



Comptroller and Auditor General

**Report on the
Accounts of the Public Services 2018**

September 2019

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Report of the Comptroller and Auditor General

Accounts of the Public Services 2018

Article 33 (4) of the Constitution of Ireland requires me to report to Dáil Éireann at stated periods as determined by law. The Comptroller and Auditor General (Amendment) Act 1993 provides the main basis for such reporting.

Statutory Reporting Provisions

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

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

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

Separately, section 11 of the 1993 Act provides for the preparation by me of certain special reports.

Presentation of this Report

This is my report under Section 3 (10) of the 1993 Act relating to the 2018 financial year. The report is set out in four parts, which deal with the following matters

- the Central Fund of the Exchequer
- voted expenditure in 2018
- examination of Revenue systems
- reports on other matters including statutory reports on the audits of the accounts of the National Treasury Management Agency, and of the Irish Fiscal Advisory Council.

The report was prepared on the basis of audited information, where available, and other information, documentation and explanations obtained from the relevant government departments and offices. Drafts of relevant parts of the report were sent to the departments and offices concerned and their comments were requested. Where appropriate, those comments were incorporated into the final version of the report.

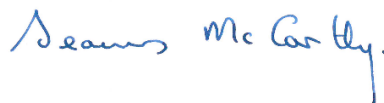
The report is concerned with the accountability of departments and offices in respect of their administration of public funds. References to third parties should be read only in that context.

I hereby present my report for the year ended 31 December 2018 to Dáil Éireann in accordance with Section 3 (11) of the 1993 Act.

Presentation of Appropriation Accounts 2018

Section 3 (11) of the 1993 Act also requires me to present the appropriation accounts for the various Votes to Dáil Éireann together with the report prepared under section 3 (10).

I have certified each appropriation account for the year ended 31 December 2018 and, in an associated volume, submit those accounts, together with my audit certificates, to Dáil Éireann.



Seamus McCarthy
Comptroller and Auditor General

30 September 2019

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**Report on the
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Central Government

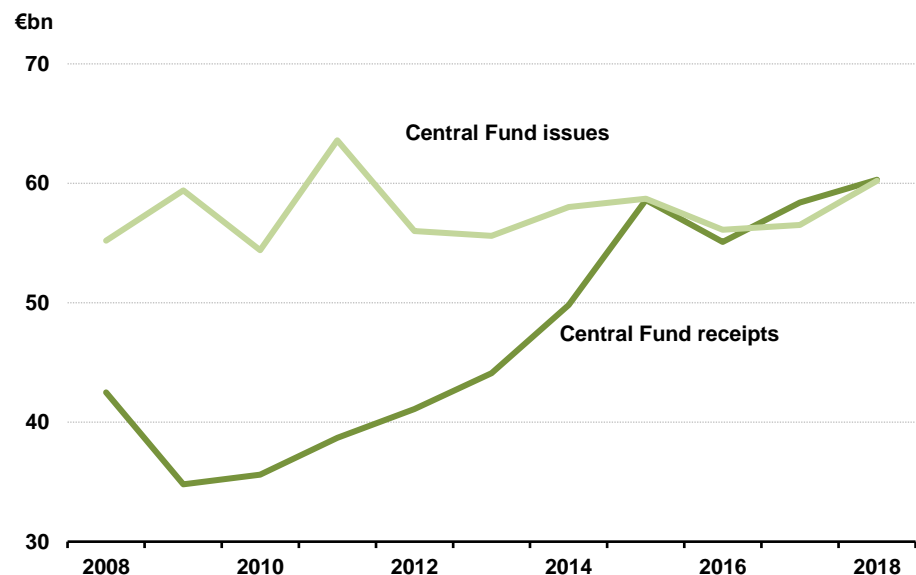
1 Exchequer financial outturn for 2018

- 1.1 All revenues of the State are paid into the Central Fund of the Exchequer unless otherwise determined by law.¹ Central Fund receipts principally include tax revenues and the proceeds of borrowing undertaken on behalf of the State by the National Treasury Management Agency (NTMA). Issues from the Central Fund are used mainly to fund expenditure on State services and to service and pay back State debt.
- 1.2 The annual Finance Accounts present the receipts into and issues from the Central Fund together with details relating to NTMA borrowing and information about certain liabilities and assets of the State.² This report summarises the transactions on the Central Fund and highlights some key trends. Because the Finance Accounts do not include a balance sheet, the summary position in relation to key assets and liabilities, including the national debt, is also set out.

Fiscal trends

- 1.3 In 2018, receipts into the Central Fund exceeded issues from the Fund for a second consecutive year (see Figure 1.1). Significant annual deficits had occurred from 2008 to 2014. The net surplus or deficit position of the Central Fund (i.e. the surplus or deficit of Central Fund receipts over issues, excluding borrowing) is referred to as the Exchequer balance. In 2018, the Exchequer surplus was €99 million. This compared to a surplus of €1.9 billion in 2017.

Figure 1.1 Central Fund of the Exchequer receipts and issues, 2008 to 2018



Source: Finance Accounts 2008 to 2018

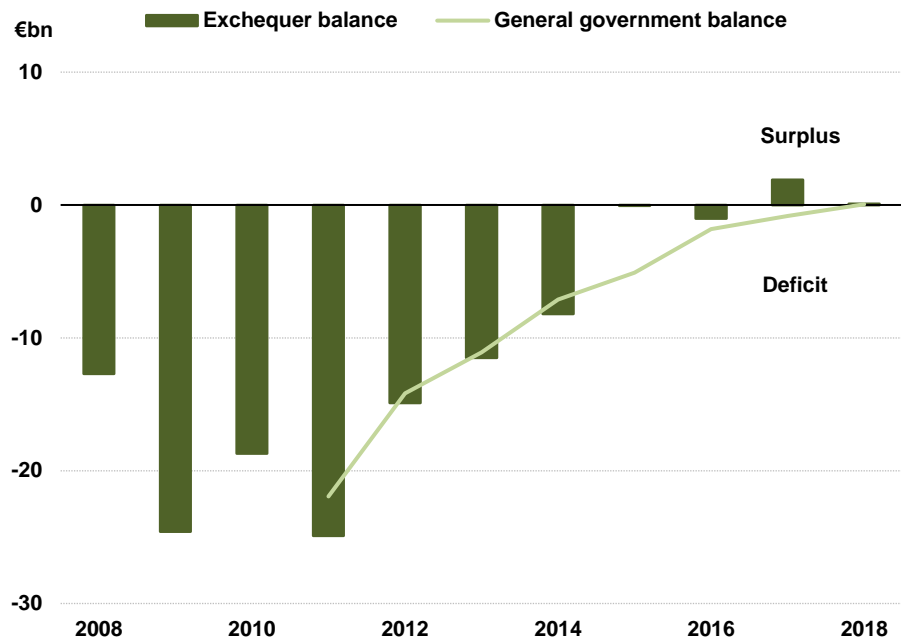
Note: a Receipts and issues shown include the service of national debt but exclude borrowing undertaken by the NTMA on behalf of the State and the repayment of national debt. See Figure 1.3 for analysis of Central Fund receipts and issues for 2014 to 2018.

1 State revenue not paid directly into the Central Fund includes, for example, Pay Related Social Insurance receipts, which are paid into the Social Insurance Fund.

2 The Finance Accounts do not purport to be a comprehensive financial statement for the State, its assets and liabilities. It is estimated that the Finance Accounts represent about 75% of total government revenue and expenditure.

- 1.4 The general government balance is a broader measure than the Exchequer balance. It measures the fiscal performance of the general government sector, and is the standard benchmark used for comparative purposes across the European Union.¹ In most years, the general government balance closely tracks the Exchequer balance (see Figure 1.2). The differences between the measures relates mainly to the treatment of transactions associated with financial sector stabilisation measures. In 2018, Ireland's general government balance was in surplus (€46 million) for the first time since 2007.
- 1.5 Annual government finance statistics are prepared by the Central Statistics Office. These publications include a statement of revenue and expenditure and a statement of government net worth. An outline of the compilation of these statistics is set out in Annex 1A.

Figure 1.2 Exchequer balance, 2008 to 2018 and general government balance, 2011 to 2018



¹ For example, the general government balance is used for fiscal monitoring under the European Union Stability and Growth Pact. The Pact is the set of rules under which member states of the European Union are expected to manage their public finances.

Source: Finance Accounts 2008 to 2018 (Exchequer balance) and Central Statistics Office: Government Income and Expenditure, July 2019 (general government balance).

Central Fund receipts and issues

1.6 An analysis of Central Fund receipts and issues (excluding NTMA borrowing) for the years 2014 to 2018 is set out in Figure 1.3.

Figure 1.3 Composition of Central Fund receipts and issues, 2014 to 2018^a

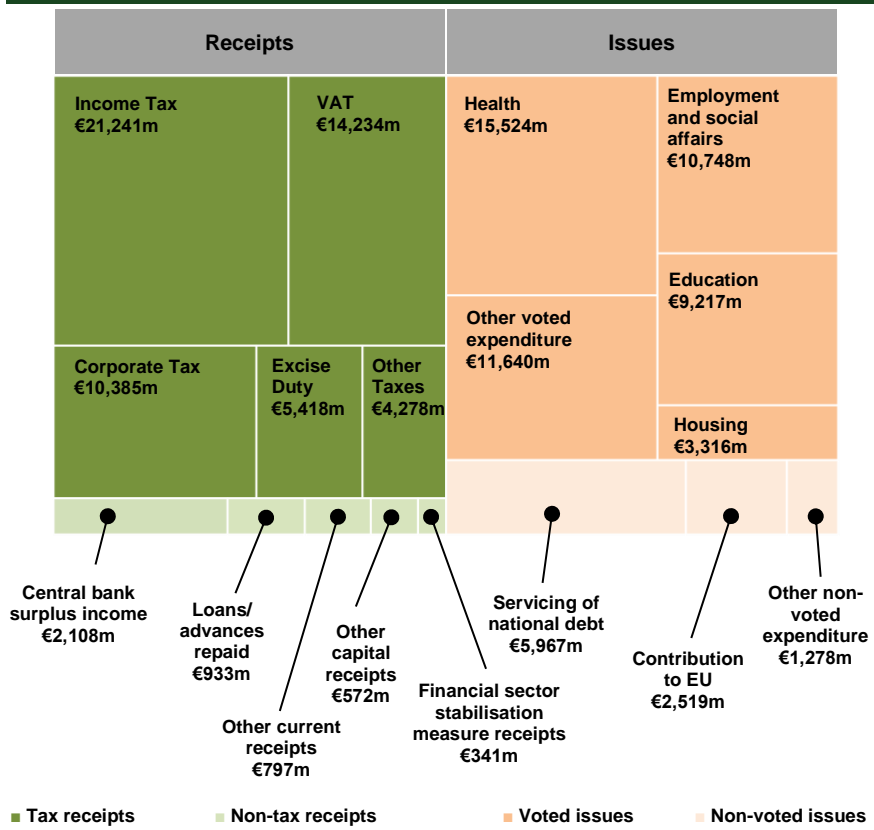
Receipts	2014	2015	2016	2017	2018
	€m	€m	€m	€m	€m
Current receipts					
Tax revenue	41,282	45,601	47,864	50,737	55,557
Transfer from Local Government Fund	520	481	318	230	—
Central bank surplus income ^b	1,225	1,719	1,800	1,836	2,108
National lottery surplus income	178	193	219	227	225
Dividends from State bodies	475	551	269	324	261
Other current revenues	568	572	498	248	311
Capital receipts					
Loans/advances repaid ^c	4,987	5,348	2,143	1,021	933
Financial sector stabilisation measures receipts	—	3,682	1,871	3,723	341
Exceptional capital receipts ^d	405	335	—	—	—
Other capital receipts	131	106	75	30	572
Total receipts	49,771	58,588	55,057	58,376	60,308
Issues					
Issues for voted expenditure	42,224	42,863	43,986	46,291	50,445
Service of national debt	7,579	7,107	6,845	6,227	5,967
Contribution to EU budget	1,685	1,952	2,023	2,016	2,519
Oireachtas Commission	101	106	114	110	131
Loans/advances ^c	4,875	5,111	2,320	963	975
Financial sector stabilisation measures	100	30	4	—	—
Irish Water (shares, capital contributions and loans)	461	96	184	270	—
Transfer to Local Government Fund ^e	484	461	463	480	12
European Stability Mechanism capital contribution	255	—	—	—	—
Ireland Strategic Investment Fund contribution	—	335	—	—	—
Payments to local authorities to repay HFA loans	—	427	—	—	—
Other payments	196	164	136	113	160
Total issues	57,960	58,652	56,075	56,470	60,209
Surplus/(deficit) for the year	(8,189)	(64)	(1,018)	1,906	99

Source: Finance Accounts 2014 to 2018

- Notes:
- Transactions of the Central Fund account and the Capital Services Redemption Account are consolidated. The latter account is maintained by the NTMA for servicing national debt and transactions of a normal banking nature.
 - The amount received into the Central Fund each year principally consists of the surplus income for the previous financial year, as per the audited financial statements of the Central Bank of Ireland.
 - See Annex 1B, Figure 1B.1 for further details.
 - Exceptional capital receipts are non-recurrent, and relate to: National Lottery license sale receipts (2014) and Aer Lingus share capital disposal receipts (2015).
 - Related to application of Local Property Tax (LPT) receipts, which were included in tax revenue prior to 2018. With effect from 1 January 2018, LPT receipts are paid directly into the Local Government Fund by the Revenue Commissioners, rather than indirectly through the Central Fund.

1.7 Receipts into the Central Fund in 2018 totalled €60.3 billion, the bulk of which (92%) was accounted for by taxes. Issues in 2018 totalled €60.2 billion comprising issues for voted services (84%), servicing of national debt (10%), contributions to EU (4%) and other non-voted expenditure (2%). See Figure 1.4.

Figure 1.4 Central Fund receipts and issues in 2018



Source: Finance accounts 2018

Tax and other Exchequer receipts

1.8 Total receipts into the Central Fund increased by €1.9 billion in 2018. This was the net result of an increase of €4.8 billion relating to taxes and a decrease of €2.9 billion in other receipts.

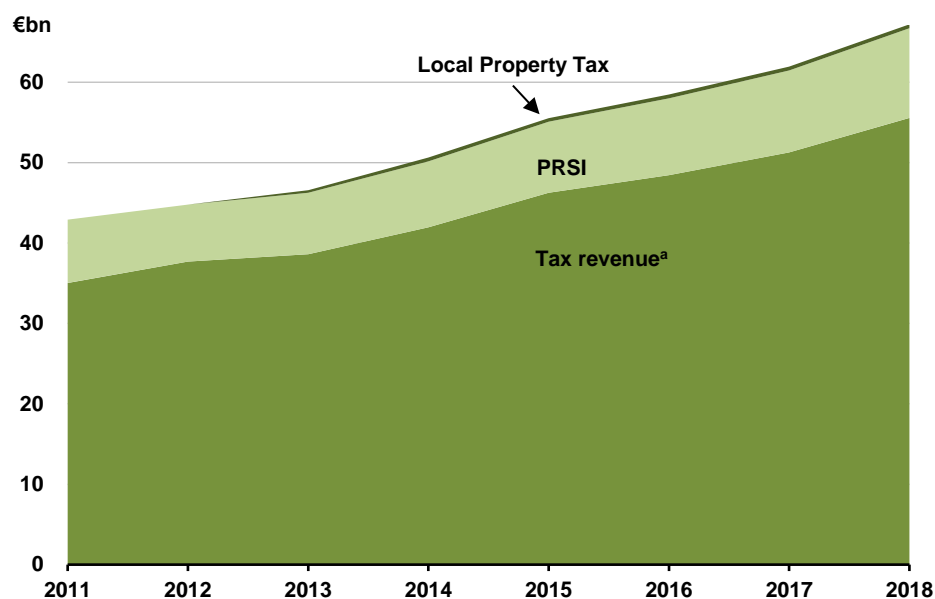
Tax receipts

1.9 In 2018, tax receipts into the Central Fund were affected by structural changes¹ that resulted in motor tax receipts totalling €977 million being paid into the Fund, and for the first time since its introduction, no receipts into the Fund from the Local Property Tax (€477 million in 2017).

1.10 To eliminate the effects of restructuring on the trend in receipts, Figure 1.5 (over) tracks tax receipts and Pay Related Social Insurance (PRSI)² between 2011 and 2018 irrespective of where the receipts were paid into.

1 Introduced by the Water Services Act 2017.

2 PRSI receipts are paid into the Social Insurance Fund.

Figure 1.5 Tax revenue and PRSI receipts, 2011 to 2018

Sources: Finance accounts, Local Government Fund accounts and Social Insurance Fund accounts, 2011 to 2018

Note: a Tax revenue includes all taxes paid into the Central Fund with two exceptions. For 2011 to 2017, it also includes motor tax which was paid into the Local Government Fund during that period. Local Property Tax (LPT), which had been paid into the Central Fund prior to 2018, is excluded and shown separately. From 2018 onwards, LPT is paid into the Local Government Fund.

1.11 In 2018, tax and PRSI collected increased by €5.2 billion (8%) with receipts up across almost all taxheads.

- Corporation Tax receipts grew by €2.2 billion (27%) relative to 2017, reflecting higher levels of corporate profitability in the economy, as well as the impact on revenue recognition of a change to international accounting standards.
- Income Tax receipts reported year-on-year growth of €1.2 billion (6%). PRSI receipts (collected by the Revenue Commissioners and paid into the Social Insurance Fund) increased by €1.1 billion (10%).
- VAT receipts were up by nearly €1 billion (7%).
- Excise duties fell by €507 million (9%) in 2018.

Other Exchequer receipts

1.12 Exchequer receipts in 2017 included a once-off capital receipt of €3.4 billion arising from the sale of 29% of the State's shareholding in AIB. There were no similar transactions in 2018.

1.13 The 'other capital receipts' category increased by €542 million in 2018, primarily due to the repayments of significant unused balances from the Credit Institutions Resolution Fund of €240 million and the Credit Union Fund of €238 million. (This is dealt with in more detail below).

Central Fund issues

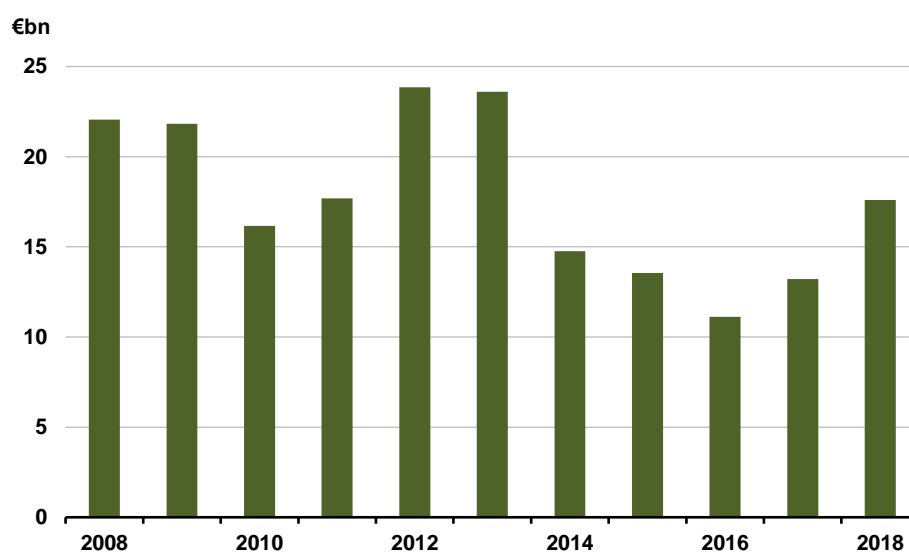
- 1.14** Issues from the Central Fund in 2018 amounted to €60.2 billion (2017: €56.47 billion).
- Issues for voted services increased by €4.1 billion. Four departments account for over three quarters of voted expenditure. While issues to the Department of Employment Affairs and Social Protection remained relatively stable, there were large increases in 2018 in issues to the Department of Housing, Planning and Local Government (€1.3 billion), the Department of Health (€1.2 billion) and the Department of Education and Skills (€0.4 billion).
 - Payments of just under €6 billion related to the servicing of borrowing undertaken by the NTMA were 4.2% lower year-on-year than in 2017, reflecting reductions in the cost of borrowing (See Figure 1.8).
 - Ireland's annual contribution to the EU budget increased by 25% to €2.5 billion in 2018. The primary component of Ireland's contribution is gross national income (GNI) related payments which stood at €1.98 billion in 2018 (2017: €1.47 billion).

Exchequer assets

Cash and financial assets

- 1.15** The level of cash and other financial assets held by the Exchequer increased from €13.2 billion at end 2017 to €17.6 billion at end 2018 (see Figure 1.6). The increase of €4.4 billion or 33% reflects the impacts of the Exchequer surplus of €99 million and net cash borrowing of €4.3 billion in the year. See Annex 1B, Figure 1B.2.
- 1.16** At 31 December 2018, Exchequer cash and financial assets included €1,558 million in relation to the Housing Finance Agency guaranteed notes and €85 million for medium term guaranteed notes relating to the Strategic Banking Corporation of Ireland (SBCI). These assets may not be readily realisable dependent on market conditions.

Figure 1.6 Cash and other financial assets held by Exchequer, 2008 to 2018



Source: Finance Accounts, 2008 to 2018

Exchequer loans and advances issued

- 1.17** Excluding the lending to the Housing Finance Agency and the SBCI, loans and advances provided from the Central Fund totalling €2 billion were outstanding at the end of 2018 — an increase of €42 million compared with 2017. The movements and outstanding balances for the major categories of loans and advances at the end of each year since 2014 are shown in Annex 1B.1.
- 1.18** In addition to these loans and advances, the Central Fund is entitled to reimbursement of small outstanding balances in the Credit Institutions Resolution Fund and the Credit Union Fund.

Credit Institutions Resolution Fund

- 1.19** The Central Bank and Credit Institutions (Resolution) Act 2011 (the 2011 Act) established a resolution regime for credit institutions and credit unions in Ireland. The Credit Institutions Resolution Fund (resolution fund) was established under this legislation to support resolution actions in the State, and is managed and administered by the Central Bank.
- 1.20** The Minister for Finance originally contributed €250 million to the resolution fund in December 2011 to meet resolution costs anticipated at the time for actions taken under the 2011 Act. Such resolution costs did not materialise to the extent anticipated and in November 2018, the Minister directed the return of €240 million of this contribution to the Central Fund.
- 1.21** While the resolution fund and the powers under the 2011 Act could originally be applied to banks and credit unions, they are no longer applied to banks, which since early 2016 come under the European Central Bank's Single Resolution Mechanism. Credit unions are now the only financial institutions contributing to the resolution fund.
- 1.22** The resolution fund has been utilised since its enactment in 2011 to provide financial incentives to credit institutions to facilitate the transfer of assets and liabilities, and to discharge the Central Bank's costs of resolving credit unions and carrying out its functions under the 2011 Act.
- 1.23** In June 2019, the Department of Finance, in collaboration with the Central Bank, published a consultation paper in relation to potential changes to funding of the resolution regime for credit unions. The paper noted that the net assets of the fund at 31 December 2018 totalled €28.45 million. Following engagement with the Central Bank, the Department of Finance concluded that the target level for the resolution fund would be €65 million and levies would be set at a rate that would achieve this target by 2024.
- 1.24** A further review of the resolution fund is planned for 2024. The fund will retain the balance of €10 million (relating to the original funds advanced by the Minister, not repaid) until the completion of the next review in 2024.

Credit Union Fund

- 1.25** In December 2012, the Minister for Finance advanced €250 million to the Credit Union Fund for the restructuring of credit unions under Section 57 of the Credit Union and Co-operation with Overseas Regulators Act 2012.
- 1.26** In November 2018, €238 million was returned to the Exchequer leaving a balance of €13.16 million in the fund. This includes €12 million of the sum advanced by the Minister in 2012, not yet repaid. It is proposed to increase the fund to €30 million by 2024, through levies charged to credit unions.

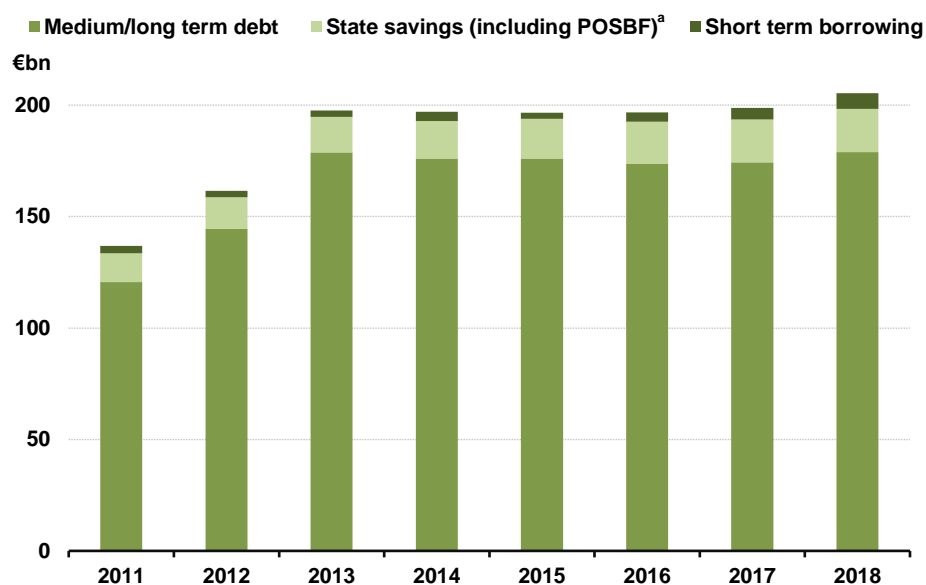
Exchequer liabilities

- 1.27** Exchequer liabilities are detailed in part two of the Finance Accounts. In addition, the Department of Finance publishes an annual report on public debt in Ireland.

