant activities. These summarised reports record

- the proportion of consultants who have signed Consultant Contract 2008
- the proportion of consultants within 10% of their specified private practice limit.

Results of Reporting

44.15 The latest available HSE Summary Report on Consultant Private Practice Measurement covering consultant clinical activity for inpatient and day cases in the period September to November 2009 (dated April 2010 and issued in July 2010) reported compliance levels for 45 out of 49 acute public hospitals

- data was not available for three hospitals
- one hospital reported on private practice activity levels on the basis of Inpatient and Day Case discharge rates and consultant teams.

44.16 The proportion of consultants operating within agreed contract ratios (as weighted for casemix), and for which private practice data was reported, shows that the proportion of consultants in breach of their 2008 Contract terms is of the order of 33%.

Inpatient Practice

44.17 Overall, when viewed from a hospital perspective the 45 reporting hospitals showed the following compliance patterns

- five hospitals reported 100% compliance by their consultants with contracted levels of private practice
- an additional thirty hospitals reported that more than 50% of their consultants were in compliance with their contracted private practice levels.

Day Case Work

44.18 Data was also reported on private patient day case activity levels for 45 hospitals. This indicated that

- Three hospitals had 100% consultant compliance rates.
- An additional 36 hospitals reported that more than 50% of their consultants were in compliance with their contracted private practice levels.

44.19 The HSE stated that, by the end of July 2010, 296 consultants had been written to by Clinical Directors/Hospital Managers regarding the need for them to address excessive levels of private practice.

Inpatient Practice Pattern 2006-2009 by Hospital Group

44.20 Information supplied by the HSE for the aggregated public and private mix of inpatient activity for all consultants in each of the eight HSE Network Areas for the 2006 – 2009 period are set out in Figure 203. National totals are also reported.

Figure 203 Inpatient Public Private Mix (Casemix Adjusted) 2006 - 2009

Hospital Group	2006		2007		2008		2009	
	Public	Private	Public	Private	Public	Private	Public	Private
	%	%	%	%	%	%	%	%
Dublin/Midlands	73.2	26.8	74.7	25.3	76.9	23.1	78.6	21.4
Dublin North	73.1	26.9	73.9	26.1	74.8	25.2	76.0	24.0
Dublin South	75.2	24.8	75.0	25.0	73.6	26.4	74.4	25.6
Mid Western	66.5	33.5	67.2	32.8	63.2	36.8	64.3	35.7
North Eastern	99.9	0.1	76.2	23.8	76.3	23.7	78.2	21.8
South Eastern	76.0	24.0	75.4	24.6	75.7	24.3	76.9	23.1
Southern	70.5	29.5	69.3	30.7	68.9	31.1	70.6	29.4
Western	78.3	21.7	78.7	21.3	78.0	22.0	79.2	20.8
National Totals	76.0	24.0	74.2	25.8	74.1	25.9	75.5	24.5

Source: HSE Business Intelligence Unit based on 49 reporting hospitals.

44.21 The national total for inpatient private treatments was almost 26% in 2007 and 2008. This ratio fell slightly to 24.5% in 2009.

44.22 The underlying data on the 49 hospitals for which information was received for inpatient public and private activity showed that in 2009

- 13 hospitals had rates of private practice of 30% or more
- The highest rates of private practice were in the Regional Hospital – Limerick (53%) and in St. Johns Hospital – Limerick (52.4%)
- In 38 hospitals private practice levels were in excess of a 20% overall limit³⁰⁰.

³⁰⁰ This is a composite limit for monitoring purposes. In practice, limits can vary for individual consultants employed under Consultant Contract 2008 from zero to 30% depending on contract type.

Day Case Practice Pattern 2006-2009 by Hospital Group

44.23 The national private day case practice level for all consultants was 15.9% in 2009, and it was generally less than 20% in the 2006 – 2009 period. The trend for day cases is towards reductions in the levels of private activity. These aggregates, however, mask significant variations in respect of individual hospitals. The underlying hospital data in respect of day case practice indicates that in 2009

- 17 hospitals had private practice levels exceeding 30%.
- Private practice in 28 hospitals was greater than 20%.
- The Regional Orthopaedic Hospital – Limerick had a private practice level of 48.5%.

44.24 The detail by Hospital Group over the period 2006-2009 is set out in Figure 204.

Figure 204 Day Cases Public Private Mix (Casemix Adjusted) 2006 - 2009

Hospital Group	2006		2007		2008		2009	
	Public	Private	Public	Private	Public	Private	Public	Private
	%	%	%	%	%	%	%	%
Dublin/Midlands	68.9	31.1	75.3	24.7	76.4	23.6	79.3	20.7
Dublin North	79.3	20.7	79.8	20.2	86.5	13.5	87.4	12.6
Dublin South	92.1	7.9	93.1	6.9	90.4	9.6	91.0	9.0
Mid Western	57.9	42.1	68.2	31.8	66.7	33.3	70.4	29.6
North Eastern	100.0	-	77.7	22.3	77.9	22.1	78.3	21.7
South Eastern	71.5	28.5	75.0	25.0	72.3	27.7	71.8	28.2
Southern	79.7	20.3	59.8	40.2	84.6	15.4	83.8	16.2
Western	84.9	15.1	87.0	13.0	88.3	11.7	88.0	12.0
National Totals	81.2	18.8	78.7	21.3	83.5	16.5	84.1	15.9

Source: HSE Business Intelligence Unit

Private Practice – Financial Adjustments

44.25 The 2008 Contract implementation arrangements called for the establishment of systems to advise consultants of instances where any type of private practice was in excess of the ratio specified in their contract of employment. Written notification was to issue within at least one month of the matter being identified. If the matter were resolved within six months then no further action would be required. However, if the problem persisted after six months had elapsed, the consultant should be issued with written notification of this fact and required to meet with the Clinical Director, Hospital Manager or Chief Executive Officer and other relevant staff and a timetable established for resolution of the matter within the following three months.

44.26 If after the elapse of nine months, from the date the breach was first identified, the appropriate balance has not been restored, Consultant Contract 2008 provides for the hospital management to remove the facilities for the excess private practice³⁰¹ or to require the consultant to

³⁰¹ Cease the consultant's private practice in respect of that element of practice which is in excess of the specified ratio.

remit the private practice fees in respect of the excess activity to a hospital Research and Study Fund under the control of the Clinical Director.

44.27 A financial regulation has been made by the HSE setting out the mechanism for remittance of excess private practice fees. In summary, the regulation provides that all private fee income in excess of the prescribed limits will be refunded. The regulation was issued in early August 2010.

44.28 The regulation envisages that a consultant who has exceeded his private practice limit will be given 30 days to remit any amount due to the Research and Study Fund. It also envisages that

- should the consultant remit the required amount, he/she will be entitled to resume private practice on receipt of confirmation of receipt of the required amount from the employer
- should the required amount not be submitted, the consultant will not resume private practice in respect of the cohort of practice where he/she is in excess of the specified ratio pending remittance of outstanding fees to the Research and Study Fund.

44.29 The HSE has stated that no private fee income has yet been collected from consultants who are exceeding their permitted private practice levels. By mid-August 35 consultants with private practice in excess of the authorised limits had received letters from the HSE seeking remittance of their excess private practice income. Non-payment of any amount determined as due would constitute breach of contract and the standard procedures relating to breaches would commence after the appropriate time had elapsed.

Verification of Local Arrangements

44.30 The HSE, as part of its annual audit programme, is conducting audits at a number of hospitals in respect of certain aspects of implementation of the Consultants' Contract. The audit examines consultant rosters, public/private data, common waiting lists³⁰² and the processes in place for notifying consultants of non-compliance.

44.31 HSE's Internal Audit Directorate engaged PricewaterhouseCoopers (PWC) to assist in jointly developing and executing a detailed work programme for these audits. The first audit, which was conducted on a pilot basis at one hospital, is nearing completion and a refined approach will be applied to other hospitals in the near future.