National debt

- 1.28** Ireland's gross national debt stood at €205.3 billion at the end of 2018, reflecting an increase of €6.6 billion from 2017 (Figure 1.7).

Figure 1.7 Gross national debt at redeemable par values, end 2011 to end 2018



Source: National Treasury Management Agency

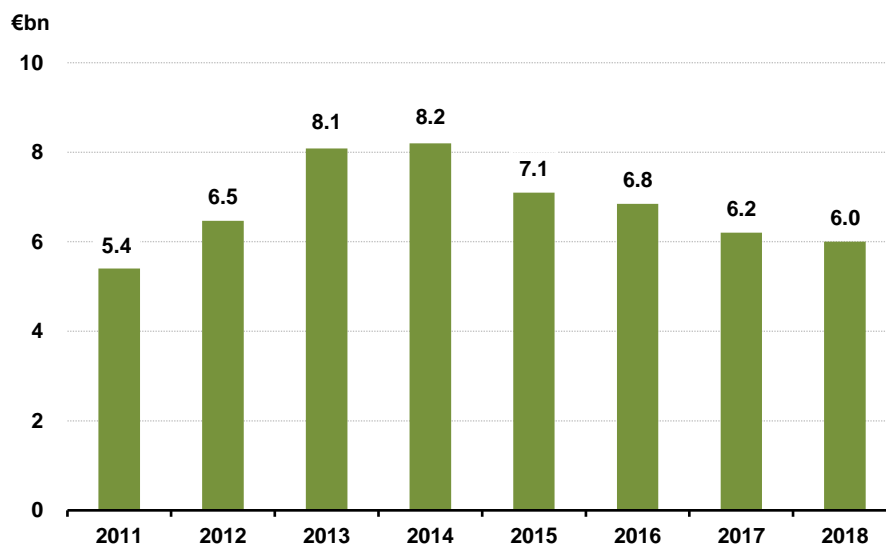
Note: a The majority of borrowings under the Post Office Savings Bank Fund (POSBF) are incorporated into the national debt through what are referred to as ways and means advances.

- 1.29** Medium and long term debt at end-2018 accounted for 87% (€179 billion) of the gross national debt. It comprised mainly borrowings in the form of government bonds (€131.8 billion) and loans received under the EU-IMF Programme of Financial Support for Ireland (€44.9 billion).
- 1.30** Debt arising from the various State savings schemes amounted to €17.3 billion at end-2018. In addition, short-term borrowings from the Post Office Savings Bank Fund amounted to €2.1 billion.¹
- 1.31** Short-term debt accounted for €6.9 billion of gross national debt at end-2018 compared with €5.2 billion at end-2017.² The end-2018 borrowing comprised 'short-term paper' debt of €6.4 billion and €537 million in surplus funds transferred from the surplus public expenditure monies account at the year-end.³

Debt service costs

- 1.32** The debt service cost for 2018 was just under €6 billion, down 4.2% on 2017 (Figure 1.8). This comprises interest paid on gross national debt of over €5.7 billion, interest paid on cash and other financial assets of €65 million, and fees and operating expenses of €169 million.
- 1.33** The average cost of State borrowing continued to decline in 2018. At the end of the year, the overall weighted average cost of servicing the gross national debt was estimated at 2.6% (end-2017: 3%) (see Figure 1.9 (over)).

Figure 1.8 Debt service costs, 2011 to 2018 (cash basis)^a



Source: National Treasury Management Agency

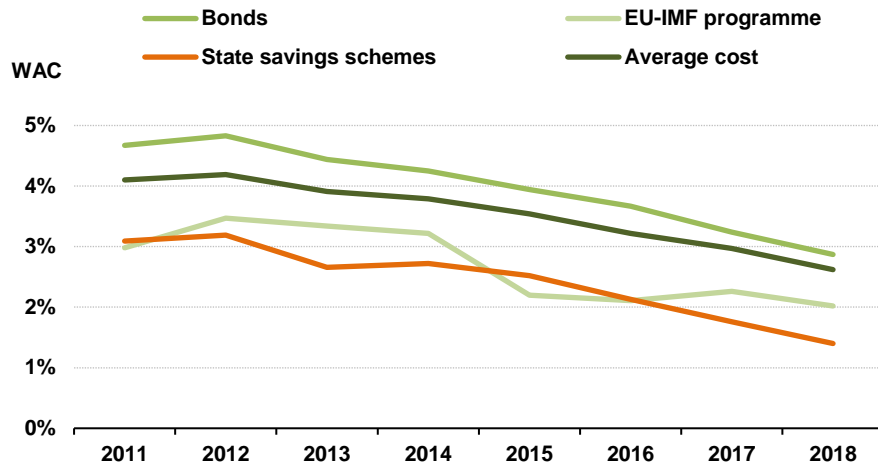
Note: a For 2011 to 2014, the debt service costs included the sinking fund payment, which ceased for 2015 and subsequent years in accordance with Finance Act 2014.

1 In the Finance Accounts, this is described as short term borrowings of the Exchequer, drawn down as part of ways and means of funding Exchequer requirements from a number of funds under the control of the Minister for Finance.

2 Short-term debt has an original maturity of less than one year.

3 The surplus public expenditure monies account records the borrowings and repayments of surplus funds held in the supply account of the Paymaster General.

Figure 1.9 Weighted average cost of gross national debt, 2011 to 2018

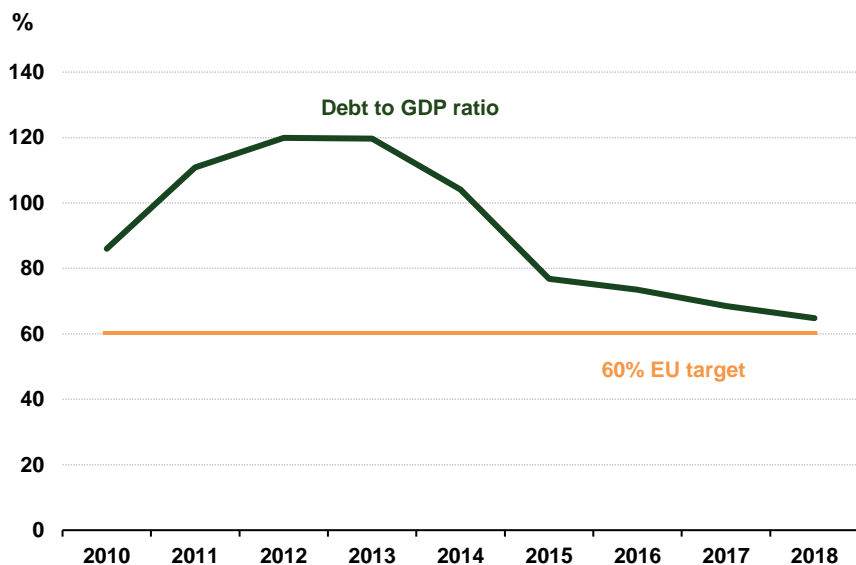


Source: National Treasury Management Agency

General government debt target

- 1.34 General government debt is a more comprehensive measure of State indebtedness than national debt and is the standardised measure which all EU countries are legally obliged to report under the Maastricht Treaty.¹
- 1.35 European fiscal rules state that member states’ general government debt should not exceed 60% of Gross Domestic Product (GDP), or failing that, should be steadily decreasing towards the 60% threshold. Ireland’s general government debt was 65% at end 2018 — just 5% above the threshold. The Department of Finance has stated that this threshold may not be optimal for Ireland, given the distortions associated with Irish GDP. Therefore, the Government has adopted a debt target of 55% of GDP for medium term fiscal policy purposes, and a target of 45% to be achieved by 2025.

Figure 1.10 Ireland’s debt to GDP ratio, 2010 to 2018



Source: Central Statistics Office

¹ General government debt means the debt liabilities of central government, local government, and government funds, excluding debt owed by one sector of government to another.

Annex 1A Central Statistics Office government finance statistics

The European Union's statistics authority, Eurostat, requires each member state to produce a range of finance statistics that comply with specified definitions and standards.

The Central Statistics Office (CSO) is responsible for the official reporting of Ireland's government finance statistics.

The CSO's government finance outputs and general government statistics, produced on a bi-annual basis, include the following key statements

- Table 1 — general government transactions: revenue, expenditure, financing and deficit
- Table 2 — general government: net worth, gross and net debt
- Table 3 — general government: detailed classification of revenue and output
- Table 4 — general government: detailed classification of expenditure and consumption
- Table 5 — general government financial transactions
- Table 6 — general government balance sheets net worth at market value excluding pension liabilities
- Table 7 — general government gross and net debt.

For the purpose of the compilation of the general government finance statistics, the general government sector encompasses both central and local government, non-commercial State-owned bodies and extra budgetary funds, the larger approved housing bodies and voluntary hospitals.

The full list of entities included is published on the CSO's website. This encompasses data relating to 4,278 entities — 3,964 schools and 314 other entities.

Annex 1B Data tables

Figure 1B.1 Loans and advances, 2014 to 2018

	2014	2015	2016	2017	2018
	€m	€m	€m	€m	€m
European Agricultural Guarantee Fund					
Opening balance	715	677	599	770	740
Repayments	(715)	(677)	(599)	(770)	(740)
Loans issued	677	599	770	740	725
Closing balance	677	599	770	740	725
Social Insurance Fund					
Opening balance	15	—	—	—	—
Repayments	(4,015)	(4,365)	(1,370)	—	—
Advances	4,000	4,365	1,370	—	—
Closing balance	—	—	—	—	—
Insurance Compensation Fund					
Opening balance	933	833	812	706	636
Repayments	(100)	(100)	(106)	(70)	—
Loans issued	—	79	—	—	—
Closing balance	833	812	706	636	636
EU stability support to Greece					
Opening balance ^a	346	346	347	347	347
Closing balance	346	346	347	347	347
Other loans and advances					
Opening balance	178	273	177	194	236
Repayments/ loans conversion ^b	(157)	(260)	(164)	(181)	(193)
Loans issued	252	164	180	225	250
Closing balance	273	177	194	236	293

Source: Finance Accounts 2014 to 2018. Any apparent differences are due to rounding.

- Notes:
- a The net amount issued in 2010 was €346 million. The loan balance was restated in 2016 to the full amount outstanding.
 - b In 2016, a loan of €96 million to Irish water was converted into a capital contribution. This was a non-cash transaction but reduced the amount of loans outstanding at the end of 2016 by €96 million (included in the figure of €164 million shown).

Figure 1B.2 Movements in Exchequer cash and financial asset balances, 2014 to 2018

Movement in year	2014	2015	2016	2017	2018
	€m	€m	€m	€m	€m
Balance at 1 January	23,601	14,759	13,554	11,119	13,217
Net Exchequer borrowing/ (repayment) in year	(653)	(1,141)	(1,417)	193	4,276
Exchequer surplus/(deficit)	(8,189)	(64)	(1,018)	1,906	99
Balance at 31 December	14,759	13,554	11,119	13,217	17,593
Composition of cash and financial assets at 31 December	2014	2015	2016	2017	2018
	€m	€m	€m	€m	€m
Exchequer account and CSRA ^a	4,089	7,964	8,385	10,533	15,338
Commercial bank deposits	5,540	1,779	199	—	—
Non-Irish treasury bills	1,474	1,184	—	—	—
SBCI medium-term guaranteed notes ^b	—	—	85	85	85
Housing Finance Agency guaranteed notes	3,145	2,424	2,032	1,742	1,558
Collateral funding	511	203	418	857	612
Balance at 31 December	14,759	13,554	11,119	13,217	17,593

Source: Finance accounts 2014 to 2018. Any apparent differences in totals are due to rounding.

- Notes:
- a Includes balance of €310,000 held in the Capital Services Redemption Account (CSRA) (2017: €357,000).
 - b Strategic Banking Corporation of Ireland (SBCI) was established under the Strategic Banking Corporation of Ireland Act 2014. Its aim is to ensure access to flexible funding for Irish small and medium enterprises by facilitating the provision of lower-cost funding and flexible products. The issued share capital of the SBCI is owned by the Minister for Finance.

2 Cost of banking stabilisation measures as at end-2018

- 2.1** Following the onset of the financial crisis in 2008, the State undertook a series of measures to stabilise the banking system. This included the provision by the Central Bank of exceptional liquidity assistance to domestic banks, Government guarantees of deposits and certain other liabilities, significant recapitalisation of domestic banks and the establishment of the National Asset Management Agency (NAMA) to acquire impaired assets from banks.
- 2.2** Previous *Reports on the Accounts of the Public Service* provided estimates of the net cost of the banking stabilisation measures as at the end of 2014 and the end of 2016.¹ The net overall cost continues to evolve as the interventions end or wind down. The purpose of this report is to provide an updated estimate, as at the end of 2018.
- 2.3** While the amounts invested in recapitalising banks, proceeds from disposals, income accruing from the investments, and estimated residual values can be readily identified, estimation procedures are required to identify the costs incurred by the State in funding the investments. The same methodology was applied to estimate the net cost of the stabilisation measures as at the end of 2014 and the end of 2016.

¹ *Report on the Accounts of the Public Services 2014; Report of the Accounts of the Public Services 2016.*

Overview of net costs

- 2.4** The examination analysis has estimated that the net cost to the State from banking stabilisation measures up to the end of 2018 was around €41.7 billion (see Figure 2.1). This estimate is after taking account of the estimated value at 31 December 2018 of the State's investments in banks (€8.4 billion), and NAMA's retained earnings at the end of 2018 (€4.2 billion).
- 2.5** The estimate of the net cost of banking stabilisation has remained relatively consistent since the initial estimate was produced in respect of the end of 2014. Using a consistent methodology for each period,¹ the net cost has been in the range of €40 billion to €42.4 billion.

Figure 2.1 Estimated net outturn from banking stabilisation measures as at end-2018

Net investments	€bn	€bn
Investments in banks	€66.8	
Disposals of equity/shares	(€12.4)	
Estimated residual value of investments at end-2018	(€8.4)	€46.0
<i>Add net cost of debt servicing</i>		
Cost of debt servicing (estimated) ^a	€22.0	
Central Bank additional income (estimated) ^b	(€12.7)	€9.3
<i>Less income from investments/other measures</i>		
Dividends/interest	(€5.1)	
Net income from liability guarantee schemes	(€4.3)	(€9.4)
Net cost to the State		€45.9
NAMA's retained earnings		(€4.2)
Estimated net outturn to the State from banking stabilisation measures as at end-2018		€41.7

Estimated long-term recurring annual cost of servicing the debt €1.1 billion to €1.3 billion a year^c

Source: Analysis by the Office of the Comptroller and Auditor General. See Annex 2A for further detail.

- Notes:
- a The estimated cost of servicing the debt associated with the investment in banks includes the imputed debt service costs of investments made by the ISIF, and premiums paid by the NTMA when it redeemed Government bonds that had been issued to the Central Bank to replace promissory notes.
 - b Estimated portion of the Central Bank's surplus income that is attributable to banking stabilisation measures.
 - c Range assuming interest rates of 2.5% to 3.0% per year; actual cost will be determined by the amount realised from remaining investments and by State's cost of borrowing.

¹ The 2014 estimated net outturn was previously reported as €43.1 billion. This did not take account of the Central Bank reserves of around €800 million arising from income related to banking stabilisation measures nor of NAMA's accumulated deficit at the end of 2014 of €75 million. The estimated net outturn has been adjusted to be consistent with the end of 2016 and end of 2018 estimates.

Capitalisation of banks

2.6 The investments of €66.8 billion in banks were funded through

- The Exchequer — €44.4 billion, including €30.85 billion in the form of promissory notes. In February 2013, following the appointment of special liquidators to Irish Bank Resolution Corporation (IBRC), promissory notes to the value of €25.034 billion which were held by the Central Bank as collateral for lending to IBRC were replaced by Government bonds. Between 2014 and 2018, the NTMA redeemed €13.5 billion of these replacement bonds.
- The Ireland Strategic Investment Fund (ISIF) — €22.4 billion, including ordinary shares received in lieu of dividends on preference shares to the value of €1.7 billion.¹

2.7 Further detail on the investments, disposals and the income from them is set out in Annex 2B.

Debt-related costs

2.8 Because the investments in the banks were funded substantially by increased borrowing, the State bears additional annual debt service and other related costs. In total, the debt-related cost to the State associated with the investments was around €22 billion over the period 2009 to 2018. The cost comprises (see Figure 2.2)

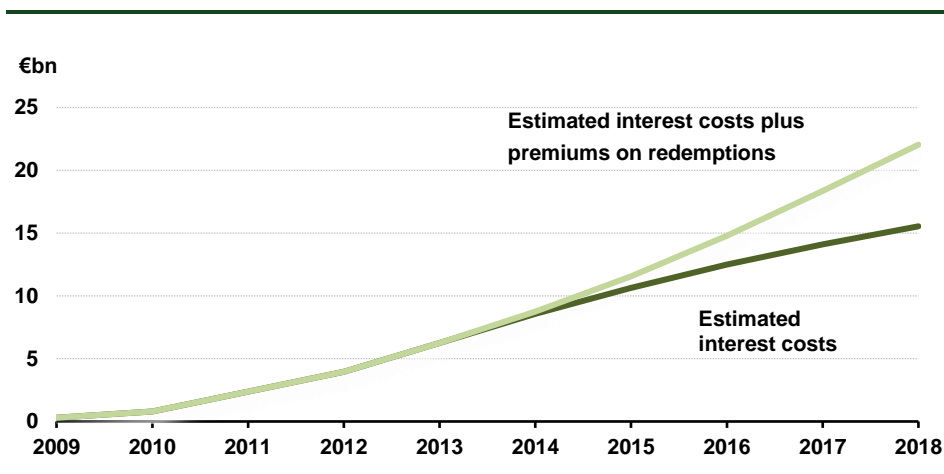
- estimated interest costs (totalling €15.5 billion), including the imputed interest costs of investments made by the ISIF²
- premiums (totalling €6.5 billion) paid by the NTMA when it redeemed Government bonds that had been issued to the Central Bank to replace promissory notes. The premiums arose because the yield on Government bonds was lower at the time of disposal than when the Central Bank acquired the bonds.

2.9 Further detail of the estimated debt service costs and the methodology used are set out in Annex 2C. NTMA payments to the Central Bank are described in greater detail in Annex 2D.

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

² Because the ISIF funded its investments from its own resources, there was no direct interest charge. However, there is an opportunity cost to the State for the investment. For the purposes of this examination, this imputed cost has been calculated as the interest incurred by the Exchequer on the borrowings that could have been avoided if the ISIF funds had been available to the State for purposes other than investing in banks.

Figure 2.2 Cumulative estimated debt-related costs associated with the State's investments in banks, 2009 to 2018



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

Central Bank income relating to banking stabilisation

- 2.10** The cost to the State of servicing the debt associated with banking stabilisation measures has been partially offset by related income of the Central Bank of Ireland.
- 2.11** For the years 2009 to 2018, the examination has estimated that around €12.7 billion of the Central Bank's surplus income (total €18 billion) was attributable to financial instruments held as a result of banking stabilisation measures taken by the State (see Figure 2.3).¹ All of the Central Bank's surplus income accrues to the State — the Central Bank retained 20% of surplus income relating to banking stabilisation measures (around €2.5 billion), thereby increasing its reserves, and paid the balance to the Exchequer (€10.2 billion) in the form of additional annual dividends.

Figure 2.3 Estimate of Central Bank surplus income attributable to transactions in respect of banking stabilisation measures, 2009 to 2018

	Net interest income	Gains on bond disposal	Total
	€bn	€bn	€bn
Exceptional liquidity assistance ^a	1.89	—	1.89
Government bonds, or Government-guaranteed bonds, held by the Central Bank ^{b,c}	3.43	7.38	10.81
Total	5.32	7.38	12.70

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

- Notes:
- a Between 2009 and 2013, exceptional liquidity assistance was advanced to the four banks capitalised by the State.
 - b These included IBRC-related bonds issued by NAMA, bonds issued to meet a promissory note payment of €3.06 billion, and bonds issued to replace promissory notes to the value of €25.034 billion when IBRC was liquidated.
 - c €6.5 billion of the gains was paid by the NTMA when it redeemed Government bonds held by the Central Bank; the remaining €0.9 billion was realised from a sale on the open market.

- 2.12** Exceptional liquidity assistance was provided mainly to IBRC, and all of the income and gains in respect of Government bonds was related to IBRC. In total, an estimated €12.5 billion (98%) of the Central Bank's surplus income for the years 2009 to 2018 that arises from banking stabilisation measures is attributable to transactions between the Central Bank and IBRC. The balance is attributable to Bank of Ireland (€99 million), AIB (€66 million) and Permanent TSB (€44 million).
- 2.13** The interest on the bonds held by the Central Bank, and the €6.5 billion premiums paid when the NTMA bought back some of the bonds, is paid by the NTMA from Exchequer funds. Annex 2D provides further detail on Government bonds held by the Central Bank and payments by the NTMA to the Central Bank.

¹ The other sources of Central Bank income include interest earned on lending conducted by the bank as part of the Eurosystem's monetary policy operations and income earned on securities held under the Eurosystem bond purchase programmes.

Ongoing debt servicing costs and income from 2019

2.14 At the end of 2018, the Exchequer continues to incur the cost of servicing the debt associated with the net €54.3 billion cost of the investments in the banks.¹ The examination estimated that this cost is likely to be around €1.2 billion for 2019.² The bulk of this is in respect of IBRC (around €0.8 billion) and AIB (just under €0.4 billion). The State has recouped its investment in Bank of Ireland (including associated debt servicing costs), and, therefore, incurs no ongoing debt servicing costs. The ongoing annual cost of servicing the debt associated with Permanent TSB is estimated at around €50 million per annum.

2.15 The long-term cost of servicing the debt associated with the investments will depend on a number of factors including

- The amount the State realises from its remaining investments i.e. the amount the State realises from disposal of bank shareholdings and any NAMA surplus.
- The period for which the Central Bank continues to hold Government bonds. While the Central Bank continues to hold some of these bonds, the interest expense for the State will be offset by income from the Central Bank.
- The cost of funding for the State as it refinances existing debt when it matures.

2.16 In the long-term, the cost of servicing the debt associated with the investments is projected to be around €420 million annually for each percentage point that the State pays on its debt.³ For example, at an average cost of debt of 2.5%, the cost of servicing the debt would be around €1.1 billion annually. This estimate does not take account of the additional interest costs that will arise in the future from funding the annual debt servicing costs.

Liability Guarantee Schemes income

2.17 The State guaranteed certain bank liabilities under three main schemes.

- The Deposit Guarantee Scheme (DGS) under which deposits by individuals in covered credit institutions are guaranteed to a limit of €100,000 per eligible depositor per institution.⁴ No fees are payable to the State under this scheme.
- The Credit Institutions (Financial Support) Scheme (CIFS), which operated between 2008 and 2010, provided a guarantee for a broad range of bank liabilities for seven institutions that opted to avail of the scheme.⁵ The credit institutions were required to make payments for the protection provided under the scheme.
- The Eligible Liabilities Guarantee Scheme (ELG) came into effect in December 2009 and closed to new liabilities in March 2013. At that time, liabilities of around €74.6 billion were guaranteed under the scheme. The scheme ended in March 2018. The four institutions that participated in the scheme⁶ were required to pay fees for the cover they received.

2.18 By the end of 2018, the State had received net income of around €4.3 billion under the schemes. €4.5 billion had been received in fees (see Figure 2.4). In addition, almost €1.1 billion had been paid in claims, and €900 million had been received from the IBRC special liquidators.⁷

1 The net cost of the investments before estimated residual values (€8.4bn) and NAMA's retained earnings (€4.2bn). This funded amount, which incurs interest costs, will reduce as disposals of residual shareholdings take place, and when NAMA's surplus is paid to the Exchequer.

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

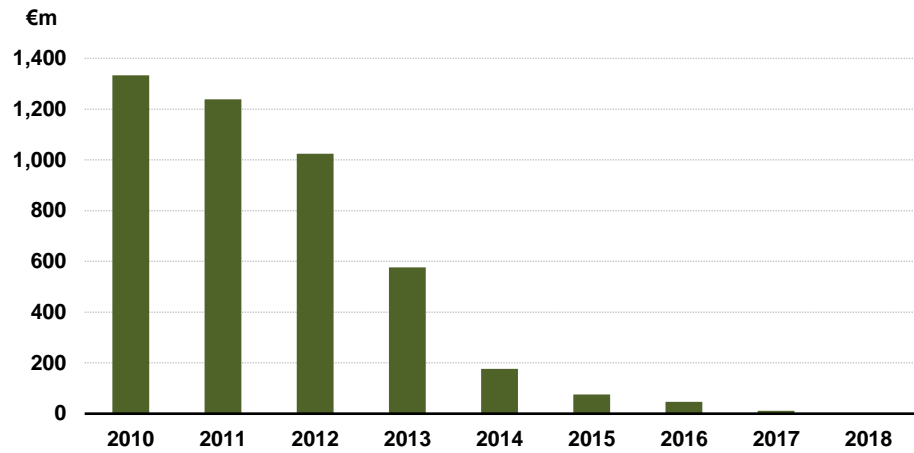
3 Based on estimated values at end-2018. The amount to be funded will increase each year by the amount required to pay ongoing debt servicing costs, and will also incur interest costs.

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

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

6 AIB (including EBS), IBRC, Bank of Ireland and Permanent TSB.

7 In February 2019 a further €225 million was received from the special liquidators.

Figure 2.4 Fee income from liability guarantee schemes, 2010 to 2018

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

National Asset Management Agency

- 2.19** NAMA's purpose was to acquire certain property-related bank assets (largely loans to debtors who had invested in property) from Irish banks, to hold and manage the loans and related collateral and ultimately to dispose of these assets in a manner that protects the State's interests.^{1,2}
- 2.20** NAMA paid €31.8 billion to banks to purchase property-related loans in respect of which the borrowers owed just over €74.4 billion. The losses incurred by the banks on the loans was of the order of €42.6 billion, or 57% of the loans' carrying value.
- 2.21** At the end of 2018, NAMA's financial statements reported accumulated retained earnings of just over €4.2 billion. This is reflected in NAMA's projections at the end of 2018 that it will have an end-of-life yield to the Exchequer of €4 billion. NAMA has stated that this yield is subject to prevailing market conditions.

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

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

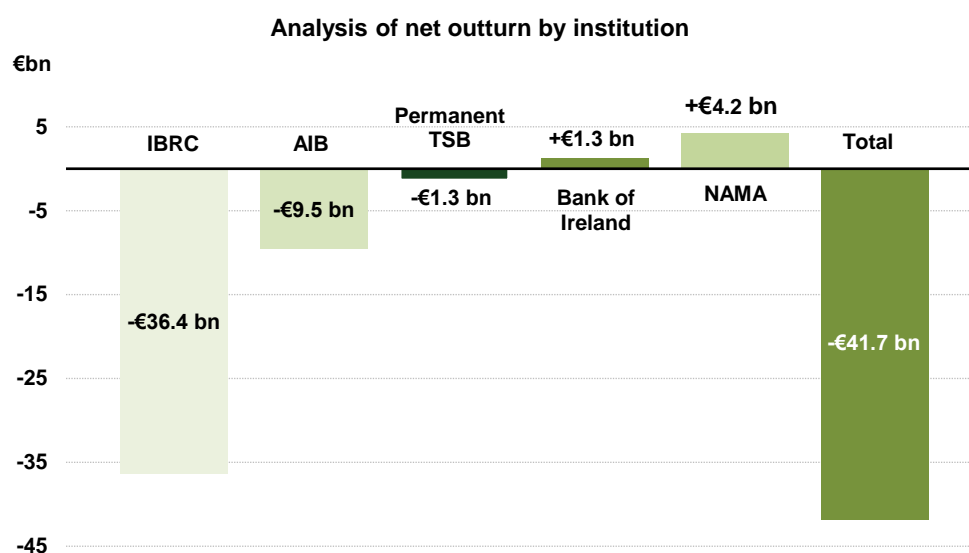
Outturn for individual banks

2.22 After taking account of the estimated residual value of the State's investments, the estimated net outturn, as at 31 December 2018, in respect of the State's level of support for each institution was (see Figure 2.5)

- IBRC — estimated net cost of €36.4 billion
- AIB — estimated net cost of €9.5 billion
- Permanent TSB — estimated net cost of €1.3 billion
- Bank of Ireland — estimated net surplus of €1.3 billion.

2.23 NAMA's retained earnings of around €4.2 billion cannot readily be attributed to loans acquired from specific banks.

Figure 2.5 Estimated net outturn from banking stabilisation measures as at end-2018



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

Conclusions

- 2.24** By the end of 2018, the estimated cost to the State of measures taken to stabilise the banking system was a net €41.7 billion, after taking account of the value of the State's remaining shareholdings in AIB, Bank of Ireland and Permanent TSB (a combined €8.4 billion), and NAMA's retained earnings at the end of 2018 (€4.2 billion).
- 2.25** The net costs will continue to rise due to the ongoing cost of servicing the associated long-term debt. In the long term, when all of the State's remaining shareholdings have been sold, NAMA has realised its surplus and the Central Bank has disposed of the government bonds it holds, the cost of servicing the debt will be determined by the prevailing borrowing costs for the State — around €420 million for each percentage point incurred. For borrowing rates between 2.5% and 3%, it is estimated the interest cost will be between €1.1 billion and €1.3 billion a year for the foreseeable future.
- 2.26** The eventual net outturn will also be impacted by the extent to which the NAMA surplus and the amounts the State realises for its remaining shareholdings differ from the end of 2018 values.
- 2.27** The State is not expected to recover further significant funds from its investment in IBRC, which had a net estimated cost of €36.4 billion at the end of 2018.
- 2.28** It is unlikely that the State will generate a surplus on its investment of €22.2 billion in AIB. At the end of 2018, this investment has cost the State an estimated €9.5 billion, after taking account of the €7.1 billion value of the State's remaining shareholding in AIB. Projected outcomes that the State might recover the full investment do not appear to take account of the estimated cost of servicing the debt associated with the investment (€6.2 billion by the end of 2018).

Annex 2A Outturn as at end-2018

Figure 2A.1 shows the components of the net outturn from banking stabilisation measures as at 31 December 2018 for each bank.

Figure 2A.1 Estimated net outturn, by bank, from banking stabilisation measures as at 31 December 2018

	AIB ^a	Bank of Ireland	Permanent TSB ^a	Trading banks total	IBRC ^a	Total
	€bn	€bn	€bn	€bn	€bn	€bn
Cost of capitalising banks, through investments	(22.2)	(5.9)	(4.0)	(32.1)	(34.7)	(66.8)
Disposals of investments	6.7	3.9	1.8	12.4	—	12.4
Estimated cost of servicing debt associated with the investments	(6.2)	(0.7)	(0.6)	(7.5)	(14.5)	(22.0)
Related income from the Central Bank ^b	0.1	0.1	—	0.2	12.5	12.7
Income from investments	3.2	1.7	0.2	5.1	—	5.1
Fees received under liability guarantee schemes	1.8	1.5	0.7	4.0	0.5	4.5
Claims made under liability guarantee scheme	—	—	—	—	(1.1)	(1.1)
Dividend from IBRC special liquidators	—	—	—	—	0.9	0.9
Estimated net cost as at 31 December 2018	(16.6)	0.6	(1.9)	(17.9)	(36.4)	(54.3)
Estimated residual value as at 31 December 2018 ^c	7.1	0.7	0.6	8.4	—	8.4
NAMA retained earnings as at 31 December 2018 ^d	—	—	—	—	—	4.2
Estimated net outturn as at 31 December 2018	(9.5)	1.3	(1.3)	(9.5)	(36.4)	(41.7)

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

- Notes:
- a Investments in Allied Irish Banks plc (AIB) include those in the Educational Building Society (EBS) which was acquired by AIB in July 2011. Irish Life and Permanent changed its name to Permanent TSB in May 2012. IBRC was formerly Anglo Irish Bank (Anglo) and Irish Nationwide Building Society (INBS).
 - b Around €40 million of the related income from the Central Bank is attributable to Permanent TSB. Due to rounding, it does not appear in Figure 2A.1.
 - c See Annex 2B for further details.
 - d NAMA's retained earnings cannot be attributed to individual banks.

Annex 2B Capitalisation of banks through investments

In total, the State made capital injections of €66.8 billion, net of fee income of just over €260 million, into four financial institutions and had, by the end of 2018, made disposals to the value of €12.4 billion (see Figure 2B.1).

Figure 2B.1 Capitalisation of banks — investments and disposals, December 2018

	AIB	Bank of Ireland	Permanent TSB	Trading banks total	IBRC	Total
	€bn	€bn	€bn	€bn	€bn	€bn
Investments						
Ordinary shares ^a	(10.8)	(3.1)	(2.3)	(16.2)	(4.1)	(20.3)
Preference shares ^b	(3.5)	(1.8)	—	(5.3)	—	(5.3)
Capital contribution	(6.0)	—	—	(6.0)	—	(6.0)
Contingent capital notes ^c	(1.6)	(1.0)	(0.4)	(3.0)	—	(3.0)
Value of promissory notes issued ^d	(0.3)	—	—	(0.3)	(30.6)	(30.9)
Irish Life	—	—	(1.3)	(1.3)	—	(1.3)
Investments net of fee income^e	(22.2)	(5.9)	(4.0)	(32.1)	(34.7)	(66.8)
Disposals						
Ordinary shares	3.4	1.0	0.1	4.5	—	4.5
Preference shares	1.7	1.9	—	3.6	—	3.6
Contingent capital notes	1.6	1.0	0.4	3.0	—	3.0
Irish Life	—	—	1.3	1.3	—	1.3
Disposals of investments	6.7	3.9	1.8	12.4	—	12.4
Net investment	(15.5)	(2.0)	(2.2)	(19.7)	(34.7)	(54.4)

Sources: Ireland Strategic Investment Fund and Department of Finance

- Notes:
- Ordinary shares include dividends on preference shares received in the form of ordinary shares (AIB €1.41 billion and Bank of Ireland €0.25 billion).
 - In March 2009, the ISIF invested €3.5 billion in preference shares in Bank of Ireland. In quarter one 2010, a total of €1.66 billion of these shares were converted to ordinary shares (included in ordinary shares above).
 - Contingent capital notes qualify as tier two capital. They convert to ordinary shares under certain circumstances, including if the core tier one capital ratio falls below 8.25%.
 - The promissory notes held by IBRC were cancelled in February 2013 and exchanged between the NTMA and the Central Bank for floating rate treasury bonds totalling €25.034 billion.
 - Fee income deducted from investments totalled around €260 million.

Income from investments and estimated residual value of State's investments in banks

Total income received in respect of the investments to the end of 2018 amounted to €5.1 billion and the estimated residual value of the State's investments in banks as at 31 December 2018 was €8.4 billion (see Figure 2B.2).

Figure 2B.2 Income from and estimated residual value of State's investments in banks, December 2018

Income from investments	AIB	Bank of Ireland	Permanent TSB	Total
	€bn	€bn	€bn	€bn
<i>ISIF</i>				
Fee income on preference shares	0.03	0.03	—	0.06
Ordinary shares in lieu of dividends on preference shares	1.41	0.25	—	1.66
Dividends on ordinary shares	0.50	0.02	—	0.52
Dividends on preference shares	0.45	0.74	—	1.19
Cancellation of preference share warrants	0.05	0.49	—	0.54
<i>Exchequer</i>				
Coupon interest on contingent capital notes	0.80	0.15	0.15	1.10
Accrued dividend on sale of Irish Life	—	—	0.04	0.04
Total	3.24	1.68	0.19	5.11
Estimated residual value of investments				Valuation
Bank				€bn
IBRC ^a				—
AIB ^b				7.1
Bank of Ireland ^b				0.7
Permanent TSB ^b				0.6
Total				8.4

Sources: Ireland Strategic Investment Fund and Department of Finance

Notes: a The Department of Finance considers that the outstanding investment in IBRC is irrecoverable.
b The equity held in AIB, Bank of Ireland and Permanent TSB was valued at market prices.

Annex 2C Estimated cost of servicing the debt associated with the State's investments

The examination has estimated the cost of servicing the debt associated with the investments, including the imputed debt service costs of ISIF investments, as at end-2018 as around €22.0 billion (see Figure 2C.1).

Figure 2C.1 Estimated cost of servicing debt associated with the investments, 2009 to 2018 (including the imputed debt service costs of ISIF investments)

Classified by Year	2009 to 2016	2017	2018	Total
	€bn	€bn	€bn	€bn
Source of funding				
Exchequer ^a	9.8	3.0	3.3	16.1
ISIF	5.0	0.5	0.4	5.9
Total	14.8	3.5	3.7	22.0

Classified by Bank	AIB	Bank of Ireland	Permanent TSB	Trading banks total	IBRC	Total
	€bn	€bn	€bn	€bn	€bn	€bn
Source of funding						
Exchequer ^{a,b}	1.0	0.0	0.6	1.6	14.5	16.1
ISIF	5.2	0.7	—	5.9	—	5.9
Total	6.2	0.7	0.6	7.5	14.5	22.0

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

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

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

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

Figure 2C.2 Methodologies used to estimate cost of funding investments in banks as at end-2018

Source of funding	Method
Exchequer funding	<ul style="list-style-type: none"> ▪ For the years 2009 to 2014, the cost of funding investments was estimated using the rate of the most recent borrowing by the NTMA in the quarter in which the transactions occurred, using rates provided by the NTMA. For the years 2015 to 2018, the rate used was the weighted average cost of borrowing by the NTMA at the end of each year. ▪ For disposals or income received in cash, the reductions in the cost of funding when the proceeds were received by the Exchequer were calculated using the same approach. ▪ The cost of funding Government bonds (including floating rate notes) was calculated using the rates applying to the bonds. ▪ Premiums paid by the NTMA to redeem Government bonds held by the Central Bank are treated as an expense in the year in which they are paid, and the associated income from the Central Bank is treated as income.
ISIF	<p>The ISIF funded its investments from its own resources. Therefore, there was no direct interest charge to the State for these investments. However, there was an opportunity or imputed cost to the State because, if the funds had not been invested in the banks, they would have been available for other purposes. Two approaches were considered by the examination as a basis for estimating the imputed cost of funding to the State.</p> <ul style="list-style-type: none"> ▪ The first was to estimate the opportunity cost — that is, what the ISIF would have earned if it had retained the funds to invest at its discretion. The ISIF pointed out that the assets liquidated to fund the investments in the banks were mainly liquid global assets (including debt and equity instruments), which left the Fund with an increased weighting in illiquid assets (including private equity and property). The ISIF stated that if the withdrawals had not occurred, it is reasonable to assume that the Fund would have remained invested in line with its long-term strategic asset allocation and that the Fund would have earned the same return as its long-term strategic benchmark over the period 2009 to 2014 — around 11% per annum (when the assets were held by the NPRF). For the four years 2015 to 2018 the ISIF reported an annualised average return of 1.9% on its discretionary investments. ▪ The second was to estimate the cost of the funds at the Exchequer's cost of borrowing, on the basis that if the funds had been available to the Exchequer, State borrowing could have been reduced by the cost of the investments made by the ISIF (€20.7 billion). The imputed interest cost has been calculated, by the examination, as the interest incurred by the State on the borrowings that could have been avoided if the ISIF funds has been available to the State for purposes other than investing in banks. <p>The second approach (which gave a significantly lower cost of funding than the first approach) was used by the examination (including from 2015 on).</p>

Annex 2D Government bonds held by the Central Bank

In 2013, the Central Bank acquired Government bonds with a nominal value of €28.5 billion issued by the NTMA following the liquidation of IBRC. Between 2013 and 2018, the Central Bank realised gains of €7.4 billion from the disposal of some of these bonds.

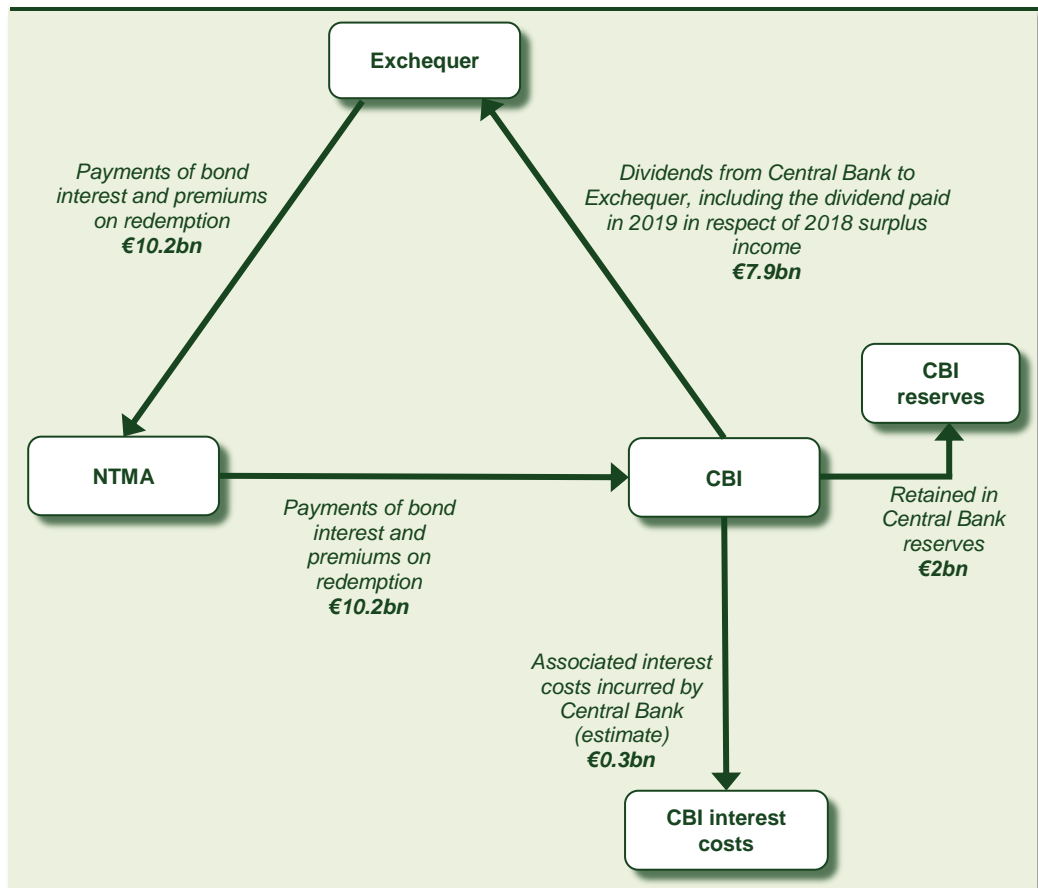
- €6.5 billion of the gains arose from a disposal back to the NTMA of floating rate bonds with a nominal value of €13.5 billion.
- €0.9 billion of the gains arose from disposals to the open market of a 5.4% Government bond.

NTMA payments to the Central Bank

The interest on the bonds held by the Central Bank, and the €6.5 billion premiums paid when the NTMA bought back some of the bonds, is paid by the NTMA from Exchequer funds.

A significant proportion (just over 77%) of the interest and premiums paid by the NTMA to the Central Bank has been returned to the Exchequer as part of the dividend paid by the Central Bank from its surplus income, thereby reducing the net cost of servicing this part of the debt. This circular flow of funds is described in Figure 2D.1.

Figure 2D.1 IBRC-related bonds held by Central Bank — flow of funds from/to Exchequer, 2013 to 2018^a

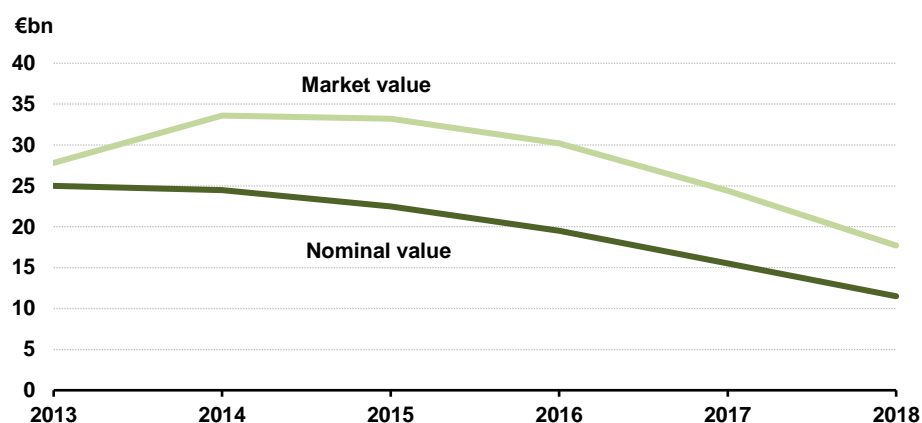


Source: Analysis by the Office of the Comptroller and Auditor General

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

At the end of 2018, the Central Bank held floating rate bonds with a nominal value of €11.5 billion and a market value of €17.7 billion (see Figure 2D.2). If the Central Bank continues to dispose of these bonds at the same rate as in the period 2014 to 2018, it will have disposed of all the bonds by the end of 2021.

Figure 2D.2 Floating rate notes held by Central Bank of Ireland, nominal and market values 2013 to 2018



Source: Central Bank of Ireland Annual Reports 2013 to 2018. Analysis by the Office of the Comptroller and Auditor General.

The net impact of the disposal by the Central Bank of government bonds on the Exchequer is the same whether the bonds are redeemed by the NTMA using funds borrowed at market rates, or the bonds are sold on the open market. The consequent effective cost of servicing the debt that is related to the disposals is the same.

- If the bonds are redeemed by the NTMA using borrowed funds, any premium paid by the NTMA on redemption returns to the State, either as part of the Central Bank dividend or retained by the Central Bank in its reserves.¹ The NTMA will then pay interest to an external party on the funds it has borrowed to redeem the bonds.
- If the bonds are sold to a third party, the Central Bank will realise a gain. In these circumstances, the NTMA continues to pay interest on the bonds, to the purchaser, at the same rate that would have been paid to the Central Bank prior to disposal. This higher interest rate (compared with the lower interest cost if the NTMA redeems the bonds) is offset for the State by the Central Bank's gain on disposal.

¹ It is assumed that the yield on bonds at disposal is lower than the yield when the bonds were issued, giving rise to a gain on disposal for the Central Bank.

Voted Expenditure

3 Vote accounting and budget management

- 3.1** Dáil Éireann provides money for the services of government departments and offices by
- approving estimates of receipts and expenditure for those services in the course of each year
 - giving statutory effect to the estimates in an annual Appropriation Act.
- 3.2** Expenditure is provided for under 'votes', with one or more covering the functions of each department or office. The first part of the estimate for each vote (referred to as the ambit) provides an outline of the services to be financed. The ambit is incorporated in the annual Appropriation Act and so represents the purposes for which funds have been authorised by Dáil Éireann.
- 3.3** At the end of each financial year, each department and office is required to prepare an account, known as the appropriation account, for each voted service administered by it. The statutory requirement is for the appropriation account to report the outturn for the year compared with the amount provided by Dáil Éireann.
- 3.4** In addition to voted services, some government departments administer statutory funds. Generally, these are funded from sources other than the Central Fund and therefore, that funding is not 'voted' by Dáil Éireann. Examples of such funds and their main income sources are
- Social Insurance Fund (PRSI contributions)
 - Local Government Fund (local property tax receipts)
 - National Training Fund (training fund levy receipts and EU grants)
 - Environment Fund (plastic bag and landfill levies).
- 3.5** In presenting estimates and expenditure reports, the Department of Public Expenditure and Reform includes the Social Insurance Fund (€9.2 billion in 2018 estimates) and the National Training Fund (€415 million in 2018 estimates) in total gross expenditure. The Department advises that this is in recognition of the significant expenditure funded by PRSI contributions, the role of the respective departments in relation to the expenditure incurred by those funds and that, where there is a shortfall in these funds in any financial year, the shortfall may be met from moneys provided by Dáil Éireann.

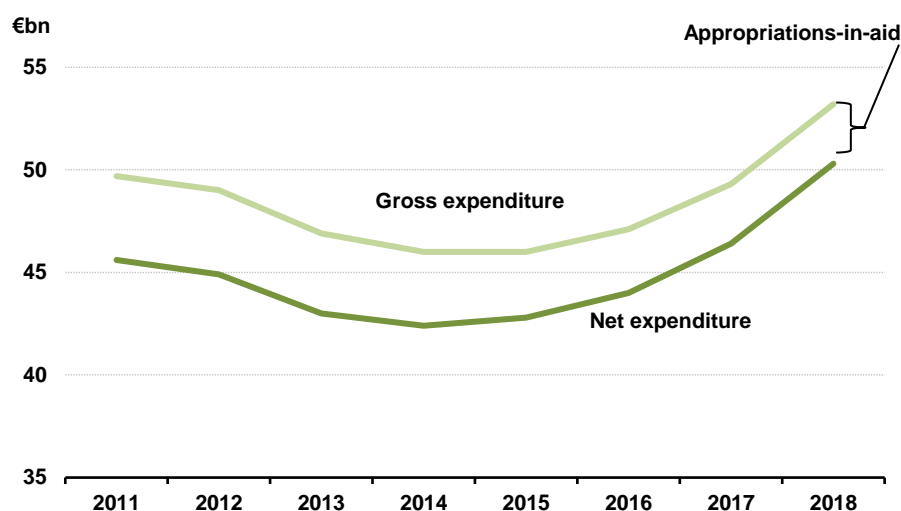
Results of 2018 audits of appropriation accounts

- 3.6** Audits of the 2018 appropriation accounts for all votes have been completed. Each account, together with the related audit report, is being presented to Dáil Éireann with this report.
- 3.7** A summary of the amounts appropriated in 2018 for voted public services is included in Annex 3A (Figure 3A.1). The outturn for the year is also shown, together with the surplus of appropriations over expenditure.
- 3.8** The final amount appropriated for public services in 2018 was €53.6 billion. This comprised supply grants totalling €50.9 billion, capital funding carried over from 2017 totalling €70.3 million and appropriations-in-aid of €2.6 billion.

Vote outturn

- 3.9** Aggregate expenditure and appropriations-in-aid of all votes for the years 2011 to 2018 are presented in Figure 3.1. The total amount spent by departments and offices in 2018 was €53.3 billion (gross). After deduction of realised appropriations-in-aid of over €2.9 billion, the net expenditure in the year was €50.3 billion.