³⁰² A common waiting list is one which includes all patients – irrespective of public or private status – awaiting a particular procedure.

Progress in Implementing Rectification Procedures

44.32 The key milestones envisaged in the introduction of practice measurement are as set out in Figure 205.

Figure 205 Milestones for Implementation of Public: Private Mix

Milestone	Activity
1 January 2009	Commencement of measurement
1 July 2009	First quarterly compliance reports to consultants
July/August 2009	Notifications of breaches issued to relevant consultants
January 2010	Period of six months to redress any imbalance expires
March 2010	Further three month rectification period expires
August 2010	Letters issued to 35 consultants seeking remittance of excess private practice fees

44.33 In practice, reports issued to consultants generally refer to activity periods up to seven months previously. The position regarding individual consultants' public/private practice ratios for January – March 2009 was therefore not known until July of that year.

44.34 The consequence is that in cases where breaches of private practice levels are identified, the duration between the breach being identified and any sanctions being imposed can potentially take up to sixteen months when account is taken of the three month activity period, a four months delay in compiling reports and nine months allowed to resolve the matter.

Conclusion

As part of contractual arrangement agreed in 2008, consultants undertook to limit private practice to set levels.

There has been limited progress in implementing this provision in that

- private practice levels in many hospitals continue to exceed permitted levels, in some cases significantly so
- monitoring is very much in arrears being reported up to nine months after the work was done.

Although an implicit objective of Consultants Contract 2008 was to remove any financial incentive on the part of consultants to engage in private practice above an agreed level, no financial adjustment has yet been effected.

General Views of the Accounting Officer

44.35 While the scope of the review reported above was limited to the extent to which financial arrangements to disincentivise excess private practice were in place, the contract is being implemented in a wider change setting. The Accounting Officer stated that there are some early indications of good progress in the involvement of consultants in management with widespread consultant leadership in both reconfiguration and the quality directorate within the HSE. He stated that large numbers of consultants are engaged in the design of national programmes of care across a wide variety of settings. Clinical Directors are in place throughout the health system and although their involvement is not uniform, in some locations they are exceeding expectations.

Chapter 45

**Health Service Executive
Disability Services**

Provision of Disability Services

45.1 In 2009, the HSE provided in the order of €1.6 billion to fund disability services. It distributes 75%, or €1.2 billion, of this through non-profit organisations who deliver over 80% of all disability services. There are 281 such bodies providing disability services in a variety of community and residential settings.

45.2 The funding provided by the HSE helps to support at least 53,326 disabled persons who are registered on the national disability databases³⁰³, 8,997 of whom are in adult residential care. There are 24,707 disabled people availing of adult day services.

45.3 A previous report³⁰⁴ found that the approach to the funding of non-profit organisations delivering the services is based on incremental increases and the cost of new placements. It noted that the risk with this approach is that the core funding allocation would, over time, become weakly linked to levels of identified need and as a result funding might not always be targeted to areas of greatest need.

Chapter Focus

The chapter reports the result of an audit to review

- whether the HSE has sufficient information to determine the level of allocation for disability services and
- at the level of service provider bodies, to what extent they can account for the cost of care for categories and individuals with disabilities.

HSE Funding to Service Providers

45.4 The audit noted that there had been no substantial change in the HSE's approach to funding non-profit organisations since these matters were examined in 2005. Annual allocations continue to be made by reference to historic levels of funding, adjusted for new service developments. Funding is also generally adjusted for pay inflation and budgetary provisions.

45.5 The HSE has, however, in the course of 2009 begun introducing new service arrangements designed to get more information on inputs and activities at the level of providers. This will, when developed, supplement information in two existing disability databases.

³⁰³ As these databases are based on voluntary reporting, they do not represent the full extent of specialised service provision to people with disabilities.

³⁰⁴ Comptroller and Auditor General Special Report No. 52 - Provision of Disability Services by Non profit Organisations, December 2005.

Disability Databases

45.6 There are two primary disability databases– the National Intellectual Disability Database (NIDD) and the National Physical and Sensory Disability Database (NPSDD). The databases were established by the Department of Health and Children (the Department) to assist with service planning.

45.7 In the collection of information for each database, it is a requirement that disabled individuals (or in the case of NIDD their family/guardians) are interviewed by designated keyworkers/data collectors in the non-statutory sector or by the HSE. The information provided is entered onto the relevant database.

45.8 The databases currently collate statistical information from individual registered service users to provide

- a profile of persons with disabilities in each HSE area covering gender, age group, level of disability and residential circumstances
- the levels of services currently provided to individuals expressed in general terms
- identified service requirements for future years, again expressed generally.

45.9 Although the databases record information for individual service users, they do not capture the level of service required by each individual, in terms of the number, type and grade of staff required. As such, they do little to assist the HSE in helping to set funding levels for service providers.

45.10 In 2009, the Department and the HSE decided to review all databases and information systems for disabilities, with a view to integrating data collection, management and reporting systems to meet their planning needs and the requirements of the Disability Act 2005 and the conduct of individual assessments. However, this initiative was not progressed beyond planning stage.

New Service Arrangements

45.11 As part of new arrangements currently being introduced, service providers submit a range of information to the HSE setting out, for each location, within their service

- the staff numbers and grades employed, (e.g. medical, nursing, support, health and social care professionals and administration/management staff)
- the number of service users in care
- a profile of disabilities at the location.

45.12 The new service arrangements seek to obtain information on the intensity of supports needed. However, examination of a sample of those documents found that the intensity of supports needed by each individual with a disability is not identified in the new service arrangements.

Quality Standards

45.13 The new service arrangements between the HSE and service providers require services to be linked to the Health Information and Quality Authority (HIQA) standards, with continuous self-monitoring and HSE review. Currently, there is no independent inspection of residential centres for people with disabilities. The Report of the Commission to Inquire into Child Abuse, 2009³⁰⁵ recommends that the Health Act, 2007 be commenced in order to allow for the independent registration and inspection of all residential centres and respite services for children with a disability.

National Quality Standards

The Health Information and Quality Authority (HIQA) published the National Quality Standards: Residential Services for People with Disabilities in May 2009. Prior to May 2009, there were no standards in place for residential centres for people with disabilities. In broad terms, the standards act as a guide to individuals and families as to what they can reasonably expect of residential facilities for people with disabilities. The standards are grouped into seven sections to reflect the dimensions of a person-centred quality service. The seven sections are titled Quality of Life, Staffing, Protection, Development and Health, Rights, the Physical Environment and Governance and Management and have a number of standards and associated criteria.

45.14 The Department of Health and Children (the Department) has stated, that, given the current pressures on the public finances, it would not be possible to move to full statutory implementation of these standards, including those relating to registration and inspection.

45.15 The Department and the HSE have suggested that the standards could be implemented on a non-statutory (i.e. voluntary) basis focussing initially on achieving improved standards of care within the existing physical infrastructure of care homes and current overall revenue and staffing levels.

Service Costing

45.16 An objective of the HSE was to establish cost norms based on service user needs and to allow cost comparisons between service providers delivering similar services. A necessary first step in achieving this is to generate comprehensive data. By the end of 2009, some 76% of service providers, accounting for 80% of present HSE funding to the sector, had agreed to participate in the new arrangements.

45.17 A sample of the information returned under the new service arrangements was examined. Inconsistencies were noted in how the services delivered and the associated staffing numbers and grades were reported, for example

- One service provider identified staff at a specific location but did not allocate those staff to units at that location
- Another service provider did not generally include grades of staff in its returns – without this information, it would not be possible for the HSE to determine the average cost of providing the service.

³⁰⁵

Report of the Commission to Inquire into Child Abuse, 2009, Implementation Plan (Action 40).