Figure 3.1 Voted expenditure outturn, 2011 to 2018

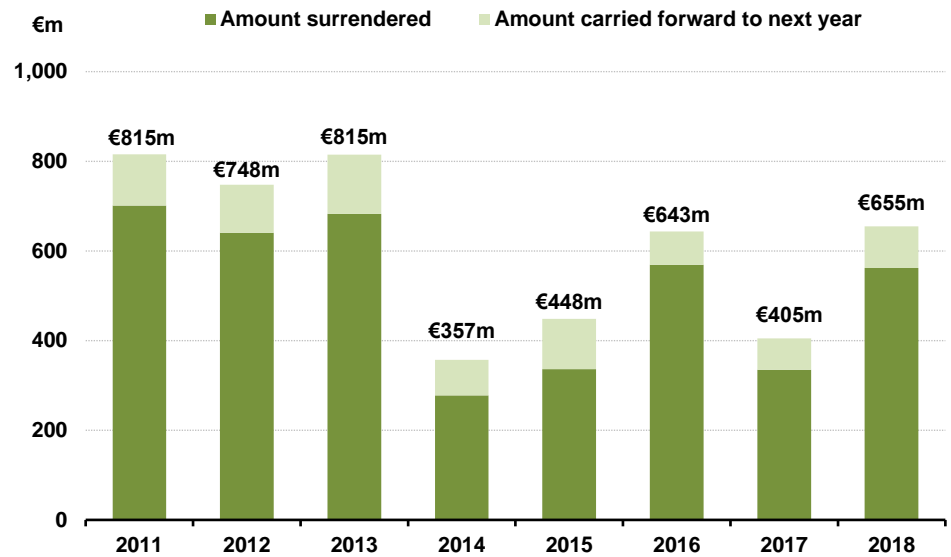


Source: Reports on the Accounts of the Public Services, 2011 to 2018, Annex 3A

Surpluses

- 3.10** Departments and offices are not permitted to spend more than the amount appropriated for each vote. When the expenditure in the year is less than the amount provided, the surplus is liable to be surrendered to the Exchequer.
- 3.11** All departments and offices managed within their overall voted allocations in 2018 and surpluses were recorded by all votes.
- 3.12** The 2018 surpluses amounted to €655 million (see Figure 3.2). Of that amount, a total of €93 million was approved for carry over to 2019. The balance of €562 million was due for surrender. The sums liable for surrender or carried over to 2019 for each vote are shown in Annex 3A (Figure 3A.2).

Figure 3.2 Surplus appropriations, 2011 to 2018

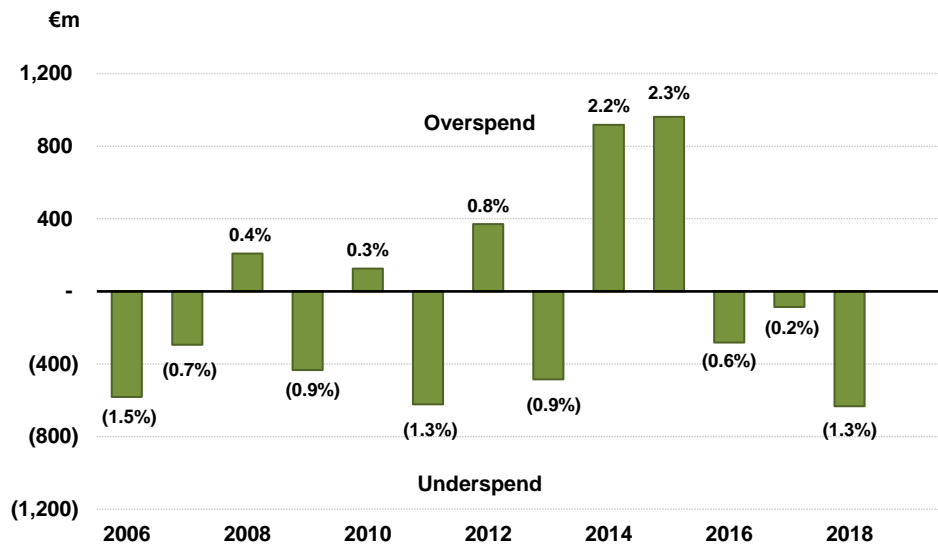


Source: Reports on the Accounts of the Public Service, 2011 to 2018, Annex 3A

Budget variance

3.13 The original estimate amount approved by Dáil Éireann represents the forecast of the amount required to meet the cost of the services to be provided from each vote. The budget variance is the difference between the original estimate of net expenditure and the actual outturn in a year.¹ Since 2016, the net expenditure across all votes has been less than the total provided (see Figure 3.3). The underspend in 2018 was 1.3% of the original budgeted amount.

Figure 3.3 Net expenditure variance from original budget, all votes, 2006 to 2018



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

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

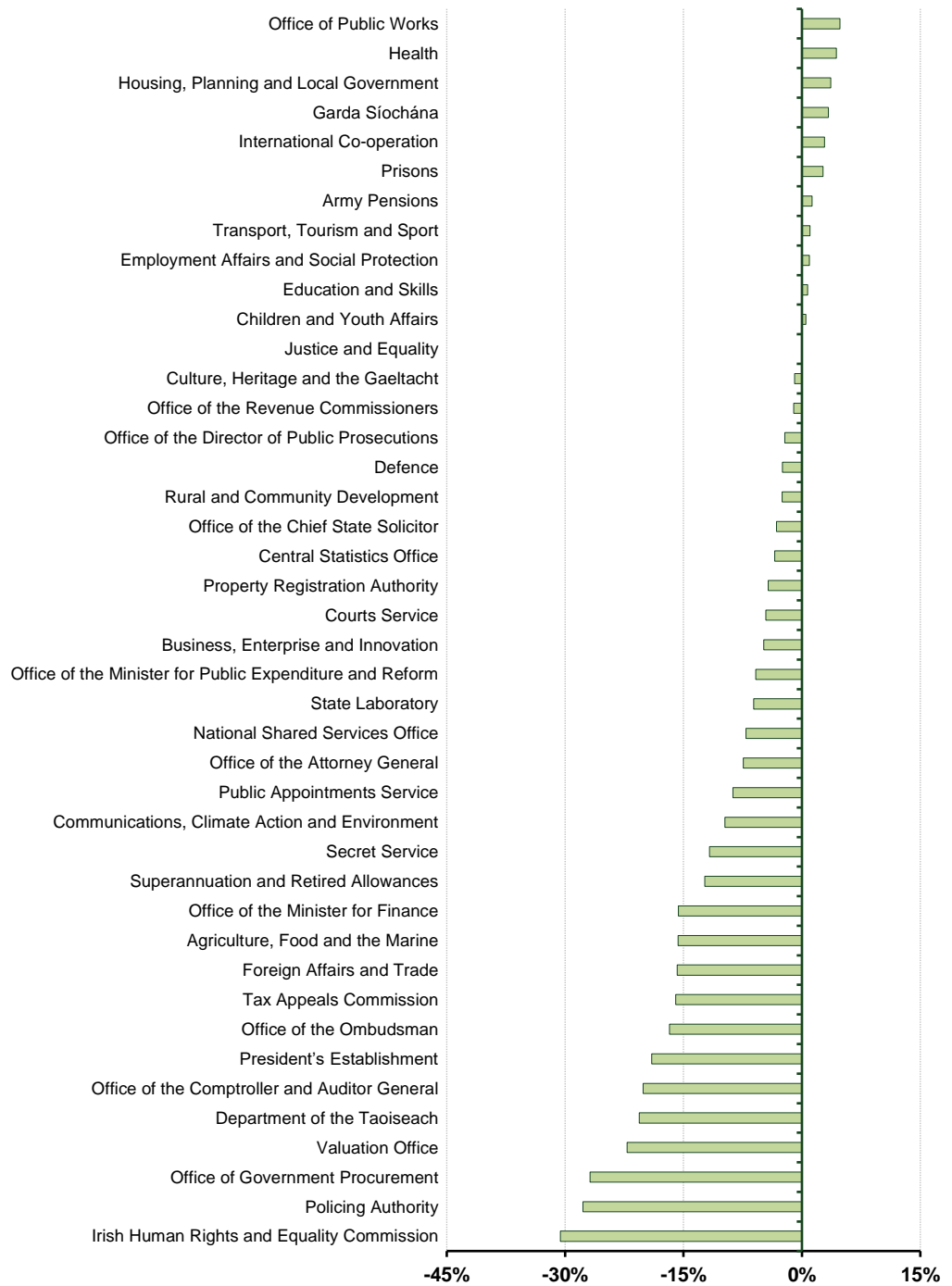
Budget variance by vote

3.14 The three votes with the largest monetary net variance in 2018 were Health (€651 million more than the original estimate), Housing, Planning and Local Government (€117 million more than the original estimate) and Employment Affairs and Social Protection (€99 million more than the original estimate).

3.15 Figure 3.4 sets out, for each vote, the proportionate variance between actual expenditure and the original estimate in 2018.

- For 12 votes, the net expenditure outturn was greater than the original estimate. The Office of Public Works, at 5%, had the largest percentage overspend compared with its original estimate.
- The remaining 30 votes incurred net expenditure less than originally anticipated in the revised estimates. The Irish Human Rights and Equality Commission, at 31%, had the largest percentage underspend compared with its original estimate.
- Each appropriation account explains material variances from the amount originally voted by Dáil Éireann. Explanations are provided for each spending subhead where the outturn is at least $\pm 5\%$ different from the amount provided, and at least \pm €100,000.

Figure 3.4 Net expenditure variance by vote, as a proportion of the original budget, 2018



Source: Office of the Comptroller and Auditor General

Funding of variances

- 3.16** When the Dáil approves a vote estimate, it does so at the aggregate level. Departments are allowed some scope to manage budgets by moving allocations between programmes and subheads, but only if the Department of Public Expenditure and Reform agrees. This process of reallocation of funding is referred to as virement.
- 3.17** If large adjustments to the budgets for programmes or subheads are required as the year progresses, formal approval must be sought from the Dáil. This is done through the 'supplementary estimate' process. This process may also be used, if required, to increase the cash limit for a vote for the year or to adjust expected appropriations-in-aid. Details of supplementary estimates requested are discussed at the relevant Dáil committees (typically in the final quarter of the year) before approval is sought from the Dáil itself.
- 3.18** In 2018, 12 votes required substantive supplementary estimates to increase the overall amount available (see Figure 3.5). These included six votes — Garda Síochána, Army Pensions, Health, Employment Affairs and Social Protection and Transport, Tourism and Sport, and Education and Skills — which have required substantive supplementary estimates most years since 2012.

Exchequer extra receipts

- 3.19** Certain sums collected by departments and offices are directed by the Department of Public Expenditure and Reform to be credited to the Exchequer, and not treated as appropriations-in-aid. This includes court fine receipts, and Property Registration Authority fee receipts. Windfall receipts are also usually brought to account in this way, including proceeds of significant sales of property, receipts on foot of surplus income or profits of State companies, interest, dividends or capital repayments, compensation payments and voluntary surrender of salary.
- 3.20** Where Exchequer extra receipts arose in 2018, the amounts are shown in notes to the relevant appropriation accounts. The total Exchequer extra receipts recorded by departments and offices in 2018 was €286 million (2017: €170 million). The aggregate amount of those receipts reported in each account is set out in Annex 3A (Figure 3A.3).

Figure 3.5 Votes with supplementary estimates, 2012 to 2018^a

Vote	2012	2013	2014	2015	2016	2017	2018
20 Garda Síochána	●	●	●	●	●	●	●
35 Army Pensions	●	●	●	●	●	●	●
38 Health ^b	●	●	●	●		●	●
37 Employment Affairs and Social Protection	●			●	●	●	●
31 Transport, Tourism and Sport	●	●	●	●	●	●	●
26 Education and Skills			●	●	●	●	●
34 Housing, Planning and Local Government	●		●			●	●
21 Prisons			●	●			●
40 Children and Youth Affairs			●	●			●
13 Office of Public Works							●
27 International Co-Operation							●
24 Justice and Equality		●					●
30 Agriculture, Food and the Marine			●	●	●	●	●
22 Courts Service	●		●		●		●
12 Superannuation and Retired Allowances	●		●	●		●	●
32 Business, Enterprise and Innovation	●		●	●	●	●	●
17 Public Appointments Service			●	●		●	
5 Office of the Director of Public Prosecutions						●	
28 Foreign Affairs and Trade					●		
36 Defence			●		●		
6 Office of the Chief State Solicitor				●			
7 Office of the Minister for Finance				●			
18 National Shared Services Office		●		●			
29 Communications, Climate Action and Environment				●			
2 Department of the Taoiseach			●				
33 Culture, Heritage and the Gaeltacht			●				

Source: Office of the Comptroller and Auditor General

- Notes:
- Indicates an increase in the net expenditure estimate i.e. a substantive supplementary estimate.
 - Indicates that the increase in net expenditure was a token €1,000 i.e. a technical supplementary estimate.
- a Vote titles and numbers are as per the 2018 Revised Estimates for Public Services. For some votes, different titles may have applied in earlier years in which a supplementary estimate was approved.
- b From 2012 to 2014, the data relates to the HSE vote. From 2015, the HSE no longer holds a vote. Since then, Exchequer funding is provided to it through grants from the Health Vote.

Annex 3A Vote financial outturn

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

Figure 3A.1 provides a summary of the outturn on expenditure and receipts relative to the amounts appropriated for public services in 2018.

Figure 3A.2 shows how surplus appropriations in 2018 were applied — either through deferral of expenditure to 2019, or by surrender to the Exchequer.

Figure 3A.3 shows the Exchequer extra receipts recorded against each vote in 2018.

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 2017	Amount of capital funding not spent in 2017 and carried over for expenditure on capital services in 2018. The carry-over of these sums was approved by Dáil Éireann.
Appropriations-in-aid	Departmental receipts which, with the agreement of Dáil Éireann, may be retained to defray the expenses of the vote to which they relate.
Total appropriations	Sum of the supply grant, deferred 2017 capital moneys (if any) and appropriations-in-aid.
Surplus for the year	The excess of total appropriations by Dáil Éireann over the gross expenditure together with any surplus on appropriations-in-aid. The surplus for the year is liable for surrender back to the Exchequer.
Deferred surrender	Amount of capital funding not spent in 2018 which was carried over for expenditure in 2019. These carry overs were approved by Dáil Éireann.
Surplus to be surrendered	Amount of money appropriated in 2018 but not spent in the year or deferred to 2019, and so required to be surrendered to the Exchequer.
Exchequer extra receipts	Departmental receipts that are not appropriated-in-aid of the vote, but are paid directly into the Exchequer.

Figure 3A.1 Summary of appropriations for public services in 2018, by vote

Vote	Service	Amount appropriated				Outturn			Surplus/deficit		
		Supply grants	Deferred from 2017	Appropriations -in-aid	Total	Gross expenditure	Appropriations -in-aid	Net expenditure	Gross surplus (deficit)	Excess/ (deficit) in receipts	Net surplus for the year ^a
		€000	€000	€000	€000	€000	€000	€000	€000	€000	€000
1	President's Establishment	4,321	—	97	4,418	3,589	90	3,499	829	(7)	822
2	Department of the Taoiseach	33,391	—	872	34,263	27,314	801	26,513	6,949	(71)	6,878
3	Office of the Attorney General	15,322	—	799	16,121	14,835	649	14,186	1,286	(150)	1,136
4	Central Statistics Office	48,746	—	1,601	50,347	48,486	1,427	47,059	1,861	(174)	1,687
5	Office of the Director of Public Prosecutions	43,502	—	964	44,466	43,389	830	42,559	1,077	(134)	943
6	Office of the Chief State Solicitor	33,695	—	1,084	34,779	33,982	1,374	32,608	797	290	1,087
7	Office of the Minister for Finance	40,647	—	1,401	42,048	36,137	1,854	34,283	5,911	453	6,364
8	Office of the Comptroller and Auditor General	7,927	—	6,050	13,977	13,059	6,728	6,331	918	678	1,596
9	Office of the Revenue Commissioners	356,879	—	68,621	425,500	424,789	71,611	353,178	711	2,990	3,701
10	Tax Appeals Commission	1,626	—	81	1,707	1,426	60	1,366	281	(21)	260
11	Office of the Minister for Public Expenditure and Reform	56,230	685	3,301	60,216	57,613	4,036	53,577	2,603	735	3,338
12	Superannuation and Retired Allowances	366,151	—	218,750	584,901	573,180	252,128	321,052	11,721	33,378	45,099
13	Office of Public Works	424,214	—	25,749	449,963	449,883	26,240	423,643	80	491	571
14	State Laboratory	9,343	—	935	10,278	9,742	972	8,770	536	37	573
15	Secret Service	1,000	—	—	1,000	883	—	883	117	—	117
16	Valuation Office	10,440	—	1,147	11,587	9,917	1,788	8,129	1,670	641	2,311
17	Public Appointments Service	13,359	60	239	13,658	12,558	314	12,244	1,100	75	1,175
18	National Shared Services Office	43,267	1,429	5,492	50,188	46,802	5,275	41,527	3,386	(217)	3,169
19	Office of the Ombudsman	11,177	—	420	11,597	9,729	426	9,303	1,868	6	1,874
20	Garda Síochána	1,601,522	8,907	124,898	1,735,327	1,729,262	125,787	1,603,475	6,065	889	6,954

Vote	Service	Amount appropriated				Outturn			Surplus/deficit		
		Supply grants	Deferred from 2017	Appropriations -in-aid	Total	Gross expenditure	Appropriations -in-aid	Net expenditure	Gross surplus (deficit)	Excess/ (deficit) in receipts	Net surplus for the year ^a
		€000	€000	€000	€000	€000	€000	€000	€000	€000	€000
21	Prisons	338,195	2,233	14,497	354,925	353,923	14,610	339,313	1,002	113	1,115
22	Courts Service	83,607	6,000	48,569	138,176	135,003	49,508	85,495	3,173	939	4,112
23	Property Registration Authority	28,734	—	569	29,303	28,266	759	27,507	1,037	190	1,227
24	Justice and Equality	377,779	741	81,478	459,998	455,731	85,027	370,704	4,267	3,549	7,816
25	Irish Human Rights and Equality Commission	6,588	—	115	6,703	4,664	92	4,572	2,039	(23)	2,016
26	Education and Skills	9,338,247	—	481,795	9,820,042	9,810,643	586,860	9,223,783	9,399	105,065	114,464
27	International Co-operation	514,306	—	1,170	515,476	514,459	1,240	513,219	1,017	70	1,087
28	Foreign Affairs and Trade	192,898	—	45,243	238,141	228,066	65,685	162,381	10,075	20,442	30,517
29	Communications, Climate Action and Environment	343,083	6,000	237,855	586,938	552,365	237,297	315,068	34,573	(558)	34,014
30	Agriculture, Food and the Marine	1,250,842	23,800	312,069	1,586,711	1,546,253	471,783	1,074,470	40,458	159,714	200,172
31	Transport, Tourism and Sport	2,048,808	10,950	24,477	2,084,235	2,062,925	26,347	2,036,578	21,310	1,870	23,180
32	Business, Enterprise and Innovation	818,961	—	52,000	870,961	836,970	57,725	779,245	33,991	5,725	39,716
33	Culture, Heritage and the Gaeltacht	298,759	700	4,200	303,659	302,311	5,654	296,657	1,348	1,454	2,802
34	Housing, Planning and Local Government	3,330,618	—	63,266	3,393,884	3,387,179	69,726	3,317,453	6,705	6,460	13,165
35	Army Pensions	237,634	—	5,000	242,634	242,320	5,167	237,153	314	167	481
36	Defence	686,813	—	20,535	707,348	701,421	31,658	669,763	5,927	11,123	17,050
37	Employment Affairs and Social Protection	10,766,125	1,000	203,305	10,970,430	10,934,247	207,009	10,727,238	36,183	3,704	39,887
38	Health	15,526,909	—	450,221	15,977,130	15,974,789	452,348	15,522,441	2,341	2,127	4,468
39	Office of Government Procurement	20,470	100	550	21,120	15,546	500	15,046	5,574	(50)	5,524
40	Children and Youth Affairs	1,379,010	—	24,515	1,403,525	1,386,854	23,946	1,362,908	16,671	(569)	16,102
41	Policing Authority	3,286	—	61	3,347	2,440	66	2,374	907	5	912
42	Rural and Community Development	208,301	7,700	23,231	239,232	237,483	26,893	210,590	1,749	3,662	5,411
Total		50,922,732	70,305	2,557,222	53,550,259	53,260,433	2,922,290	50,338,143	289,826	365,068	654,893

Source: 2018 Appropriation Accounts. Any apparent differences in totals are due to rounding.

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

Figure 3A.2 Application of surplus 2018 appropriations, by vote

Vote	Service	Surplus	Deferred	Surplus
		for the year	surrender (to 2019)	for surrender
		€000	€000	€000
1	President's Establishment	822	—	822
2	Department of the Taoiseach	6,878	—	6,878
3	Office of the Attorney General	1,136	—	1,136
4	Central Statistics Office	1,687	—	1,687
5	Office of the Director of Public Prosecutions	943	—	943
6	Office of the Chief State Solicitor	1,087	—	1,087
7	Office of the Minister for Finance	6,364	—	6,364
8	Office of the Comptroller and Auditor General	1,596	—	1,596
9	Office of the Revenue Commissioners	3,701	—	3,701
10	Tax Appeals Commission	260	—	260
11	Office of the Minister for Public Expenditure and Reform	3,338	—	3,338
12	Superannuation and Retired Allowances	45,099	—	45,099
13	Office of Public Works	571	—	571
14	State Laboratory	573	—	573
15	Secret Service	117	—	117
16	Valuation Office	2,311	—	2,311
17	Public Appointments Service	1,175	—	1,175
18	National Shared Services Office	3,169	1,168	2,001
19	Office of the Ombudsman	1,874	—	1,874
20	Garda Síochána	6,954	3,581	3,373

Figure 3A.3 Exchequer extra receipts 2018, by vote

Vote	Service	Extra
		receipts realised
		€000
1	President's Establishment	—
2	Department of the Taoiseach	27
3	Office of the Attorney General	—
4	Central Statistics Office	—
5	Office of the Director of Public Prosecutions	19,273
6	Office of the Chief State Solicitor	2,540
7	Office of the Minister for Finance	1
8	Office of the Comptroller and Auditor General	—
9	Office of the Revenue Commissioners	1,836
10	Tax Appeals Commission	—
11	Office of the Minister for Public Expenditure and Reform	12
12	Superannuation and Retired Allowances	—
13	Office of Public Works	—
14	State Laboratory	—
15	Secret Service	—
16	Valuation Office	—
17	Public Appointments Service	—
18	National Shared Services Office	—
19	Office of the Ombudsman	3
20	Garda Síochána	2,400

Vote	Service	Surplus for the year	Deferred surrender (to 2019)	Surplus for surrender
		€000	€000	€000
21	Prisons	1,115	—	1,115
22	Courts Service	4,112	2,500	1,612
23	Property Registration Authority	1,227	56	1,171
24	Justice and Equality	7,816	942	6,874
25	Irish Human Rights and Equality Commission	2,016	—	2,016
26	Education and Skills	114,464	—	114,464
27	International Co-operation	1,087	—	1,087
28	Foreign Affairs and Trade	30,517	—	30,517
29	Communications, Climate Action and Environment	34,015	15,000	19,015
30	Agriculture, Food and the Marine	200,172	22,000	178,172
31	Transport, Tourism and Sport	23,180	18,366	4,814
32	Business, Enterprise and Innovation	39,716	27,600	12,116
33	Culture, Heritage and the Gaeltacht	2,802	700	2,102
34	Housing, Planning and Local Government	13,165	—	13,165
35	Army Pensions	481	—	481
36	Defence	17,050	—	17,050
37	Employment Affairs and Social Protection	39,887	1,000	38,887
38	Health	4,468	—	4,468
39	Office of Government Procurement	5,524	96	5,428
40	Children and Youth Affairs	16,102	—	16,102
41	Policing Authority	912	—	912
42	Rural and Community Development	5,411	—	5,411
	Total	654,893	93,009	561,884

Source: 2018 Appropriation Accounts

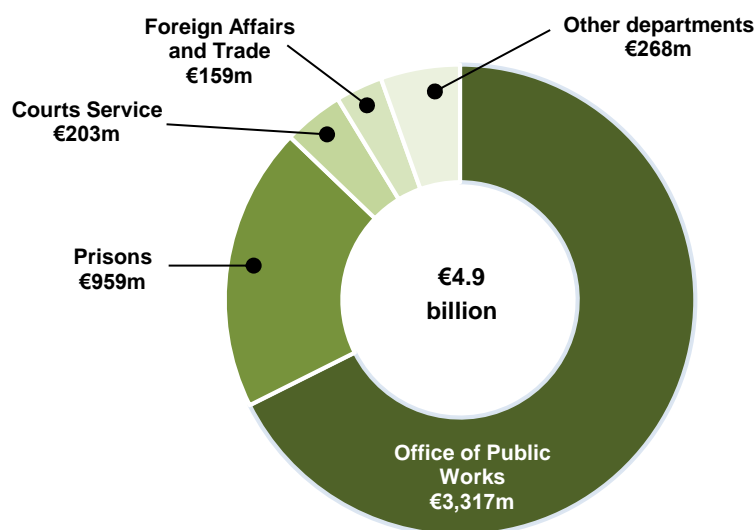
Vote	Service	Extra receipts realised
		€000
21	Prisons	—
22	Courts Service	6,985
23	Property Registration Authority	66,916
24	Justice and Equality	18
25	Irish Human Rights and Equality Commission	—
26	Education and Skills	875
27	International Co-operation	—
28	Foreign Affairs and Trade	—
29	Communications, Climate Action and Environment	141,023
30	Agriculture, Food and the Marine	978
31	Transport, Tourism and Sport	38,634
32	Business, Enterprise and Innovation	279
33	Culture, Heritage and the Gaeltacht	4
34	Housing, Planning and Local Government	2,781
35	Army Pensions	—
36	Defence	8
37	Employment Affairs and Social Protection	12
38	Health	33
39	Office of Government Procurement	89
40	Children and Youth Affairs	1,662
41	Policing Authority	—
42	Rural and Community Development	—
	Total	286,389

Source: 2018 Appropriation Accounts

4 Accounting for capital assets

- 4.1** The State holds a significant portfolio of capital assets.¹ Major classes of capital assets include land, buildings, ICT software and hardware, office equipment and furniture. Public sector bodies hold such capital assets in pursuit of policy objectives rather than for the creation of profit as is usually the case in the private sector. Bodies are encouraged to consider capital assets owned as part of an overall State asset portfolio, rather than viewing them solely from their own perspective.
- 4.2** While the State does not generally hold capital assets for investment or resale purposes, accurate information in relation to the value of capital assets is important to guide decisions on acquisition, maintenance and disposal. In addition, robust control procedures are required to ensure assets are safeguarded and their value is protected.
- 4.3** This chapter
- reviews elements of the accounting framework in place for capital assets in government departments and considers the accounting policies in use in individual departments²
 - sets out certain issues in relation to capital assets identified during audits of the appropriation accounts of government departments.
- 4.4** The 2018 appropriation accounts recognise capital assets with a net value of €6 billion in relation to government departments. Over 80% (€4.9 billion) of this value relates to property assets (i.e. land and buildings) in use (see Figure 4.1). €938 million relates to non-property capital assets in use (see Figure 4.2). The remaining €186 million relates to capital assets under development. A number of other departments do not report in their appropriation accounts the value of (some or all of the) land and buildings they hold and use, but provide physical details of those assets in an appendix to their accounts.

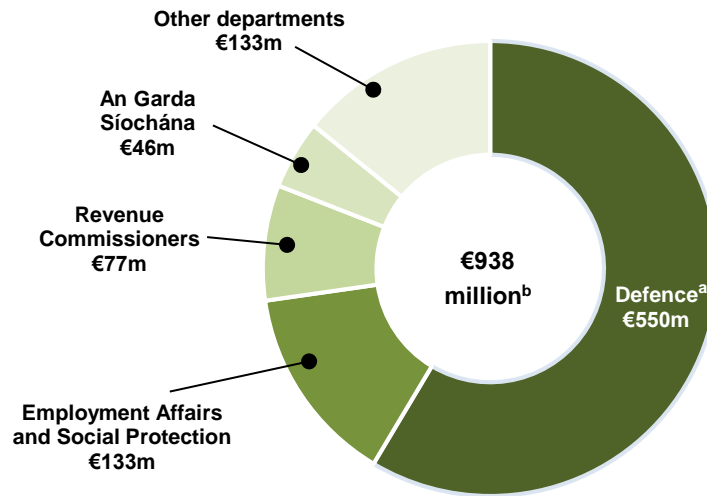
Figure 4.1 Land and buildings in use reported in appropriation accounts, 2018



¹ Capital assets are tangible or intangible assets acquired by central government departments and offices for use on a continuing basis and having an expected or potential useful life of more than one financial year.

² In this report, the term department is used to refer to all central government departments and offices funded by annual vote estimates.

Figure 4.2 Non-property capital assets in use in appropriation accounts, 2018



Source: 2018 Appropriation Accounts

Notes: a Military equipment accounts for 98% of the value of capital assets recognised by the Department of Defence.

b Any difference in the total is due to rounding.

Accounting framework

1 The exceptions are central government departments, education and training boards and some funds.

2 FRS 102 is a comprehensive financial reporting standard issued by the UK's Financial Reporting Council.

3 The most recent rules are set out in Circular 24/2018: *Requirements for Appropriation Accounts 2018*, Department of Public Expenditure and Reform, December 2018.

4 The cash basis of accounting involves recording transactions only when the corresponding cash is received or payments are made.

5 Department of Finance Circular 1/95, dealing with 1994 appropriation accounts.

4.5 Most public sector bodies prepare financial statements in accordance with generally accepted accounting practice (GAAP).¹ For the majority of public sector entities in Ireland, this is Financial Reporting Standard (FRS) 102.²

4.6 Government departments are required by law to prepare annual financial statements referred to as appropriation accounts. The accounting framework for those accounts is laid down by the Minister for Public Expenditure and Reform.³

4.7 The framework requires departments to prepare the appropriation accounts on a cash basis,⁴ but with certain accrual information (including information on capital assets) included in the notes to the accounts.

4.8 Information on capital assets was first introduced to appropriation accounts in 1995⁵ and has been expanded over the years. In the current format, carrying values for capital assets are included in a statement of financial position (SOFP) at Note 2 to the appropriation accounts, with further information on capital assets (including asset classification and depreciation charged) provided in Note 2.2.

4.9 Annex 4A sets out relevant extracts relating to capital assets from the guidance issued to departments, by the Department of Public Expenditure and Reform, in respect of the 2018 appropriation accounts.

4.10 Guidance issued by the Department requires

- Capital assets to be valued in the SOFP at either historical cost less accumulated depreciation since the date of acquisition; or current value, which is defined as the lower of replacement cost or recoverable amount.
- The basis of valuation of any land and buildings included in capital assets to be explained in the relevant accounting officer's introduction to the appropriation account.
- If valuations for land and buildings cannot be provided for technical reasons, departments should provide physical details of these assets in an appendix to their appropriation account.
- Individual departments should obtain prior approval from the Department of Public Expenditure and Reform for any departures, changes or additions to the standard accounting policies in the appropriation accounts. In 2018, the main area where departments deviated from the standard accounting policies on capital assets was in respect of depreciation rates.

Limitations of current accounting framework

4.11 The rules regarding the accrual information to be included in the notes to appropriation accounts are ambiguous and, in certain areas, are open to interpretation. In the absence of clear or definitive guidance, accounting officers have significant latitude in a number of areas with regard to accounting for capital assets, including

- whether or not to include certain assets in the SOFP
- how to value assets that are included, so long as they disclose the valuation basis
- when it is appropriate to change from a historical cost valuation basis to a revaluation model
- how frequently to conduct revaluations
- what rate of depreciation to apply
- whether/how to reflect impairments to the value of assets.

4.12 The guidance issued by the Department allows for a variety of valuation methods but additional guidance on how this should be implemented has not yet been developed. In contrast, the UK Treasury issues a guidance manual each year that sets out the appropriate valuation basis for certain categories of assets and also provides guidance on implementing each valuation methodology.

4.13 The opportunity for meaningful comparison between departments' holdings of fixed assets is limited due to the different valuation methodologies in use. In addition, where current value (or some approximation) is used, there are significant time gaps in updating the valuations.

- 4.14** Recommendations on fiscal management and reporting in Irish public bodies were made by the International Monetary Fund (IMF)¹ in 2013. By 2017, just four of thirteen IMF recommendations in the area of financial reporting had been implemented.² Recommendations not fully implemented included
- the establishment of a permanent government financial reporting unit headed by a professional chief financial officer
 - the adoption of uniform financial reporting standards for all public sector entities based on European accounting and statistical standards
 - the establishment and maintenance of professional standards for the government accounting profession.
- 4.15** In November 2017, my Office wrote to the Accounting Officer in the Department of Public Expenditure and Reform, outlining gaps in the accounting framework identified during the audits of the 2016 appropriation accounts. The letter made specific reference to gaps in the accounting rules for capital assets.
- 4.16** In its response in early 2018, the Department of Public Expenditure and Reform acknowledged limitations in the current accounting framework, including issues around accounting for capital assets, and proposed the establishment of a working group to review and enhance the financial reporting framework for central government departments and offices. The Department has recently established a working group to review the accounting policies in relation to capital assets.
- 4.17** In 2018, the Department commissioned the Organisation for Economic Cooperation and Development (OECD) to conduct an assessment of the central government financial reporting framework under the EU Commission Structural Reform Support Programme (SRSP). The report was published in July 2019. The Department has stated that it accepts the OECD's findings and recommendations for reforms as a very valuable input to the improvement of financial reporting for Government.
- 4.18** The Department has stated that it is currently considering the establishment of new structures, including the working group referred to above, to oversee implementation of the recommendations from the OECD report. The Department intends to avail of further financial support from the SRSP in 2019 for the implementation of the next phases of the financial reporting reforms proposed by the OECD.

¹ The IMF team visited Ireland in March 2013, at the request of the Departments of Finance and Public Expenditure and Reform, to evaluate Ireland's fiscal management and reporting against the standards in the IMF's newly revised Fiscal Transparency Code.

² See chapter 5, *Fiscal Transparency*, Report on the Accounts of the Public Services 2016.

Issues from audits of appropriation accounts

- 4.19** When government departments include capital assets in their financial statements, they implicitly make a number of key assertions, as outlined in Figure 4.3.

Figure 4.3 Implied assertions in relation to capital assets

Assertion	Considerations
Completeness	All appropriate assets in existence should be recognised and should be classified properly.
Valuation	Assets should be recognised at appropriate values. Depreciation charged should reflect the portion of the overall value of the assets which has effectively been consumed during an accounting period. This includes the recognition of any impairment which may have occurred e.g. due to damage, obsolescence or market changes.
Existence and rights/ownership	Assets recognised must exist. The department owns or has beneficial ownership of the assets recognised.

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

Completeness

- 4.20** The completeness assertion is that all capital assets have been identified, classified and recorded appropriately in the notes to the appropriation accounts.

Excluded property assets

- 4.21** Under the accounting framework specified by the Department of Public Expenditure and Reform, if valuations for land and buildings cannot be provided for technical reasons, departments should provide physical details of these assets in an appendix to their appropriation account.
- 4.22** Figure 4.4 identifies the departments which appended schedules of assets owned (with no valuations) to their appropriation accounts in 2018. It is not evident in many cases why valuations could not be procured for the types of assets included.

Figure 4.4 Appropriation accounts with property asset schedules appended, 2018

Vote	Properties
13 Office of Public Works	727 national monuments. ^a
22 Courts Service	Eight court houses owned and managed by the Courts Service. Other court houses are included in the SOFP.
29 Communications, Climate Action and Environment	Two fisheries owned by the Minister and managed by Inland Fisheries Ireland.
30 Agriculture, Food and the Marine	82 land parcels or buildings controlled or managed by the Department, including 44 forest plots. Six fishery harbour centres vested in the Minister. ^b
33 Culture, Heritage and the Gaeltacht	Six national parks managed by the Department.
36 Defence	66 State-owned land parcels and buildings administered by the Department.

Source: 2018 Appropriation Accounts

Notes: a The 727 monuments are heritage assets. A list is not appended to the appropriation account, but summary details are disclosed in Note 2.2 to the account.

b Some information on the value of land and buildings at the fishery harbours is included in the accounts of the Fishery Harbours Centres Fund.

- 4.23** The accounting policies in the Defence appropriation account note that land and buildings are not valued and are not included in capital assets. Payments in respect of the development of buildings administered by the Department are reflected in the SOFP as capital assets under development. When such projects are complete, the cost is removed from capital assets under development without any transfer to capital assets.
- 4.24** In the case of the Education and Skills appropriation account, school buildings and sites are included in capital assets while they are 'work in progress'. While ownership is not transferred, the Department treats the transfer of control of a completed school to a school authority as a disposal in its appropriation account.

Asset registers

- 4.25** Robust procedures are required to safeguard assets effectively, including maintaining a complete and accurate register to record a description of each asset, the date of acquisition, its (current) physical location, its cost and a current valuation.
- 4.26** A comprehensive fixed asset register is a key control document underpinning the capital asset information included in the SOFP. A fixed asset register is intended to allow departments to track and verify assets. It is potentially a tool for safeguarding of assets that can mitigate against theft, loss and fraud, or at least ensure early detection.
- 4.27** Common issues noted on the audits of 2018 appropriation accounts (and prior years) related to the completeness or accuracy of information on asset registers e.g. inaccurate description, incorrect location recorded and asset identification 'tags' not deployed. Other issues encountered include asset registers continuing to list assets that are no longer in use or that can't be located, and some assets physically identified on site that are missing from the register.

- 4.28** Detected errors and omissions in fixed asset registers frequently result in a consequential requirement to adjust reported values in the SOFP and the corresponding capital asset note. Such adjustments indicate that controls over the management of assets are inadequate.
- 4.29** A number of departments are currently undertaking major projects to update and reconcile their holding of capital assets to their asset registers.

Valuation

- 4.30** The current financial reporting framework for appropriation accounts allows capital assets to be valued based on either historical cost or current value. In practice, a number of different methods can be used to establish a current value.
- 4.31** Audits of appropriation accounts have identified issues around the adequacy of back-up documentation with regard to the valuation amounts recognised for capital assets. In particular, there have been cases where departments have been unable to provide historic valuation documents still being relied upon for accounting purposes.

Property asset valuation

- 4.32** Figure 4.5 sets out the main methods used by departments to value property assets in 2018 appropriation accounts. Some departments used different valuation methods for different classes of assets.
- 4.33** Figure 4.6 sets out details of valuation methods for property assets applied by departments in 2018 appropriation accounts.

Figure 4.5 Valuation methods for property assets, 2018

Method	Description
Historical cost	This is the cost of the asset when acquired less the accumulated depreciation since the date of acquisition.
Market value	This is the price that could be obtained if the asset was sold in the current market place.
Replacement cost	This is the cost, at current market prices, that would be incurred to replace the existing asset with a similar asset. Depreciated replacement costs takes account of physical deterioration of the asset.
Building cost norms	This method is based on a standard unit construction cost for different types of building. An estimated cost per square foot is applied for different categories of assets.

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

Figure 4.6 Valuation basis for property assets in 2018 appropriation accounts

Vote	Name	Net value of property assets € million	Historical cost	Market value / valuation	Replacement cost	Building cost norms
13	Office of Public Works	3,317	✓	✓	✓	✓
21	Prisons	959	✓	✓	✓	
22	Courts Service	203	✓	✓	✓	
24	Justice and Equality	5	✓			
26	Education and Skills	138	✓			
27	International Co-operation	10	✓	✓		
28	Foreign Affairs and Trade	159	✓	✓		
31	Transport, Tourism and Sport	1	✓			
33	Culture, Heritage and the Gaeltacht	56	✓			
34	Housing, Planning and Local Government	1	✓			
40	Children and Youth Affairs	56	✓			

Source: 2018 Appropriation Accounts

4.34 Where a valuation basis other than historical cost is used, it is important that valuations are updated periodically (e.g. every three to five years)¹ to ensure the amount recognised represents an accurate estimation of the value of an asset.

4.35 The Office of Public Works (OPW) employs a variety of different valuation methods for land and buildings (see Figure 4.7). The OPW has stated in this regard that it awaits the outcome of the review to be carried out by the working group recently established by the Department of Public Expenditure and Reform.

Figure 4.7 OPW property assets by valuation methods, 2018

Valuation method	Number of property assets	Value at 31 December 2018 € million
Historical cost ^a	135	839
Market value/valuation ^b	287	831
Replacement cost ^c	11	928
Building cost norms ^d	544	719
Total	977	3,317

Source: Vote 13 Appropriation Account 2018

- Notes:
- a Includes some government buildings, built or substantially refurbished (e.g. Collins Barracks Museum, OPW headquarters, Farmleigh Estate) and a number of garda stations.
 - b Includes certain government offices, certain garda stations and decentralised sites.
 - c Prestige properties, such as Dublin Castle, Leinster House, the National Gallery and the National Museum.
 - d Includes certain government buildings, certain garda stations and decentralised sites as well as the Four Courts, the National Library, the Phoenix Park and Áras an Uachtaráin.

¹ FRS 102 does not specify a time interval for revaluations. In practice, three to five year cycles are typical, reflecting the period within which significant shifts in market value may occur.

- 4.36** In the introduction to the OPW appropriation account, the Accounting Officer notes that the valuations used for capital assets should not be regarded as a current estimate of realisable value. This examination noted that
- assets valued on the ‘market value’ and ‘replacement cost’ bases were last revalued in 2013 and 2014, despite significant acceleration in the property market since that time
 - building cost norms applied to buildings were last updated in 2012, despite inflation in construction costs of nearly 40%¹ since then.
- 4.37** In response to the examination findings, the OPW noted that a large number of the property assets in its portfolio will never be considered for disposal, and that all properties that are considered for disposal are subject to a valuation process.
- 4.38** Varying methods are also employed for assigning values to prisons, properties and other sites recognised in Vote 21 Prison Service (see Figure 4.8).

Figure 4.8 Irish Prison Service property asset valuation methods, 2018^a

Valuation method	Number of property assets	Value at 31 December 2018 € million
Historical cost	3	163
Market value	1	1
Existing use	9	28
Replacement cost	9	767
Total	22	959

Source: Vote 21 Appropriation Account 2018

Note: a The Irish Prison Service holds assets at 13 locations. The number of assets included in Figure 4.8 is higher, due to different valuation methods being used for the assets held at these locations. For example, land is valued at existing use, prison buildings are valued at replacement cost (2014) and work done on buildings since 2014 is valued at historical cost.

- 4.39** In relation to Vote 21
- Prison land and buildings are revalued every five years. The last revaluation was in 2014. This valuation will be updated in 2019.
 - Land is valued on an existing use basis and prison buildings are valued on the basis of average replacement cost per cell.
 - One land holding — Thornton Hall, in North County Dublin — continues to be valued at historical cost, including investment in infrastructure and services, on the basis that “it is a strategic State asset with potential future use value”.
- 4.40** Figure 4.9 provides the breakdown by valuation method and the values assigned to land and buildings owned by the Courts Service.

¹ Based on a comparison of the index for the second half of 2018 with that for the second half of 2012 in the Tender Price Index published by the Society of Chartered Surveyors Ireland in July 2019.

Figure 4.9 Courts Service property asset valuation methods, 2018

Valuation method	Number of property assets	Value at 31 December 2018 € million
Historical cost ^a	8	58
Market value	15	4
Depreciated replacement cost	29	141
Total	52	203

Source: Vote 22 Appropriation Account 2018

Note: a The Courts Service has stated that €41 million included at historical cost relates to refurbishment costs for buildings which are used by but are not owned by the Courts Service.

4.41 In relation to the Courts Service

- A policy of valuing buildings at depreciated replacement cost was adopted in 2016 — 29 buildings have been valued to date on that basis. Eight buildings in use, which have not yet been revalued, are stated at historic cost.
- Land and buildings not in use but acquired for potential future development are valued at market value/fair value.

4.42 Figure 4.10 gives a breakdown by valuation method and the values assigned to land and buildings recognised in the accounts of the Department of Foreign Affairs and Trade.

Figure 4.10 Foreign Affairs and Trade property asset valuation methods, 2018

Valuation method	Number of property assets	Value at 31 December 2018 € million
Cost (post-2005)	9	31
Valuation (2005) ^a	17	59
Valuation (2011)	3	69
Total	29	159

Source: Vote 28 Appropriation Account 2018

Note: a Additions since 2005 are valued at cost.

4.43 In relation to the Foreign Affairs and Trade vote

- Land and buildings acquired since 2005 are reflected at cost.
- The carrying values of 17 land holdings and buildings are based on valuations conducted in 2005, but augmented (where relevant) by subsequent additions which are reflected at cost. The Department is now unable to locate the majority of the 2005 valuations. However, it believes that they were carried out on a market value basis.

- Three mission properties (in Paris, Rome and New York) are included at valuations conducted in 2011. It appears that a different valuation approach was adopted in each case, with the experts consulted including an auction house, an architect and a firm of estate agents.

Non-property capital asset valuation

- 4.44** Non-property capital assets are generally valued at historical cost less accumulated depreciation.
- 4.45** In the case of software development projects, it was noted on audit that some departments only include the direct cost of procuring the software whereas others include indirect costs such as the staff costs of the project team.

Depreciation

- 4.46** The Department of Public Expenditure and Reform's guidance in relation to the application of depreciation is limited and there is no guidance at all in relation to impairment.
- 4.47** The Department's guidance specifies that land should not be depreciated.
- 4.48** While the accounting framework does not prescribe a specific rate for the depreciation of buildings,¹ the departments that do apply depreciation generally use a rate of 2% per year (i.e. an implicit useful life of 50 years). Certain departments don't apply any depreciation on the basis that annual maintenance is sufficient to maintain the condition of buildings. The Department of Housing, Planning and Local Government has a number of low value bespoke buildings that it depreciates at 5% a year.
- 4.49** The Department of Public Expenditure and Reform's guidance does provide specific depreciation rates for certain categories of non-property assets — 20% for IT equipment, software, scientific and laboratory equipment and other office machinery; and 10% for furniture and fittings, telecommunications equipment and major operational software systems.
- 4.50** There is no consistent depreciation rate specified for other common capital assets e.g. motor vehicles.

Existence and rights/ownership

- 4.51** The assertion is that all capital assets recognised actually exist and that the department has the rights to the assets it owns.
- 4.52** All departments should be able to provide proof of ownership of assets included in their SOFP and corresponding capital asset note, particularly high-value assets such as land, buildings, vehicles and machinery. Where proof of ownership/clear title is not available, problems can arise when an asset is to be sold or transferred.

¹ Circular 1/1995: *Appropriation Accounts and Asset Registers* states that the depreciation for buildings, if any, should reflect their maintenance level — if buildings are being maintained to their original condition, no depreciation should arise.

- 4.53** Uncertainty around the ownership of high-value assets has led to a number of issues arising on audit, including
- the same assets being included in the appropriation accounts of two votes
 - the transfer of assets (to another department) not being reflected in the asset register of the transferring department
 - title deeds or other proof of ownership/title not available for audit to confirm ownership of the asset.
- 4.54** A number of bodies fall under the aegis of the Department of Justice and Equality. Some of those bodies have their own separate votes (e.g. the Irish Prison Service and An Garda Síochána), whereas others are funded through the Justice and Equality vote (e.g. the Insolvency Service of Ireland and the Data Protection Commission). In general, capital assets owned by the latter group of bodies are included in the SOFP of the appropriation account for Vote 24 Justice and Equality, while also being included in the individual accounts of the bodies in question.

Conclusions and recommendations

- 4.55** The current framework for the preparation of appropriation accounts requires the preparation of an account (on a cash basis) that compares a department's expenditure with the voted amount. The audit opinion required by law is to the effect that the appropriation account properly presents the transactions in the year.
- 4.56** Extensive additional information is presented with the appropriation account by way of notes to the account.
- 4.57** Accurate and consistent treatment when accounting for capital assets is vital to ensure the overall transparency, comparability and reliability of information presented in the notes to the appropriation accounts. Current practice has resulted in gaps in assets recorded in the notes to the accounts, and major inconsistencies in asset valuations and depreciation rates.
- 4.58** Problems in relation to accounting for capital assets have been evident for many years. Issues affecting individual departments are dealt with during the audits of the appropriation accounts in question. However, action is required at a central level to address the lack of coherence and of consistency caused by deficiencies in the accounting framework. The 2013 IMF Report and the recent OECD Report should be helpful in that regard.
- 4.59** The OECD report proposes a six-year timescale to implement a range of recommended reforms with the first phase aiming to bring the information already disclosed in appropriation accounts up to international financial reporting standards.
- 4.60** If accrual information is to be included within the cash-based appropriation accounts, it should be done in accordance with established accounting standards.

Recommendation 4.1

The Department of Public Expenditure and Reform should set the rules for accounting for capital assets in appropriation accounts, based on the relevant provisions within a set of internationally recognised financial reporting standards.

- 4.61** Regardless of the accounting framework in place, more specific guidance on accounting for capital assets would result in greater consistency and comparability in relation to a very significant figure in departments' SOFPs.

Recommendation 4.2

The Department of Public Expenditure and Reform should issue appropriate guidance annually detailing the appropriate valuation basis for different categories of assets and setting out how departments should implement the various methodologies.

- 4.62** The current financial reporting framework for appropriation accounts allows capital assets to be valued based on either historical cost or current value. In practice, a number of different methods can be used to establish a current value. Where a valuation basis other than historical cost is used, it is important that valuations are updated periodically (e.g. every three to five years) to ensure the amount recognised represents an accurate estimation of the current value of an asset.

Recommendation 4.3

The Department of Public Expenditure and Reform should specify the maximum interval at which valuations should be carried out on capital assets to ensure the amount included in the appropriation account is a proper reflection of the current value of the asset.

Recommendation 4.4

The Department of Public Expenditure and Reform should specify that where departments use a number of valuation methods, the note to the accounts should provide a breakdown of the values reported by valuation method; and where a valuation other than historical cost is used, the note should indicate when the relevant valuations were last updated and when the next valuation is planned.

Response of the Accounting Officer, Department of Public Expenditure and Reform

I agree with recommendations 4.1 to 4.4. These recommendations will be implemented in the context of the phased implementation of the financial reporting reforms recommended by the OECD.

Annex 4A Guidance on appropriation accounts issued by the Department of Public Expenditure and Reform

The Minister for Public Expenditure and Reform sets the rules for the preparation by departments of annual appropriation accounts. The Department of Public Expenditure and Reform issued two key documents providing guidance on the preparation of appropriation accounts for 2018

- Circular 24/2018 — setting out requirements for 2018 and superseding instructions in previous circulars — was issued in December 2018.
- A guidance manual — providing further clarification on certain practical issues and highlighting common errors from previous years — was issued in February 2019.

Relevant extracts relating to capital assets from Circular 24/2018 and the guidance manual are set out in Figures 4A.1 and 4A.2 respectively. The abbreviation SOFP refers to the statement of financial position.

Figure 4A.1 Extracts on capital assets from Circular 24/2018

Statement of Accounting Policies and Principles

Departments, Offices and Vote holders should obtain prior approval from the Department of Public Expenditure and Reform for any departures, changes or additions to the standard accounting policies in relation to accrual information in the notes to the appropriation accounts.