45.18 The Department and the HSE have stated that the costs of services in delivery units within service providers are being established as part of a review of disability services. The submission of incomplete and inconsistent data has required HSE staff, at local level, to carry out extensive validation work and to obtain directly from service providers information on the numbers and grades of staff employed in service provider units so that the pay costs for each unit can be established. Information on non pay costs is being sourced directly from the service providers by way of a detailed questionnaire.

45.19 The disabilities review is expected to address the standardising of HSE information required to be provided by service providers in order to support evidence-based decision making by the HSE on future funding allocations and the calculation of costs per service user. The Department has stated that this has the potential to be further developed into the production of cost bands for the major categories of service user and service type.

Conclusion – New Service Arrangements

The new arrangements have the potential to enhance the information available for decision-making. However, the HSE needs to resolve the inconsistency in the information supply in order to enable meaningful comparisons and help it to determine the cost of providing services to defined categories of service users.

Information within Non-profit Organisations

45.20 Reviews were carried out in five disability service providers to establish whether and to what extent funds could be traced to service users. The bodies visited were St Michael's House, Daughters of Charity of St Vincent de Paul, St. John of God Community Services, Rehab Group and Irish Wheelchair Association.

45.21 In general, services are provided to groups of individuals of varying degrees of disability and costs attributed to those groups are allocated on a group basis. The audit found that the service cost for persons with similar degrees of disability varied from one service provider to another. Service providers were able to provide an estimated cost for individuals at a current date in a number of cases.

45.22 It was possible to link this cost with historic allocations to a limited extent in approximately one quarter of the cases examined. In those cases, while the original HSE funding allocation could be identified, subsequent adjustments to the allocation whether for specific service user needs or for general pay-related increases were difficult to isolate. However, a number of cases were identified where the current cost was less than the original allocation before indexing.

45.23 Examination of a sample of persons that ceased to be service users found that, in most cases, the HSE did not adjust allocations. Only where exceptionally large funding had been provided did the HSE seek to reduce funding to provider bodies when service users left.

45.24 Where service users left the providers' care, the latter usually sought to demonstrate that replacement service users, not being funded by HSE, had subsequently been identified to fill the vacated places though there was often a significant time lag in doing so. Service providers stated that they were not obliged to inform the HSE formally when service users left their care and that the HSE did not seek to effect a financial reduction to their allocation for persons that left.

45.25 One service provider, St. John of God Community Services, has piloted a methodology for arriving at a more precise resource allocation model. This development creates the prospect of service providers more closely relating costs to individual needs. Figure 206 summarises the St. John of God model.

Figure 206 Resource Allocation and Support Intensity Scale^a Pilot Study in St. John of God, Community Services

St. John of God Community Services, as with other service providers, generally delivers its services to groups of individuals in disparate locations. It initiated a pilot study within the residential services in its Menni Service in summer 2009 to directly associate its financial and human inputs to the needs of individuals with disabilities within its care.

Key objectives of the pilot study were

- to identify a model to allocate existing financial and human resources to individual services users
- to identify a methodology to agree funding for new services with the HSE.

Underpinning the model is an assessment process using an individual 'Interview and Profile Form' that captures the needs of the individual under eight distinct support needs criteria. Within each support need criterion, the frequency of support, daily support time and type of support that the individual needs is also catalogued and a 'rating' awarded according to intensity of support. An overall rating is computed by summation of the component parts for the individual. All of the individuals in the location being assessed are awarded scores in a similar manner. These scores determine the support intensity of the individual on a scale of I-IV. The model then apportions the cost of providing the service to each location across the individuals being cared for, thus arriving at an annual cost of providing services to each individual.

A feature of the model, in terms of its potential to assist the HSE in budget allocation is that the financial resource requirement of an individual, assessed at any level of support intensity in one service provider, would be directly comparable to a similarly assessed individual with the same or a different provider. This could simplify HSE budget allocation.

Note:

a Developed by the American Association for Intellectual and Developmental Disabilities (AAIDD) in 2004.