Departments are reminded that where relevant, the basis of valuation of land and buildings is explained in the Accounting Officer's introduction to the appropriation account and to provide a note highlighting any departure from the standard accounting policies.

Capital assets and capital assets under development

The opening and closing values of capital assets on a Department's asset register and details of depreciation are shown by way of a note to the SOFP (Note 2).

The following are not included in the statement of capital assets:

- assets that cost less than €1,000 and/or
- heritage assets, the value of which cannot be adequately expressed in financial terms. (Heritage assets which can be valued are included in the statement).

Capital assets under development should be included within capital assets in the SOFP, showing expenditure on assets being developed within the Department, e.g. software development or construction projects.

Valuation of assets

Land and buildings

All lands and buildings owned by the State and controlled or managed by a Department are included in the SOFP (and capital assets note). Where relevant, the basis of valuation of land and buildings is explained in the Accounting Officer's introduction to the appropriation account.

Where land and buildings are (a) vested in the Office of Public Works or (b) vested in a Minister but in fact controlled/managed by the Office of Public Works, they are included in the account for that Office.

Where lands or buildings are vested in a Minister but are, in fact, controlled/managed by an outside body, they are not included as assets of the Department, but the ownership of the asset is noted in the Department's account. Otherwise, they appear in the account for the relevant Department.

Government Departments/Offices that for technical reasons cannot provide valuations for State-owned lands and buildings controlled or managed by them should append to the appropriation account a schedule of these assets.

Equipment, furniture and fittings

Equipment, furniture and fittings are valued at cost.

Other assets

Where required, accounting policies in respect of valuation of other assets (e.g. specialised vehicles) are set out in the Accounting Officer's introduction to the appropriation account.

Depreciation policy

Land is not depreciated.

Where relevant, buildings are depreciated as indicated in the Accounting Officer's introduction to the appropriation account.

Equipment, furniture and fittings are depreciated on a straight-line basis at the following annual rates:

- furniture and fittings, and telecommunications equipment — 10%;
- IT equipment and software, scientific and laboratory equipment and other office machinery — 20%; and
- major operational software systems — 10%.

Where required, other capital items are depreciated as indicated in the Accounting Officer's introduction to the appropriation account.

Figure 4A.2 Extracts on capital assets from the February 2019 guidance manual

Deviations from standard accounting policies

Government Departments, Offices and Vote holders should obtain prior approval from the Department of Public Expenditure and Reform for any departures, changes or additions to the standard accounting policies in relation to accrual information in the notes to the appropriation accounts.

Departments are reminded that where relevant, the basis of valuation of land and buildings is explained in the Accounting Officer's introduction to the appropriation account and to provide a note highlighting any departure from the standard accounting policies.

Departments must also state their policies for valuing assets where the valuation method of the particular class of asset is not standard.

Accounting for fixed assets

Capital Fixed Assets are tangible assets which are permanent in nature with an economic useful life greater than one year, valued at a minimum of €1,000 and are held for purposes other than investment or resale. Heritage assets, the value of which cannot be adequately expressed in financial terms, are not included. Heritage assets which can be valued should be included in the statement of capital assets.

Organisations may choose to capitalise assets valued under €1,000 (for example if they are moveable and attractive such as mobile phones), or to aggregate items which are valued individually at less than €1,000, and to apply the criteria to the aggregate value (for example, PCs or laptops).

Assets should be included in the Asset Register as at the date of acquisition, and are stated at cost less accumulated depreciation. Cost comprises of all costs incurred in bringing the asset to its present location and condition. Money spent on fixed assets is referred to as capital expenditure.

Detailed requirements

Departments must compile an Assets Register recording the description, historical cost, present value (i.e. depreciated historical cost), date of acquisition and physical location of each material capital asset. Information on disposals and revaluations should be entered in the register as appropriate. The register should also record the depreciation rate being applied and the method being followed.

Departments may have to exercise judgement on the materiality of an item e.g. whether hand tools are a material item in terms of the Asset Register and as such should be capitalised or whether they are treated as consumables and are not capitalised.

The opening and closing values of capital assets on a Department's Asset Register and details of depreciation are shown by way of a Note to the 'Statement of Financial Position'.

Valuation

Valuation refers to the amount at which fixed assets are shown in the Statement of Financial Position. The fixed asset is valued either at:

- its historical cost less the accumulated depreciation from the date of acquisition, or
- its current value which is defined as the lower of replacement cost or recoverable amount.

Land and buildings

All lands and buildings owned by the State and controlled or managed by a Department are included in the Statement of Financial Position (and capital assets note). Where relevant, the basis of valuation of land and buildings is explained in the Accounting Officer's introduction to the appropriation account.

Where land and buildings are (a) vested in the Office of Public Works or (b) vested in a Minister but in fact controlled/managed by the Office of Public Works, they are included in the account for that Office. Otherwise, they appear in the account for the relevant Department.

Where lands or buildings are vested in a Minister but are, in fact, controlled/managed by an outside body, they are not included as assets of the Department, but the ownership of the asset is noted in the Department's Account.

Furniture and fittings

Furniture and fittings are valued at cost.

IT equipment

In general IT assets, including peripherals and software, should be depreciated over 5 years. An exception is Major Operational Software systems which, because of its complexity, usually should have a life of 10 years.

- Operating software should be capitalised separately.
- Any peripheral item which has a discrete role independent of an overall system should be noted as a separate asset in the Assets Register.

Other assets

Where required, accounting policies in respect of valuation of other assets (e.g. specialised vehicles) are set out in the Accounting Officer's introduction to the appropriation account.

Capital assets under development

Capital assets under development are now included in note 2.2 Capital Assets. Capital assets under development should not be subject to a depreciation charge. Depreciation of a capital asset begins when it is available for use i.e. when it is in the location and condition necessary for it to be capable of operating in the manner intended by management.

Capital assets under development should be included within Capital Assets in the Statement of Financial Position showing expenditure on assets being developed within the Department, e.g. software development or construction projects. Cash payments in respect of capital assets under development in Note 1 'Operating Cost Statement' should be included in the line 'purchases cash' in the 'Changes in Capital Assets' section.

Subsequent expenditure on assets

Subsequent expenditure undertaken to ensure that the asset maintains its previously assessed standard of performance, for example routine repairs and maintenance expenditure, should be recognised in the appropriation account (subject to the matured liability rule) and Operating Cost Statement as it is incurred.

Only expenditure that increases the future benefits from the existing asset beyond its previously assessed standard of performance is included in the gross book value, e.g., an increase in capacity.

The cost of an addition or extension to an existing asset which is of a capital nature and which becomes an integral part of the existing asset is usually added to its gross book value. Any addition or extension, which has a separate identity and is capable of being used after the existing asset is disposed of, is accounted for separately.

Depreciation

Land is not depreciated.

Where relevant, buildings are depreciated as indicated in the Accounting Officer's introduction to the appropriation account.

Equipment, furniture and fittings are depreciated on a straight-line basis usually at the following annual rates over their estimated useful lives:

- furniture and fittings, and telecommunications equipment — 10%;
- IT equipment and software, scientific and laboratory equipment and other office machinery — 20%; and
- major operational software systems — 10%

Where required, other capital items are depreciated as indicated in the Accounting Officer's introduction to the appropriation account.

Purchases and additions

In addition to inclusion in the Assets Register, the cost of purchasing the asset should be reflected in the appropriation account for the period incurred (subject to the matured liability rule).

The depreciation charged should be reflected in the Operating Cost Statement and the Asset Note.

For purchases, the value should be in accordance with the above principles.

Retirements and disposals

The loss or gain from the disposal should be reflected in the Operating Cost Statement. The difference between the carrying amount of the asset being disposed of (i.e. the value shown in the Asset Register) and the cash proceeds received as appropriations-in-aid is included in the Operating Cash Statement.

'Windfall' receipts are treated as Exchequer Extra Receipts and details are provided in Note 4 to the appropriation account.

Transfers

Transfer of assets from one Department to another should be treated as a disposal by the originating Department and an addition by the receiving Department at date of transfer.

The item should be received at its net book value (cost less depreciation as per the originating Department) and from that point forward, depreciated in line with the receiving Department's depreciation policy. The cost price and the depreciation charged as per the originating Department should be shown in the receiving Department's Note on Capital (Note 2.2).

5 Accounting for allied services

- 5.1** Some government departments and offices provide services without charge to others on the basis that, as specialists, the provider is able to perform the services most efficiently. These are generally referred to as allied services. Examples include property management services provided by the Office of Public Works (OPW), and payroll and pension management services provided by the National Shared Services Office (NSSO).¹
- 5.2** Appropriation accounts are a cash-based record of receipts and payments in the year. Additional information, based on an accrual accounting approach where appropriate, is included in notes to the accounts.
- 5.3** The operating cost statement (OCS) included in each appropriation account is intended to present the full cost to the Exchequer of providing the relevant vote-funded services in a year. Included in the expenses are the estimated costs of relevant allied services received. The OCS of a service provider shows the cost of services provided to others as a deduction.
- 5.4** In 2018, there were eleven providers (ten votes and one non-vote) of allied services costing an estimated €813 million to other votes (see Figure 5.1). Superannuation and retired allowances comprised €566 million (70%) of the total. The OPW provided allied services costing an estimated €179 million (22%) of the total.
- 5.5** This chapter reviews the approaches adopted to allocate the cost of allied services between votes and the reporting of those costs in appropriation accounts.

Figure 5.1 Allied service costs disclosed by supplying votes in 2018

Vote number	Vote/body name	Value of services provided €000
12	Superannuation and Retired Allowances ^a	565,522
13	Office of Public Works	178,700
	Central Fund ^b	43,582
18	National Shared Services Office	11,676
24	Justice and Equality	4,206
9	Office of the Revenue Commissioners	4,107
11	Office of the Minister for Public Expenditure and Reform	1,287
36	Defence	1,909
20	An Garda Síochána	1,201
7	Office of the Minister for Finance	1,027
28	Foreign Affairs and Trade	253
	Total	813,470

Source: Appropriation Accounts 2018

- Notes:
- a The full cost of the allied services is included in Vote 12 but Vote 12 does not provide an operating cost statement.
 - b The Central Fund of the Exchequer is not a vote. The services paid for from the Central Fund include salaries and pensions of judges, ministers, etc.

¹ Some other services are provided on an agency basis, and are charged for. Services that are charged for are not allied services.

Accounting policies for allied service costs

5.6 Appropriation accounts are prepared in accordance with legislation and with accounting rules and procedures laid down by the Minister for Public Expenditure and Reform.¹ The Department of Public Expenditure and Reform (the Department) issues an annual circular (usually at the end of December) setting out the requirements for appropriation accounts for that year.

5.7 The latest guidance states that it is the responsibility of each accounting officer in receipt of allied services to review the basis on which charges have been calculated and to be satisfied with the calculation of the charge to their vote. The Department's annual circular requires votes to disclose allied service costs, but does not set out the cost allocation bases, due to the varying nature of the services provided. The current guidance states that actual figures should be used where possible, except where the effort and cost of a complex cost system would outweigh the benefit.

5.8 Votes allocate allied service costs differently depending on the service being provided (see Figure 5.2). For example

- The Revenue Commissioners (Vote 9) records costs for services provided to others based on
 - actual costs for data centre printing
 - actual costs plus a portion of salary costs in relation to the Revenue print centre
 - a notional cost (per rack) for data centre hosting, based on the market prices for similar services provided in the private sector.
- The OPW (Vote 13) uses actual cost incurred for the majority of allied services provided but uses actual cost incurred plus apportioned expenses in relation to property maintenance, new works, and alterations and additions.²
- The NSSO (Vote 18) apportions allied service costs to other votes based on the number of payees — NSSO costs comprise salaries and wages; travel and subsistence; training, development and incidental expenses; and office expenses and IT services.³

5.9 Certain services are provided to departments and offices free of charge, but without allocation of an allied service cost. This includes legal services provided by the Chief State Solicitor's Office, recruitment services provided by the Public Appointments Service, and audits of votes and departmental funds carried out by the Office of the Comptroller and Auditor General.

5.10 The Central Fund is not a vote but certain payments made from it are presented as allied services received by certain votes — for example, the OCS of the Courts Service discloses €34 million for judicial salaries and pensions (payments made during the year) as an allied service received. The total value of allied service payments by the Central Fund — €43 million — is charged to the Finance Accounts.

¹ The relevant legislation is the Exchequer and Audit Departments Act 1866 (as amended by the Comptroller and Auditor General (Amendment) Act 1993).

² The OPW property maintenance allied service cost is based on the direct cost of building maintenance services for each vote plus an allocation of cost of pay and travel for the OPW building maintenance staff services. The allocation is based on the proportion of cost of suppliers and services for each vote. The OPW new works, alterations, and additions allied cost includes actual costs and apportioned costs for the energy conservation programme. For participating departments, the charge is apportioned based on the approximate floor area of office space that the department has in a building.

³ The allied service provided by the NSSO is the processing of salaries payroll, pensions payroll and travel and subsistence payments on behalf of 54 client bodies. The NSSO also provides HR and pensions services for 40 client bodies but charges a levy (called the PeoplePoint levy) — in 2018, levy receipts were €4.5 million (recorded as appropriation-in-aid of Vote 18).

Figure 5.2 Allied service cost allocation bases

Service provider	Service type	Direct costs	Apportioned costs ^a	Notional costs	Overhead ^b costs
Office of Public Works	President household staff and expenses	✓			
	Purchase of sites and buildings	✓			
	New works, alterations and additions	✓	✓		
	Property maintenance for votes	✓	✓		
	Rents paid for departments	✓			
	Service charges and utilities paid for departments	✓			
Office of the Revenue Commissioners	Revenue data centre printing	✓			
	Revenue printing centre	✓	✓		
	Services in connection with IT hosting			✓	
Superannuation and Retired Allowances	Payment of pensions	✓			
Central Fund	Payment of salaries and pensions of judges, ministers, etc.	✓			
Office of the Minister for Public Expenditure and Reform	Office of the Minister for Finance	✓			
	Policing Authority	✓			
	National Shared Services Office	✓			
Office of the Minister for Finance	Accounting and facility support	✓			
	Facilities management	✓			
	Accounting	✓			
National Shared Services Office	Payroll charge		✓		✓
Defence	Staff based in Presidents Establishment and Department of the Taoiseach	✓			
	Army Pensions	✓	✓		✓
Foreign Affairs and Trade	Expenses in relation to presidential travel abroad		✓		✓
Justice and Equality	Cost of Financial Shared Services Centre ^c		✓		
An Garda Síochána	Cost of Garda transport provided to other votes		✓		

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

- Notes:
- a Apportioned expenses are actual expenses that are not readily assignable to a specific vote but are apportioned on a measurement basis that reflects usage of the resource in question.
 - b Overhead expenses relate to supplying votes inclusion of an apportioned element of its overhead.
 - c The cost of financial shared services is apportioned based on headcount of departments receiving the service. The cost for the supplier payments section is based on the number of invoices processed, adjusted to reflect the added complexity of some services.

Estimated cost of pension benefits

5.11 The Superannuation and Retired Allowances Vote (Vote 12) funds expenditure on

- pensions, superannuation, occupational injuries, and additional and other allowances and gratuities of civil servants^{1,2}
- extra-statutory pensions, allowances and gratuities awarded by the Minister for Public Expenditure and Reform
- fees to medical referees and occasional fees to doctors for pension related assessments
- compensation and other payments in respect of personal injuries
- fees to the Pensions Authority and miscellaneous payments.

5.12 In 2018, expenditure of the superannuation vote was €573 million. This figure is arrived at in line with Public Financial Procedures using a cash-based approach. The total of the allied services amounts related to Vote 12 recorded in 34 other votes in 2018 was €566 million, accounting for 99% of the vote expenditure.³

5.13 While the majority of allied service superannuation payments are recorded in the relevant votes, exceptions exist in relation to

- retired civilian employees of An Garda Síochána, the costs of which are charged to the Justice and Equality Vote, rather than to the Vote of An Garda Síochána
- retired staff of the Office of the Director of Public Prosecutions and the Office of the Chief State Solicitor, where the charge to each vote is the same amount because the pensions related to both are charged to the same Vote 12 cost centre.

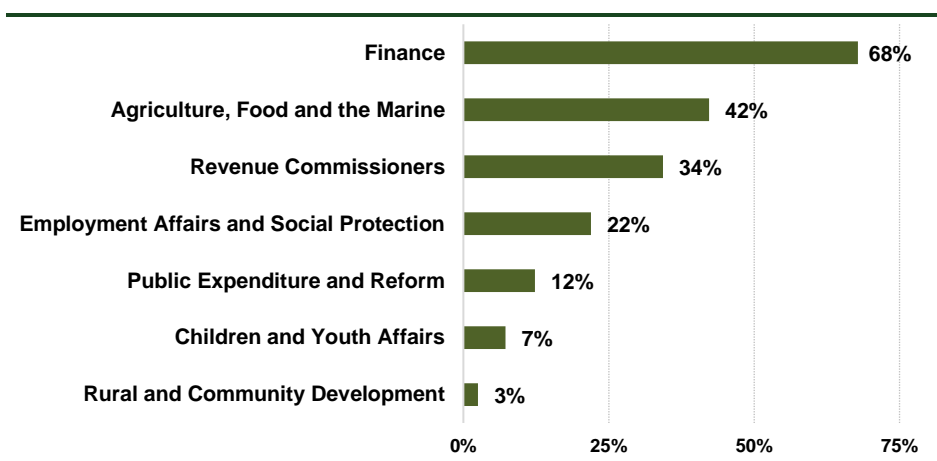
5.14 The cash amounts charged to Vote 12 in respect of pensions, lump sums, etc. in a year are apportioned between votes based on the last recorded location of service of each pensioner. As a result, the expenditure attributed to 'new' departments and offices may be very low. The current apportionment approach also may not reflect the impact of significant changes in the size of a department's workforce. The result is wide divergence in apportioned cash payments in a year as a proportion of the department/office payroll (see Figure 5.3).

1 Superannuation payments for Gardai, teachers, army personnel and Health Service Executive and former Health Board personnel are met on a current basis from the relevant votes.

2 Includes the appropriation account of the Houses of the Oireachtas Commission. Payments relate to retired civil servants and catering and bar staff. The cost of the allied services received are disclosed in the account of the Houses of the Oireachtas Commission.

3 The €7 million difference relates to payments recouped to votes for expenditure incurred — for example, the lump sum of a non-established member of staff is paid by the employing vote and recovered from the Superannuation and Retired Allowances Vote. Such sums are accounted for as appropriations-in-aid.

Figure 5.3 Superannuation net allied services charge as a proportion of vote payroll — selected votes, 2018



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

- 5.15** The apportionment of pension costs incurred in a year does not reflect standard accrual-based accounting for pensions. The latter seeks to estimate the net present cost of future retirement benefits earned by current staff in the year of account. This is frequently expressed as a percentage of current pensionable salary. The Department currently estimates that the future pension cost of current service is 27% for pre-2013 civil servants and 8% for post-2013 civil servants.¹ Applying standard percentage uplifts to pay (or pensionable pay) for OCS purposes could provide a more meaningful estimate of the cost of current public services.

Allied service capital expenditure

- 5.16** The OCS is designed to show the total resources consumed in providing the vote services in the year of account — it deducts appropriations-in-aid received, working capital changes, capital costs and costs relating to other periods to give a net programme cost.

- 5.17** In 2018, the OPW provided €179 million of allied services of which

- €127 million related to current expenditure
- €52 million related to capital expenditure.

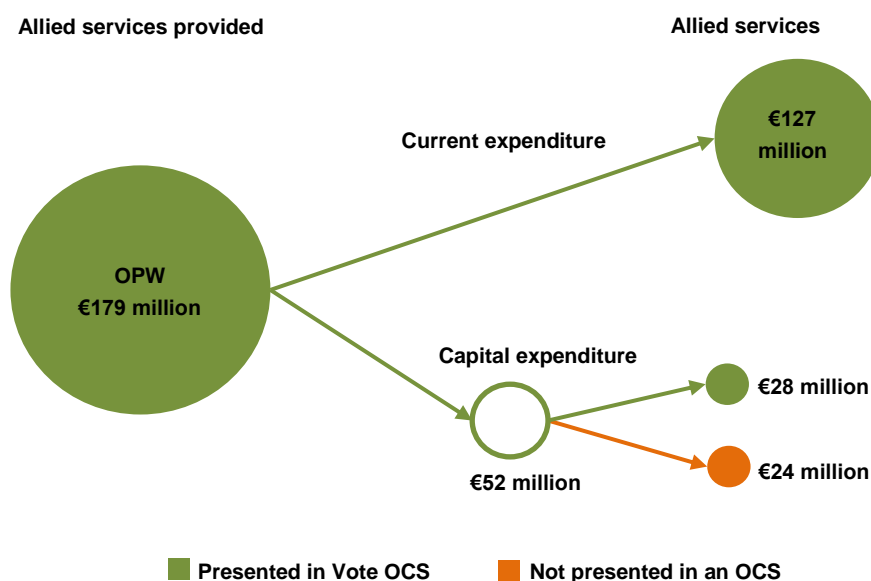
In its OCS, the OPW deducts all current and capital allied service costs when calculating its net programme cost.

- 5.18** The Department provides a breakdown of OPW current and capital allied service expenditure to each vote accounting officer (including the Houses of the Oireachtas Commission).

- 5.19** All 2018 appropriation accounts disclose the notified OPW current cost of allied services. However, 2018 appropriation accounts inconsistently accounted for notified OPW capital expenditure allied services (see Figure 5.4)

- 12 accounts include capital costs of €28 million in their net allied services disclosure
- 20 accounts do not include capital costs of €24 million in their net allied services disclosure.

¹ These rates are based on assumed discount rates and salary increases. They reflect the projected cost of pensions after deducting employee contributions but the pension related deduction (PRD) has not been deducted. There is also an assumption that pension increases remain linked to the salary of the position held on retirement. The Single Pension Scheme Act 2013 allows the Minister to link pension increases to inflation instead.

Figure 5.4 Presentation of the OPW allied service costs in OCS in 2018

Source: Appropriation Accounts 2018

Allied services provided to non-vote bodies

- 5.20** A department may have a number of bodies under its aegis — these are referred to as non-vote bodies.¹ The accounting policy provided by the Department does not state whether the cost of allied services provided to a body under the aegis of the vote should be included in the OCS of that vote — as a result, the presentation of this information is inconsistent between votes.
- 5.21** For example, in 2018, the Revenue Commissioners provided €1.2 million in allied services to non-voted public sector bodies including the Local Government Management Agency, the Houses of the Oireachtas and the Private Residential Tenancy Board. It did not deduct the cost of allied services provided to these bodies in the OCS — as a result, these costs remain in its net programme cost.² It does however include a table note to disclose the value of allied services provided to non-voted bodies.
- 5.22** Some departments count the notified cost of allied services to bodies under their aegis as part of their own vote's cost. For example, the Department of Education and Skills includes the cost of allied services provided by the Revenue Commissioners to bodies under its aegis as a cost of allied services provided to it.

¹ Departments disclose the bodies under their aegis in notes to the appropriation accounts. For example, the Department of Justice and Equality discloses nine bodies under its aegis in an appendix to the account.

² The Revenue Commissioners stated that the above treatment is in line with guidance received from the Department in March 2014.

Communication of allied services cost estimates

- 5.23** The Department compiles and circulates a summary of net allied service costs to each vote each year.
- 5.24** However, there is currently no formal requirement for a service supplier to provide the accounting officer of a service recipient with a statement of the cost allocation basis or a breakdown of the actual costs (e.g. each charge or a summary of charges).

Conclusions and recommendations

- 5.25** The purpose of the operating cost statement in appropriation accounts is to disclose the net programme cost of the vote in the year of account. The cost of services provided to or received from other votes free of charge is accounted for in the net allied services figure, which feeds into the reported net programme cost.
- 5.26** The accounting policy for allied services and the guidance issued by the Department of Public Expenditure and Reform does not provide a clear definition of a net allied service leading to inconsistent treatment of those costs. As a result
- the cost of allied services provided and received is not complete
 - the treatment of allied services provided to, and received from, non-vote bodies is inconsistent
 - the treatment of capital allied services received is inconsistent
 - the correct treatment by the parent vote of the cost of allied services provided to non-vote bodies under its aegis is not clear.

Recommendation 5.1

The Department of Public Expenditure and Reform should revise the accounting policy and guidance issued to votes in relation to allied services to provide clear instructions on the treatment of allied service costs, including how departments should deal with allied service provision to non-vote bodies, bodies under the aegis of a parent vote and capital expenditure.

Accounting Officer's response

Agreed.

The Department of Public Expenditure and Reform will review the accounting policy and guidance issued to votes in relation to allied services. This process will commence in 2019, and will be introduced as part of the phased implementation of the financial reporting reforms recommended by the OECD over the financial reporting periods 2019 to 2021.

- 5.27** There is currently limited analysis of the cost measurement and allocation bases being used by votes to calculate allied service cost.

Recommendation 5.2

The Department of Public Expenditure and Reform should provide guidance on appropriate measurement bases to allocate allied service costs, and commence a process of reviewing the methodology and expenditure allocated to other bodies as an allied service.

Accounting Officer's response

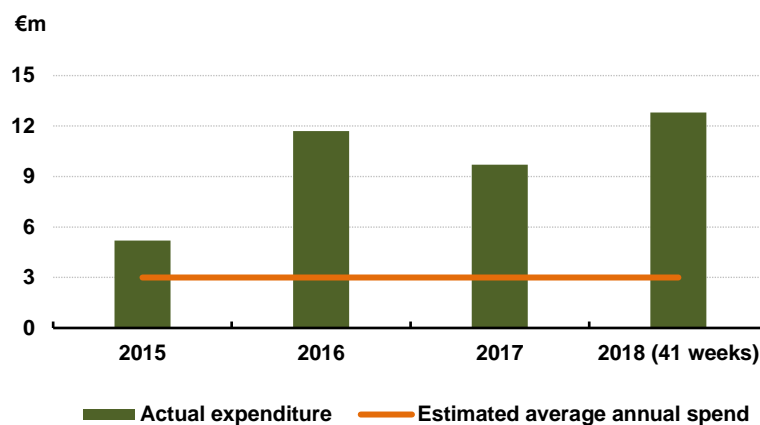
Agreed.

This recommendation will be examined as part of the phased implementation of the financial reporting reforms recommended by the OECD. This process will commence in 2020 and will be introduced as part of the phased implementation of the financial reporting reforms recommended by the OECD over the financial reporting periods 2019 to 2021.

6 Expenditure under a maintenance contract

- 6.1** The Office of Public Works (OPW) has a nationwide portfolio consisting of in excess of 2,300 buildings of which around 600 are in the Dublin region. Many of the buildings are occupied by other government departments and offices, to whom the OPW also provides building maintenance services. The maintenance service is provided through
- the OPW's in-house direct labour workforce (the Building Maintenance Service), on heritage buildings and
 - a contract with a private contractor known as the measured-term maintenance contract, on other buildings.
- 6.2** The OPW estimates that maintenance and capital expenditure on property over the four-year period 2015 to 2018 was in the order of €760 million.
- 6.3** The measured-term maintenance contract awarded to the contractor was for a programme of works, comprising maintenance,¹ and minor construction works² not exceeding €500,000 in value (excluding VAT). Costs for individual work orders are assessed on the basis of a tendered schedule of rates. The contract covers both urgent and planned maintenance works that are identified from routine inspections and surveys of buildings, and routine day-to-day demands.
- 6.4** The current holder of the maintenance contract was first appointed in 2010. Following a re-tender in October 2014, the contractor was awarded a minimum three-year contract with provision for an extension of one year, which was exercised. The contract³ states that OPW anticipated that the approximate contract value would be €9 million excluding VAT over three years — an annual average of €3 million. As shown in Figure 6.1, the total value of the work carried out over the four-year contract period was significantly in excess of the estimate, amounting to a total of €39.4 million — an average of just under €10 million a year.

Figure 6.1 Yearly expenditure compared to contract value 2015 to 2018



1 Maintenance includes the preservation of the fabric of a building or its working environment and is regarded as that work necessary to retain an item in, or to restore it to, an acceptable working condition and covers repairs or the replacement of an existing item on a like for like basis.

2 Minor works comprise improvements, alterations and modernisation of existing facilities.

3 Clause 3.1.

Source: Office of the Comptroller and Auditor General

Note: Expenditure of €48,000 was incurred in the 11 weeks from Oct–Dec 2014.

6.5 This examination identified six projects carried out under the contract with a combined expenditure of €7.4 million and where the value of work undertaken ranged from €600,000 to €2.5 million. These were in excess of the €500,000 limit for individual minor construction works.

6.6 The OPW has stated that it issued over 13,000 orders under the contract.

Contract monitoring

6.7 Office of Government Procurement (OGP) guidelines state that a procurement contract should be actively and effectively managed and monitored by the contracting authority. Active involvement in the management of the contract is essential to maximise value for money.

6.8 The OPW employed a firm of quantity surveyors as contract administrator with a remit to review claims made under the maintenance contract. It stated that the contract administrator

- carried out site visits to ensure accuracy of measurements and value of works — these visits were recorded on monthly key performance indicator (KPI) reports by the administrator
- monitored the contractor's response times to ensure service was provided within agreed timeframes, and reported on it quarterly
- reviewed the property maintenance works carried out by the maintenance contractor each month and agreed the list of items and value of the works for payment to the contractor.

6.9 The OPW stated that KPI reports were reviewed by it at monthly meetings with the maintenance contractor and administrator. Expenditure for larger projects delivered via the contract were monitored on a project-by-project basis.

6.10 No periodic reports were produced that compared actual expenditure on the maintenance contract to the €9 million anticipated expenditure. The OPW has stated that the expenditure was monitored at the monthly meetings and while it was conscious of the increased level of service usage and spending under the maintenance contract, it was considered that the use of the contract, in the particular circumstances, provided best value for money. The OPW acknowledges that processes could be enhanced in estimating the volume of work over the long term rather than on an annual basis.

6.11 The OPW also stated that there was no allocated split between the type of work activities undertaken on the contract e.g. pre-planned preventative maintenance, new capital works, conservation projects and routine day-to-day maintenance. It stated that work carried out via the contract was primarily for routine reactive maintenance and was funded from a property maintenance budget. Minor capital works carried out were funded from capital budgets under its various capital programmes.

6.12 The OPW stated that budget holders closely monitor contract expenditure in consultation with their colleagues in the other regions and delivery units using monthly valuation reports. Budget holders attend monthly budgetary meetings which are chaired by an OPW Commissioner. Maintenance contract expenditure is also monitored at monthly meetings and at fortnightly Dublin North and Dublin South regional meetings.

New maintenance contract

- 6.13** In advertising a contract, the OPW is required under legislation¹ to publish the estimated value of the contract. OGP guidelines issued to public bodies state that the estimate of the contract value should be a realistic estimate of the total value being procured, including any contract extensions allowed for and any other options.
- 6.14** Re-tendering of the maintenance contract commenced in December 2017 using a restricted two-stage tender process. At that time, the level of spending was running at around €9 million a year.
- 6.15** The published notice issued in December 2017 advertising the contract estimated the total value of the new contract at €15 million (excluding VAT) for a three-year duration i.e. an average of €5 million a year. Only firms with a turnover from construction, maintenance and minor works activities equal to or greater than €7.5 million in each of the previous three years were eligible to apply.
- 6.16** In estimating the value of the new contract, the OPW stated that a substantial increase in the anticipated value was required based on its use of the maintenance contract during the previous four years. It stated that a new strategy was adopted which took into account the Government's recognition that the small and medium enterprise (SME) sector is very important to the economy and that public procurement can be an important source of business for SMEs. In addition to increasing the anticipated contract value, the OPW decided to explore the possibilities of implementing other procurement processes for delivering minor and capital work in the Dublin region. This strategy was intended to reduce the demands on the maintenance contractor and give the SME sector an opportunity to tender for smaller contracts. This approach is in line with EU policy to increase SME participation in public procurement.
- 6.17** Only two expressions of interest were received by the closing date of 26 March 2018. Following a detailed evaluation of the submissions, the OPW determined that one of the applicants failed two of the eight preliminary evaluation criteria — the turnover threshold was not met and a professional indemnity insurance certificate was not provided.
- 6.18** Following final evaluation, the OPW awarded a new three-year contract to the existing contractor commencing in October 2018. The new contract provides that the maximum value of any one order under the contract would be €750,000, or €1 million for conservation works.

View of the Accounting Officer

- 6.19** The Accounting Officer stated that, traditionally, organisations like the OPW employed direct labour to carry out maintenance and minor capital work. This had the advantage of direct control with a flexibility in the application of resources to meet the changes in priorities. However, the previous experience of maintaining a workforce of over 250 people in the OPW was demanding and introduced risks and inefficiencies, which were difficult to fully eliminate. The challenge for the OPW was to deliver on this work with a contract that was flexible and adaptive.
- 6.20** He stated that the OPW provides for a shared service to other government departments and offices by utilising a number of delivery options, one being the use of the maintenance contract. This contract was deemed to be a cost effective practice, providing value for money.

¹ SI 329/2006 *Award of Public Authority Contracts* applied until April 2016 when it was updated by SI 284/2016.

- 6.21** He stated that transparency and cost control is maintained through the 'schedule of rates' which is at the core of the maintenance contract. This schedule covers some 3,000 construction items in a document of 250 pages and is used as the reference point for the OPW, its contract administrator, and the maintenance contractor in pricing individual tasks covering approximately 300 owned/leased government buildings.
- 6.22** He stated that the maintenance contract differs in general from other contracts in that the overall value of the contract quoted is an indicative estimate of the services to be provided. It states in its terms that the value of work to be carried out under the contract is approximate, and has been included for information purposes only. It also stipulates that the OPW accepts no liability if the actual value of the works ordered is at variance with the stated minimum or maximum value. The 2014 contract provided an approximate contract value based on historical information.
- 6.23** The Accounting Officer has stated that the OPW's intention was at all times to obtain value for money for the State while responding quickly to urgent situations. The OPW recognised the increasing demand for projects to be delivered using the maintenance contract and is seeking to develop alternative delivery models for urgent and larger construction projects. Some early ideas trialled working with the OGP were, unfortunately, not successful. However, the OPW is satisfied it is making good progress and a group of experienced staff are engaged in working on this matter. There are a number of live projects now underway, including
- fit-out and refurbishment framework contract — the tender is imminently due and a framework contract should be in place by the end of October 2019
 - design/build framework contract — additional external resources are being procured for the preparation of the tender and the framework contract should be in place by mid-2020
 - a review of the current maintenance contract, primarily taking on board the lessons from the 2018 procurement process, the growing scale and complexity of the process for prospective tenderers, and looking at alternative mechanisms — it is essential that the models chosen will facilitate a competitive process to any new contract.

Conclusions and recommendations

- 6.24** OPW engages a private sector contractor to provide maintenance services and to carry out minor capital works on part of its Dublin portfolio.
- 6.25** The contract anticipated expenditure would be of the order of €3 million a year. Total expenditure incurred under the contract was €39.4 million for the period 2015 – 2018, an average of €10 million a year.
- 6.26** The OPW has processes in place to monitor works carried out under the contract but did not have a detailed view on the level and different types of activity being undertaken under the contract, which included pre-planned preventative maintenance, new capital works, conservation projects and routine reactive day-to-day maintenance. This is an important element of contract monitoring, allowing the OPW to assess the cost pressures of the different activities and works being commissioned under the contract.
- 6.27** The 2014 maintenance contract also set a maximum value of €500,000 for any one order commissioned under it. The examination identified a number of instances where this threshold was exceeded.

Recommendation 6.1

In order to ensure timely monitoring of the costs arising under the contract, the OPW should prepare periodic comparisons between contract expenditure and the estimated value, split between the various activities undertaken.

Accounting Officer's response

Agreed.

The OPW undertakes to refine its internal procedures to ensure that comparisons are made between the contract estimates and contract expenditure, split between the various activities undertaken.

- 6.28** Public procurement guidelines require the contracting authority to make a realistic estimate of the value of contracts advertised and awarded. The advance publication of accurate contract value information may assist firms in considering whether to bid for public contracts.
- 6.29** Re-tendering of the maintenance contract commenced in December 2017. The total value of the contract was advertised at €15 million (excluding VAT) for a three-year period i.e. an average of €5 million a year, even though the level of spending at that time was approximately €9 million a year.
- 6.30** Only two firms applied under the procurement process. The OPW considers that the contract value specified in relation to the measured-term contract did not contribute to the low level of interest from bidders.

Recommendation 6.2

The OPW should review the processes it has in place for estimating contract values taking account of the public procurement requirement for accurate estimation of contract value.

Accounting Officer's response

Agreed.

The OPW undertakes to ensure that the most accurate estimates for contract values are published at the tender stage. The OPW provided the best estimate available at the point in time of the tender based on certain assumptions. It does recognise that, in estimating for future use and spend on the measured-term contract, enhanced processes should be put in place and has commenced reviewing its procurement strategy.

7 Purchase of sites for school provision

- 7.1 The Department of Education and Skills (the Department) Statement of Strategy 2019 – 2021 states that due to the growing numbers of students in the education system, a significant programme of capital expenditure will be required over the period of the strategy. In the majority of cases, this will also require the identification and acquisition of land which is suitable for school building purposes. In acquiring sites, the Department evaluates a range of parameters as set out in Figure 7.1.

Figure 7.1 Department of Education and Skills site acquisition parameters

Guidelines for site size	For a new primary school — between 1.75 acres (0.71 hectares) and 5.47 acres (2.2 hectares). Post-primary schools — between 7.74 acres (3.13 hectares) and 11.3 acres (4.57 hectares). (Annex 7A sets out the Guidelines used by the Department).
Technical assessment of site	Evaluation of <i>inter alia</i> site zoning and potential planning issues, vehicular and pedestrian access, and the location and adequacy of the utilities and services.
Deliverability of site (and of school)	Considers the probability of a site being acquired within a two-year target along with the delivery of the school itself in accordance with the timelines required within the school building programme.
Cost	Assesses whether the site acquisition cost is in line with current market values, is consistent with mitigating potential future costs, and whether the State's interest is protected.

Source: Department of Education and Skills

- 7.2 The Department's Planning and Building Unit (PBU) is responsible for, amongst other things, identifying the need for school accommodation and prioritising the allocation of resources. The following sections within the PBU manage this process.
- The Forward Planning Section is responsible for projecting gross demand for new school provision.
 - Once gross demand has been projected, an analysis of existing schools is conducted by the Schools Capital Appraisal Section to ascertain whether demand can be met within the current capacity of, or by extension of, existing schools.
 - Where new schools are required, the Site Acquisition and Property Management Section is tasked with identifying and acquiring sites suitable for the necessary school accommodation.

- 7.3** The Department identifies suitable sites for school accommodation in a number of ways, including a review of sites already in the Department's or the State's ownership, through local authorities, or by utilising a private sector professional site acquisition and management service (engaged since late 2016).
- 7.4** The Department acquires sites by direct negotiations with the vendor, negotiation through the professional site acquisition and management service, or through local authorities with whom it agreed a memorandum of understanding in 2012.¹
- 7.5** The acquisition of suitable land in Dublin faces a number of challenges, which include
- the fast-growth areas of Dublin where land is already at a premium, and
 - the increase in demand in greater Dublin commuter suburbs which are projected to have long-term population growth requiring new schools.
- 7.6** This report examines three substantial site purchases in Dublin between 2016 and 2018 to establish whether a well-defined business case was in place and how the Department ensured value for money was achieved in relation to the purchase price paid. The sites are
- Roslyn Park in Sandymount — bought in October 2016 for €20.5 million
 - the site of the former greyhound stadium at Harold's Cross — bought in May 2018 for €23 million, and
 - Cathal Brugha Street and Marlborough Street buildings — bought in December 2018 for €24.06 million.

Site acquisitions 2014 to 2018

- 7.7** The Department acquired 65 sites for the provision of school accommodation during the period 2014 to 2018. Figure 7.2 provides a breakdown of these sites and the related costs.
- 7.8** At March 2019, construction has started or is completed in relation to 35 sites (54%). In addition, a further 14 sites (22%) are at the design stage with five sites (8%) devolved to an Education and Training Board or to the National Development Finance Agency for development.²

Figure 7.2 Site acquisitions 2014 to 2018

Method	Number	Acres	Cost €m
Donations/transfers ^a	7	32	—
Purchases — nominal fee	5	11	—
Market purchases	53	294	134.7
Total	65	337	134.7

Source: Department of Education and Skills

Note: a Primarily through the Residential Institutions Redress Scheme.

¹ The key elements of the memorandum agreed with local authorities is set out at Annex 7B.

² The bodies concerned deliver the projects for the Department under service level agreements.

- 7.9** Of the 65 sites acquired during the period, 24 sites were acquired in the Dublin area. The total cost of these acquisitions was just over €120 million (89% of the total cost of all acquisitions).

Business case for site acquisitions in south Dublin city

- 7.10** In order to plan for school places, the State is broken down into 314 school planning areas. In each area, the demand for school places is projected at both primary and post-primary level.
- 7.11** The following is noted in relation to emerging demand
- The Dublin 2/4 school planning area was identified by the Department as an area where significant population growth was materialising and consequently there was an emerging primary school demand. Some of the projected demand could be catered for by expansion of existing denominational schools. A new primary school was deemed to be required to meet the remaining demand. Following a patronage selection process,¹ Shellybanks Educate Together National School (ETNS) opened in September 2014 in temporary accommodation on Simmons Court Road Dublin 4.
 - In mid-2017, the Department's Forward Planning Section projected that there would be a requirement for an additional 5,000 places by 2028 at post-primary level across the Dublin 6 and adjoining (Dublin 2/4, Dublin 6W, Dublin 8 and Dublin 12) school planning areas.
- 7.12** The Department noted that the accommodation for new schools in south Dublin city school planning areas would require multiple sites in an area where land availability was known to be limited.
- 7.13** Efforts by the Department to identify suitable sites for primary and post-primary schools in the south Dublin city area began in 2012. The Intra-State Property Register² was not in place at this time. The Department consulted with Dublin City Council in line with the arrangements in place on school site acquisitions, to ascertain if there were any suitable properties which would meet the Department's requirements.
- 7.14** In late 2015, following a review of the demand for places for the area, the Minister announced a new post-primary school to serve Dublin 2/4/6/8 and a new primary school to serve Dublin 2/4/6, both to open in September 2018. These were in addition to the pre-existing site requirement for Shellybanks ETNS. There were therefore three schools for which sites were being sought in the south Dublin city area.
- 7.15** A number of sites were identified from 2012 as potential options. In addition to consultation with Dublin City Council, the Department engaged with the National Asset Management Agency (NAMA). In total, 16 sites were identified over the period 2012 to 2016. This assessment included the sites subsequently purchased at Roslyn Park and the site of the greyhound stadium at Harold's Cross.
- 7.16** Some of the sites identified were deemed not technically feasible for development. Others were either not available or the vendor/landowner was unwilling to engage with the Department or its agents.

¹ A patron body defines the ethos of the school and appoints the board of management to run the school on a day-to-day basis.

² The Intra-State Property Register was put in place as a mechanism for sharing property-related information across the public service to facilitate compliance with [Circular 11/15 Protocols on the Transfer and Sharing of State Property Assets](#).

Acquisition of Roslyn Park site, Sandymount

- 7.17** The Department completed the purchase of this five-acre site and buildings from the Rehab Group in October 2016 for €20.5 million (€4.1 million per acre), with the final payment being made in January 2017.
- 7.18** The site is located in Dublin 4, approximately 400 metres from Sandymount village and four kilometres south east of Dublin city centre. The property is situated within an area zoned Z15 — ‘to protect and provide for institutional and community uses’. The site (see Figure 7.3) consists of
- Rehab Group headquarters (office accommodation)
 - Roslyn Park College — the National Learning Network Centre (NLNC)
 - Gandon House and lawn — building and lawn are protected areas (approximately 30% of the site)
 - a residential property,¹ and
 - car parking and parkland areas.

Figure 7.3 Roslyn Park site, Sandymount (2016)



¹ This property is situated in an area zoned Z1 — sustainable residential neighbourhoods.

Source: Roslyn Park sales brochure

Acquisition process

- 7.19** In early 2013, the Department submitted proposals to the Rehab Group with a view to acquiring/leasing part of their site in Sandymount. Agreement could not be reached with the Rehab Group.
- 7.20** In April 2016, the Rehab Group advertised the property for sale subject to leaseback arrangements. Figure 7.4 provides a summary of the options that potential bidders were requested to offer on.

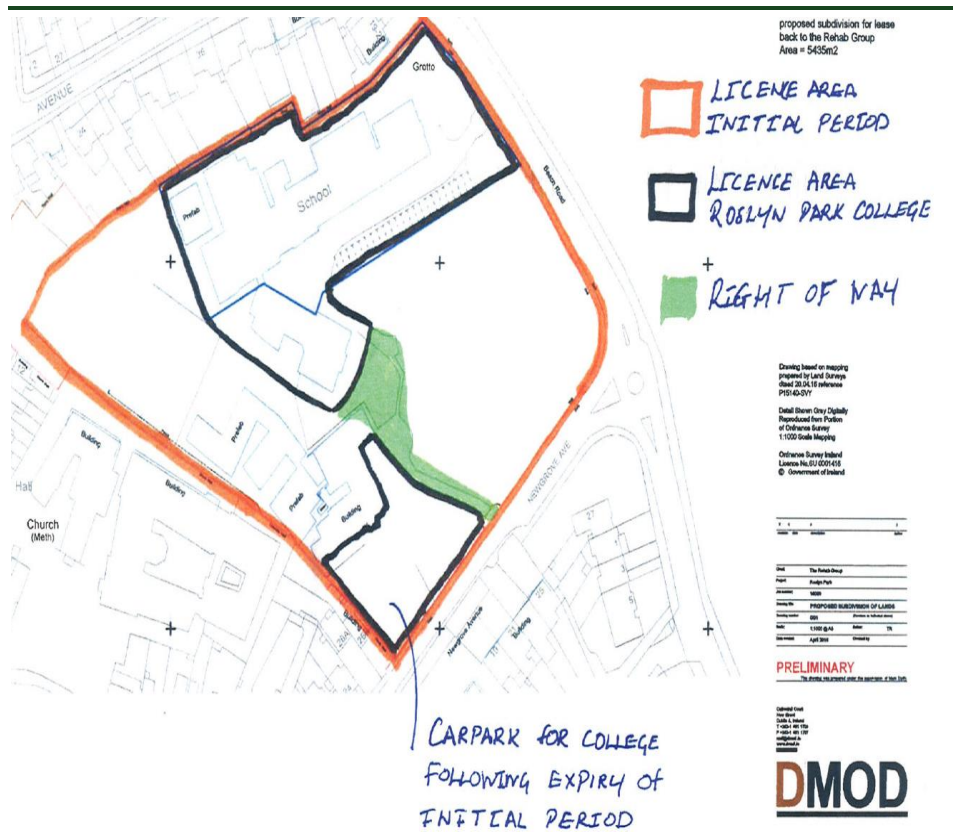
Figure 7.4 Purchase options offered for Roslyn Park, 2016

Option 1	Option 2
<p>Rehab Group to remain in occupation of the existing office accommodation and the protected structure (Gandon House) as well as the existing Roslyn Park College buildings under the terms of a two-year licence agreement at an annual rent of €1.</p> <p>Vacant possession of the entire site to be provided within two years.</p>	<p>As Option 1, but the Rehab Group will seek planning permission, fire safety and disability access certificates to separate the Roslyn Park College buildings from the other structures.</p> <p>If successful, at the end of the two-year licence period, Rehab Group to remain in occupation of the college buildings under a ten-year lease at a rent of €330,000 per annum, providing vacant possession of the remainder of the site.</p> <p>If unsuccessful, the Rehab Group will provide vacant possession of the entire site at the expiration of the two-year licence as per Option 1.</p>

Source: Roslyn Park sales brochure

- 7.21** In May 2016, an independent consultant engaged by the Department valued the freehold interest in the property at €16.5 million. The valuation report refers to the potential continued occupation of the site by the Rehab Group for a minimum two-year period as a weakness and reflected the impact of this condition in the valuation. It also referenced the protected structure of Gandon House and noted it extends to its ancillary and subsidiary curtilage.
- 7.22** The Department made an initial offer of €12 million on 24 May 2016 in respect of the site on the basis of Option 1 and proposed a sale and two-year leaseback arrangement for Roslyn Park College only.
- 7.23** Following negotiations with the Rehab Group, a five-year occupancy of Roslyn Park College was proposed on the following basis.
- Rehab Group to occupy 95% of the site for two years. The remaining 5% refers to the residential property and includes side gate access to the main site.
 - Rehab Group to have the option to extend the occupation of Roslyn Park College and the car park (about 40% of the site) for an additional three years under a licence agreement (see Figure 7.5). The licence fee payable for the first, second and third additional years is €150,000, €240,000 and €330,000 respectively.
- 7.24** The Department submitted a second offer on 30 May 2016 for €20.5 million on the basis proposed. This offer was 24% above the valuation the Department had received. While the valuation report noted the potential for the Rehab Group to continue to occupy the site for two years, the final agreement provided for the Rehab Group to continue to occupy approximately 40% of the site for a further three years.

Figure 7.5 Area map of Roslyn Park site, Sandymount



Source: Department of Education and Skills

Subsequent development

7.25 The Rehab Group has exercised its option to remain on site. As a result, it occupied the full site until September 2018 and is continuing to occupy Roslyn Park College under a licence agreement. Though not included in the purchase agreement, the Rehab Group requested continued occupation of Gandon House under the licence agreement. This was granted to allow continued provision of catering services at Roslyn Park College. The Department has stated that this concession was agreed in the interest of maintaining goodwill and has no cost impact on the Department. Under the licensing agreement in place, the Department will achieve vacant possession of the full site in October 2021.

7.26 As at July 2019, the Department is finalising planning applications for a permanent sixteen classroom primary school to accommodate Shellybanks ETNS (approximately 500 pupils) and a post-primary school building to accommodate Sandymount Park Educate Together (1,000 pupil capacity). In the interim

- Sandymount Park Educate Together post-primary school has been accommodated on the site since September 2018 in existing on-site prefabricated accommodation owned by the Rehab Group. The cost of works undertaken on the existing prefabricated accommodation prior to occupation was €203,000.
- Shellybanks ETNS has moved to a new temporary 12 classroom primary school on the Roslyn Park site in September 2019 from its temporary accommodation on Simmonscourt Road, Dublin 4. The contracted cost of the two-storey temporary school (see Figure 7.6) is €4.2 million (€2.7 million has been paid as of August 2019). The Department has stated that the design of this temporary school allows it to be relocated to another site, which potentially maximises its use.
- From September 2019, Sandymount Park Education Together has re-located to the site vacated by Shellybanks ETNS on Simmonscourt Road until permanent accommodation has been provided on the Roslyn Park site.