45.26 The Accounting Officer of the Department stated that officials in the Department's Office for Disability and Mental Health (ODMH) are generally aware of the resource allocation and Support Intensity Scale (SIS) model and are keeping it under consideration in the context of policy proposals currently being finalised. The use of this or an equivalent methodology was also referenced at a recent workshop. The National Disability Authority had hosted a roundtable seminar last year attended by ODMH officials on the SIS model.

45.27 The Department will take into consideration the contents of a report entitled "Assessment Instruments and Community Services Rate Determination: Review and Analysis" prepared for the Colorado Department of Human Services (2006) which reviews the strengths and weaknesses of ten assessment tools used to establish tiered funding rates for residential and day services for people with intellectual disabilities. He understood that this report recommended the use of the SIS. The progress of the pilot in the St. John of God Community Services would be kept under review by the project team examining disability services to see what it might offer in the way of informing their deliberations.

Conclusion – Information and Allocation

It may be possible to get better measurability of services by adopting an approach on the lines of that being piloted by St. John of Gods Community Services. While the pilot study is not yet completed and to date it has only been used by the service provider to develop a 'rate'³⁰⁶ within one of its service units, it expects the report of the pilot project to provide a method for prospective budgeting of new services.

The project offers the potential to determine standard costs in the case of disability services. It may also allow the HSE to compare and contrast service providers' application of funds in dealing with similar intensities of support levels. The HSE should keep this opportunity under review and consider the feasibility and contribution of the approach when the pilot is completed.

Statement of Services – Progress to Date

45.28 The Disability Act, 2005 confers on persons with a disability an entitlement to a statement of the health and education services that they require after they have undergone clinical and non-clinical assessment. The service statement is a statutory entitlement but the Act does not confer an entitlement to the services, however. This provision has only been implemented for children under five.

45.29 3,603 assessments have been completed up to December 2009 of which 3,151 met the definition of disability. Figure 207 shows the number of assessments of children under five years completed in each year since this Part of the Act was implemented in June 2007, together with those overdue at the end of each year.

Figure 207 Number of Assessments of under 5's Completed and Overdue for Completion

Result of Assessment	2007	2008	2009
Applicant meets definition of disability	61	1,395	1,695
Applicant does not meet definition of disability	7	159	286
Assessments Completed	68	1,554	1,981
Assessments overdue for completion as at 31 December	-	627	884

Source: HSE

Conclusion – Statement of Services

To date assessments have been introduced for children under five only. Even in this category, there are a considerable number of children who have not yet received their entitlement to an assessment under the Act. Overdue assessments stood at 884 at the end of 2009 (2008 – 627).

³⁰⁶

'Rate' is defined as the cost of providing service to an individual that takes their support needs into account.

Recent Developments

45.30 A review of the efficiency and effectiveness of disability services is currently being undertaken by the HSE, the Department and the Department of Finance. The Department has stated that the review will assess how well current services for people with disabilities meet their objectives and that it will support future planning and development of disability services.

45.31 The Department stated that a significant element of the project is a policy review focussing on the creation of a cost-effective responsive and accountable system to support the full inclusion of all people with disabilities and that the review proposals will outline the governance framework to support this, addressing issues such as management structures, allocation of resources on an individual basis, assessment of need, procurement/commissioning of services, quality assurance systems, management of risk and processes for review and accountability. The Department expects one of the cornerstones of the policy proposals to be a more equitable, evidence-based and sustainable method of resource allocation based on an assessment of individual need. The review is expected to be finalised by September 2010.

Conclusion

While recognising the variability in the needs of the client base of voluntary bodies it would be desirable to move towards a situation where funding is informed by standard costing.

The information gathered under the new service arrangements has the potential to allow for ratios to be calculated and used as part of annual discussions on allocations. However, data quality standards need to be enforced to ensure that the information base is fully reliable.

The resource allocation and support intensity scale model being piloted by St. John of God Community Services may offer the possibility, when the results have been fully evaluated, of establishing standard funding rates across the disability sector and achieving greater measureability in the administration of disability funding.