Figure 7.6 Temporary school building situated in Roslyn Park (July 2019)



Source: Office of the Comptroller and Auditor General

7.27 The Department has stated that the use of the Roslyn Park site to accommodate a primary school and a post-primary school demonstrates the Department's response to the challenges in providing school places in urban areas.

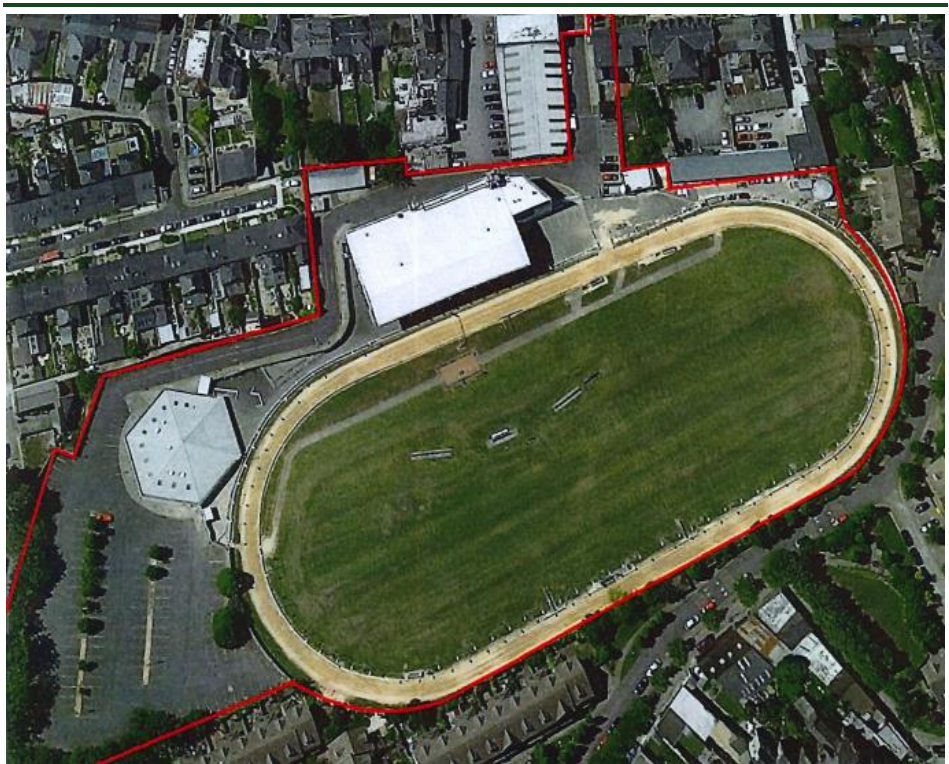
- It is intended that the Rehab Group headquarters will be demolished to create the space for the primary school.
- In order to maximise the space available, the Department intends to build a three storey post-primary school on the site of Roslyn Park College.
- Gandon House is a protected structure and cannot be demolished.
- The green area in front of Gandon House is a protected space that will be used for recreational purposes by the schools.
- There will be limited parking facilities on the site.

Acquisition of Harold's Cross site

7.28 The Department completed the purchase of the former greyhound racing track from the Irish Greyhound Board (IGB) in May 2018 for €23 million (€3.8 million per acre). Figure 7.7 shows an aerial view of the site. The site consists of a greyhound stadium, ancillary buildings, and surface car parking.

7.29 The six-acre site is located off Harold's Cross Road, Dublin 6, approximately three kilometres south of Dublin city centre. Prior to the closing of the sale, the site was rezoned by Dublin City Council to allow for construction of educational premises.

Figure 7.7 Aerial view of the Harold's Cross site



Source: Valuation Office

Acquisition process

- 7.30** In late 2015, in line with the agreement between the local authorities and the Department, Dublin City Council identified to the Department that Harold's Cross stadium could be a potential school site option, subject to availability. The IGB facilitated a site visit in June 2016 so that the Department could assess the suitability of the site for school development. The IGB has stated that they were not actively looking to sell the site at this point.
- 7.31** For its own business reasons, the IGB subsequently engaged consultants to provide strategic advice in relation to the sale of the Harold's Cross site. The consultant's report — dated March 2017 — placed a value on the site of between €5 million and €12 million, depending on whether the site was sold 'as is' (i.e. with the current zoning), or the IGB adopted a 'hold and rezone prior to disposal' strategy. The report also stated that there were few directly comparable sales of large sites. The report stated that *'views on price and value are not intended as formal valuations and should not be relied upon as such. They are given in the course of an advisory role and do not come within the scope of the valuation and appraisal manual issued by the Society of Chartered Surveyors'*.
- 7.32** In advance of placing the property on the open market, the IGB agreed to consider an approach from the Department of Education and Skills.

Valuation Office valuation report

- 7.33** The transfer of property assets from one State entity to another is subject to Department of Public Expenditure and Reform Circular 11/15.¹ Key requirements of the circular are that the Valuation Office provide a valuation of any asset proposed for transfer, and that the valuation provided is binding on both parties.
- 7.34** The Valuation Office valued the Harold's Cross site at €23 million in April 2017.
- 7.35** For market comparative purposes, the valuation report makes reference to *'well located development land in the south city area with suitable zoning (achieving) in excess of €5 million per acre in the past two years'*. It then goes on to refer to the asking price for a site of 3.43 acres about a kilometre from the Harold's Cross site. This site already had planning permission for residential units and the asking price was €4.4 million per acre. The valuation report states that considering the existing restrictive zoning of the Harold's Cross site, the necessity to obtain a change in zoning and to clear the site of existing buildings, a value of €3.8 million per acre was appropriate.
- 7.36** In response to this report, the Valuation Office has stated that although the valuation report referred to only one particular property in the vicinity of the subject property, it had in fact relied on several transactions in estimating the market value of the subject property. In correspondence with the Public Accounts Committee in January 2019, the Valuation Office stated that four transactions had informed the valuation. The additional three transactions included the sale of the Roslyn Park site and the following two transactions
- the Marianella site in Rathgar (8.11 acres) that was sold in June 2015 for a reported price in excess of €40 million — just over €4.9 million per acre
 - land at RTÉ Montrose (8.64 acres) that was on sale at the time with a guide price of €8.7 million per acre.

¹ [Circular 11/15: Protocols for the Transfer and Sharing of State Property Assets](#), Department of Public Expenditure and Reform, September 2015.

7.37 The Valuation Office have noted that every property is unique and is endowed with individual and particular characteristics that affect its market value. It has stated that in analysing such transactions, the comparison is seldom linear but, rather, requires the valuer to apply professional acumen, market knowledge, valuation skills and experience to the relevant evidence.

7.38 The Valuation Office has stated that it assembles data in relation to commercial transactions on an ongoing basis and is also in receipt of periodic transactional data from the Revenue Commissioners. The Valuation Office also noted that as part of its general overview of the market, it was also aware of a number of other transactions in south Dublin in 2015 and 2016 which ranged from €2 million to €7 million per acre.

Department offer

7.39 In May 2017, the Department issued a formal letter of offer for the property in line with the €23 million valuation, as required under the Circular 11/15. The Department noted that while the site's then zoning did not permit the development of a school on the site, it could be facilitated by means of a variation to the City Development Plan and that this had been discussed with Dublin City Council officials.

7.40 In September 2017, a variation to the Dublin City Development Plan 2016 – 2022 was agreed by the members of Dublin City Council and the site was rezoned to category Z15 which is intended 'to protect and provide for institutional and community uses'.

7.41 The transfer of the site was completed in May 2018.

Subsequent development

7.42 The Department has stated that the site will accommodate

- a primary school (Harold's Cross ETNS), and
- a post-primary school for the Dublin 6/Dublin 6W area, in respect of which patronage has yet to be awarded.

The Department is currently finalising planning applications for permanent accommodation for both of these schools.

7.43 In the interim, temporary accommodation has been installed on site (see Figure 7.8) to accommodate

- Harold's Cross ETNS for September 2019, and
- Harcourt Terrace ETNS for September 2019 pending the construction of a permanent school building at Harcourt Terrace (on the site of a former Garda station).

7.44 The cost of temporary accommodation placed on the site up to August 2019 is €533,000.

Figure 7.8 Harold's Cross temporary accommodation (July 2019)

Source: Office of the Comptroller and Auditor General

Business case for site acquisitions in north Dublin city

- 7.45** In 2018, the Department identified the need for a 1,000 pupil post-primary school in the Drumcondra/Marino/Dublin 1 school planning area.
- 7.46** The Department considered a number of sites to accommodate this new school. This included properties owned by the Minister, sites on the Dublin City Council vacant sites listing, and properties suggested by an external agency engaged by the Department to locate sites in north Dublin city. All the suggested sites were discounted as the size of the sites were considered unsuitable, or they were not available.

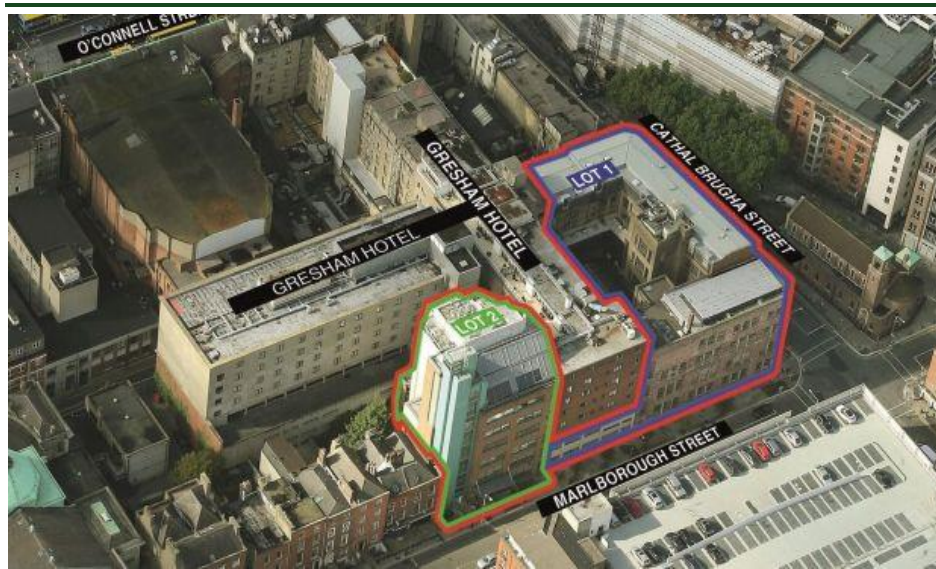
Acquisition of Cathal Brugha Street and Marlborough Street buildings

- 7.47** The Department completed the purchase of this property in December 2018 for €24.06 million from the Dublin Institute of Technology (DIT).¹ DIT no longer required this property as they are developing an extensive new campus at Grangegorman.²
- 7.48** The property is located in Dublin 1, approximately 100 metres east of O'Connell Street in an area zoned 'Z5' — 'to consolidate and facilitate the development of the central area, and to identify, reinforce, and strengthen and protect its civic design, character and dignity' (see Figure 7.9). The property is made up of two connected premises as follows

- Cathal Brugha Street; a four-storey over-basement structure with multiple facilities including lecture halls, classrooms and catering labs (gross internal floor area of 7,867 square metres).
- Marlborough Street; a part eight-storey over-basement extension to the Cathal Brugha campus with multiple facilities including lecture halls and classrooms (gross internal floor area of 3,887 square metres).

¹ In accordance with the Technological Universities Act 2018, Technological University Dublin (TU Dublin) was established on 1 January 2019 and the three founding institutions — DIT and the Institutes of Technology in Tallaght and Blanchardstown — stand dissolved as at that date.

² Since its establishment, DIT had provided education in a number of buildings which were spread across Dublin city centre. In 2002, the Government took the decision that a new consolidated DIT campus would be developed at Grangegorman.

Figure 7.9 Cathal Brugha Street and Marlborough Street buildings

Source: Cathal Brugha Street and Marlborough Street buildings sales brochure

- 7.49** The Cathal Brugha Street building (see Figure 7.10) is a protected structure which restricts the future development of the building. The buildings are located in an Architectural Conservation Area so any alterations to the exterior of the property will require the approval of Dublin City Council planning department.

Acquisition process

- 7.50** In March 2016, DIT placed the property for sale on the open market with a guide price of between €15 million and €20 million. No offers were received by the bid deadline.
- 7.51** In May 2018, following the signing of a public private partnership (PPP) agreement with the aim of consolidating its student population on the new Grangegorman campus, DIT relisted the properties for sale on the open market.
- 7.52** There was a requirement for DIT to obtain sanction from the Department prior to the disposal of land and buildings.¹ In addition, under the *Code of Governance for Institutes of Technology*, the Chairperson of the Governing Body has to seek the approval of the Minister for Education and Skills and the Minister for Public Expenditure and Reform in advance of any material acquisition or disposal of land, buildings or other material assets proposed by the Institute.
- 7.53** DIT notified the Department in May 2018 that it was putting the properties on the open market.
- 7.54** The properties were also listed on the Intra-State Property Register on 11 May 2018. Under Circular 11/15, there is a requirement that any disposal of a property to a non-State party should only occur in the event that there have not been any expressions of interest identified to the property owner within a one-month timeframe of the relevant property being listed on the register as surplus.
- 7.55** In the May/June 2018 period that the property was on the open market, the Department was advancing consideration of a suitable site to accommodate the school required for the Drumcondra/Marino/Dublin 1 area.

¹ Dublin Institute of Technology Act 1992 as amended by the Institute of Technology Act 2006.

Figure 7.10 Cathal Brugha Street building (August 2019)



Source: Office of the Comptroller and Auditor General

- 7.56** The closing date for the receipt of bids was 20 June 2018. There were eleven bids for the properties. The Department did not submit a bid. At this point, the highest bid at €24.06 million was accepted by DIT.
- 7.57** The Department subsequently wrote to DIT at the end of July 2018 to confirm that the Department wished to retain the properties for educational purposes and requested DIT to withdraw from the sales process.
- 7.58** In early August 2018, in line with Circular 11/15, the Valuation Office were requested to carry out a valuation of the property. The Valuation Office noted that the objective of its valuation was to determine the open market value of the property. The request for the valuation came after the property had been on the market and the bidding process was concluded. As a result, its valuation on 19 September 2018 coincided with the outcome of the open market exercise — €24.06 million or €2,047 per square metre.

7.59 In addition to the bidder's offer, the valuation report references a number of comparable properties in support of the valuation, including

- The sale of the Gresham Hotel in September 2015 for in the region of €92 million. The Hotel sits on a site of 1.32 acres and extends to a total area of 20,775 square metres (€4,428 per square metre).
- The sale of Marlborough House on Marlborough Street in July 2016 for in the region of €17 million for 7,504 square metres (€2,265 per square metre).
- A portfolio of properties in the O'Connell Street area sold in March 2016 for in the region of €8.6 million for an area of 3,643 square metres (€2,361 per square metre).
- 2 – 4 O'Connell Street sold in September 2017 for €13 million for an area of 1,130 square metres (€11,504 per square metre).
- A development site in Abbey Street that was sold in November 2017 for €22 million for an area of 0.87 acres.

7.60 The transfer of the properties to the Department was finalised in December 2018 for the sum of €24.06 million.

Subsequent development

7.61 The Department has entered into a lease with DIT in December 2018. This will allow TU Dublin to continue to use the property until October 2020. The Department has not finalised its plans for the future use of the property.

7.62 In a school building programme announcement in April 2018, the Department stated that a post-primary school is required to be delivered in the north Dublin city area by 2022. The Department is considering its options for the delivery of the school. These include

- the conversion of the premises to a post-primary school, and
- the use of the premises for other education provision which would in turn free up sites in nearby locations which would then be used to expand current schools or establish new schools.

Observations of the Department

- 7.63** The Department has stated that the major challenge when identifying/assessing sites in south Dublin city was the very limited availability of sites suitable for schools. In addition, when sites do become available close to the centre of Dublin, the Department often finds itself in competition with property developers for sites which offer residential and/or commercial potential.
- 7.64** In relation to the acquisition of the Roslyn Park site, the Department stated that the arrangements agreed were on the basis of facilitating continued education provision to current clients of the Rehab Group while at the same time guaranteeing the acquisition of the asset by the Department.
- 7.65** The Department has stated that the arrangements agreed with the Rehab Group did not have an impact on the Department's plans for the site given the timeline required for design, planning and procurement. It also noted that the continuing occupation of the property by the Rehab Group reduces security costs which would otherwise be incurred for a property like this.
- 7.66** The Department has noted that subsequent to the initial offer of €12 million (which was rejected) and in advance of meeting with the Rehab Group in relation to an improved offer, the Department met with senior representatives of the professional valuers which it had engaged to discuss their valuation and to prepare for negotiations with the Rehab Group.
- 7.67** The Department has reported the following reasons for agreeing to the increase in its offer from €12 million to €20.5 million
- It had been informed by the Rehab Group that several bidders were looking to acquire the property and the top bid was in the order of €20 million. Therefore, an offer was required to be at the €20.5 million level in order to secure the property.
 - The Department had completed extensive searches to ascertain the availability of site options and no suitable alternatives could be acquired.
 - There was pressing requirement for the delivery of school accommodation in the area.
- 7.68** In relation to the acquisition of the Harold's Cross site, the Department noted that the site is well located to serve south Dublin city needs and it provides certainty in respect of suitability and availability. The Department notes that it had established that land banks of sufficient size are scarce and where such sites have the potential for residential or commercial development, they would be valued accordingly. It noted that the costs of acquiring the Harold's Cross site were appraised in this context.
- 7.69** The Department has stated that the decision to open new schools in the Drumcondra/Marino/Dublin 1 area was taken by the Minister in April 2018 on foot of submissions made, following an analysis of demographics and school capacity in the area. The decision to purchase the Cathal Brugha Street and Marlborough Street buildings was based on an established difficulty in securing appropriately zoned sites of sufficient size in order to provide a post-primary school. When an opportunity to acquire this property presented itself, the Department availed of it.

- 7.70** The Department has stated that it is only when a site has been acquired that a detailed appraisal of the development potential of the project (e.g. number of schools to be accommodated, detailed cost of proposed design) can be conducted.
- 7.71** In line with the challenges in providing school places in urban areas, the Department is proposing to locate, subject to planning permission, both a primary and post-primary school on each of the Roslyn Park and Harold's Cross stadium sites which are approximately five acres and six acres respectively. The Department has many other examples where school sites in urban settings are maximised to facilitate demographic growth.
- 7.72** The need for more intensive use of school sites in urban settings can typically involve
- development of school campus sites
 - increased height of school buildings — particularly at post-primary level
 - larger schools to minimise the number of sites required e.g. 1,000 pupil post-primary schools as standard
 - ancillary use of nearby off-site facilities to minimise the need for traffic management, parking, playing pitches etc. on the school site
 - use of shared facilities between neighbouring schools, shared local authority amenities etc.
- 7.73** More intensive use of school sites in urban settings is consistent with the objectives of Project Ireland 2040 which envisage consolidation and intensification in established urban settlements with the overall objective of accommodating up to 50% of the projected population increase in the State within the greater Dublin area and 50% of the remaining population increase in existing regional cities and established large towns. Increasingly, school developments will need to be located within existing urban areas. The unavailability of greenfield sites in already built up areas will provide challenges in site identification and re-development of existing school sites, or brownfield development. Inevitably, a more compact settlement pattern will create greater market competition for available properties. This will require increased emphasis to be put on maximising the use of existing school sites.

Conclusions and recommendations

- 7.74** The Department has guidelines in relation to the size of sites depending on the size of the proposed school. The guidelines range from 1.75 acres to 5.47 acres for primary schools and from 7.74 acres to 11.3 acres for post-primary schools.
- 7.75** The sites at Roslyn Park and Harold's Cross — at 5 and 6 acres respectively — will each accommodate both a primary school and a post-primary school when fully developed. This indicates that the Department is seeking to maximise the potential of the sites to cater for demand for school places in these school planning areas. This represents a significantly more intensive use of the sites compared to the internal Department guidelines.
- 7.76** Other jurisdictions have recognised that the provision of schools infrastructure presents a significant challenge in areas where land prices are already at a premium, and in city areas with only small sites available for schools. In those locations, schools planning has recognised that there is a need to develop different models for the way schools are planned, designed, built, managed and funded. These include increasing the maximum number of students in new and redeveloped schools, a stronger emphasis on redeveloping existing school infrastructure, smaller more intensely developed sites and increased joint use of facilities, in particular sport facilities.

Recommendation 7.1

The Department should review its parameters for the size of sites required for primary and post-primary schools, in particular, in the Dublin area, including any initiatives required to allow more intensive development of sites.

Accounting Officer's response

Agreed.

The Department is aware of the challenges posed for the development of schools in an urban setting such as in Dublin city and has already adapted its school designs to urban settings to ensure the optimum use of available space while at the same time meeting the needs of school users including teachers and pupils.

The Department's existing technical guidance documents on the assessment of sites for schools implicitly allow for the identification and evaluation of smaller intensively planned urban school sites where some of the essential elements can be provided outside of the school site e.g. traffic management, parking, playing pitches etc. This will be made more explicit in the next update of these technical guidance documents which are due to be finalised later in 2019.

- 7.77** Three site acquisitions in the Dublin area accounted for just over half of the Department's expenditure on sites between 2014 and 2018.
- 7.78** While Dublin south city is a high-cost area for land, it is noted that the Department paid €4 million (24%) above the independent valuation it received of the Roslyn Park site, and also agreed to additional conditions of sale providing valuable medium-term accommodation for the vendor. The Department opted not to use external negotiation expertise when acquiring this site.

- 7.79** The valuation report prepared by the Valuation Office in relation to the Harold's Cross site referred to general market values but referenced the asking price of only a single nearby property. However, the Valuation Office has since stated that they relied on several transactions in estimating the market value of the Harold's Cross site. Key valuation judgments were not recorded in the valuation report.

Recommendation 7.2

It is recommended that the Valuation Office comprehensively document the basis for its valuations in its valuation reports, including all available relevant market information and key judgments made.

Commissioner's response

Agreed.

This process has already been put in place.

Annex 7A

Figure 7A.1 Guideline site areas for schools

	Size of primary school			
	4 to 8 classrooms	8 to 16 classrooms	16 to 24 classrooms	24 to 32 classrooms
Guideline site area for single storey school buildings	1.9 acres (0.77 ha ^a)	2.8 acres (1.14 ha)	4 acres (1.6 ha)	5.47 acres (2.2 ha)
Guideline site area for two storey school buildings	1.75 acres (0.71 ha)	2.56 acres (1.04 ha)	3.7 acres (1.5 ha)	5 acres (2.025 ha)
	Size of post-primary school			
	500 pupils	750 pupils	1000 pupils	
Guideline site area for two storey school buildings	7.74 acres (3.13 ha)	9.44 acres (3.82 ha)	11.3 acres (4.57 ha)	

Source: Department of Education and Skills

Note: a ha = hectares.

Annex 7B Key elements of Memorandum of Understanding between the Department of Education and Skills and local authorities

On 30 May 2012, the Department agreed a Memorandum of Understanding (MoU) with the County and City Managers Association on acquisition of sites for school planning purposes. The key elements of the MoU are as follows

- Where local authorities are considering site designations for schools in a development plan or local area plan, they should consult with the Department and obtain sign-off at an early stage regarding site suitability and adequacy.
- Where the Department is acquiring a site under the terms of the MoU, the following are the key actions
 - The Department initiate the acquisition in writing to the local authority.
 - Where a site has not been designated or reserved, the local authority is to revert to the Department with a list of preferred sites. Following discussions, both parties then agree a preferred listing of site(s).
 - The local authority will appoint a suitably qualified valuer to carry out a valuation on behalf of the local authority and the Department.
 - If the site is in third-party ownership, the local authority enters into negotiations with the landowner. If the site is in the ownership of the local authority, it will be acquired by the Minister from the local authority for an agreed price.
 - In the event that the landowner refuses to sell the site or fails to agree an acceptable price, the local authority will consult with the Department to determine if it is necessary for the local authority to acquire a suitable site by compulsory order.

8 Controls over humanitarian assistance funding

- 8.1** Official development assistance (ODA) is government aid that promotes and specifically targets the economic development and welfare of developing countries.¹
- 8.2** Irish Aid — funded under Vote 27 International Co-operation — is the Government's main programme for ODA, accounting for about two thirds of the funding provided by Ireland. The programme is managed by the Development Co-operation and Africa Division (DCAD) of the Department of Foreign Affairs and Trade (the Department).

Overall ODA targets

- 8.3** In 1970, the United Nations (UN) set a target for developed countries to contribute ODA equivalent to 0.7% of their Gross National Income (GNI) each year.² In 2005, the EU Council set a specific objective for member states to reach the UN target by 2015.³ Ireland has since made a commitment to meet the 0.7% of GNI target by 2030.⁴
- 8.4** Figure 8.1 shows Ireland's annual expenditure on ODA over the last decade. In 2008, ODA totalled €921 million and represented nearly 0.6% of GNI. Between 2009 and 2014, there were consistent decreases in total ODA expenditure, and in ODA as a proportion of GNI. While total ODA expenditure has increased steadily since 2015, expenditure as a proportion of GNI has been relatively static. This is largely due to strong growth in the Irish economy resulting in higher GNI. In 2018, Ireland ranked number 12 (jointly with Iceland) among 29 OECD DAC donors, in terms of the share of its GNI contributed as ODA.⁵

1 Defined by the Development Assistance Committee (DAC) of the Organisation for Economic Co-operation and Development. Ireland is subject to regular peer review by the DAC. The next review is due to take place in September 2019.

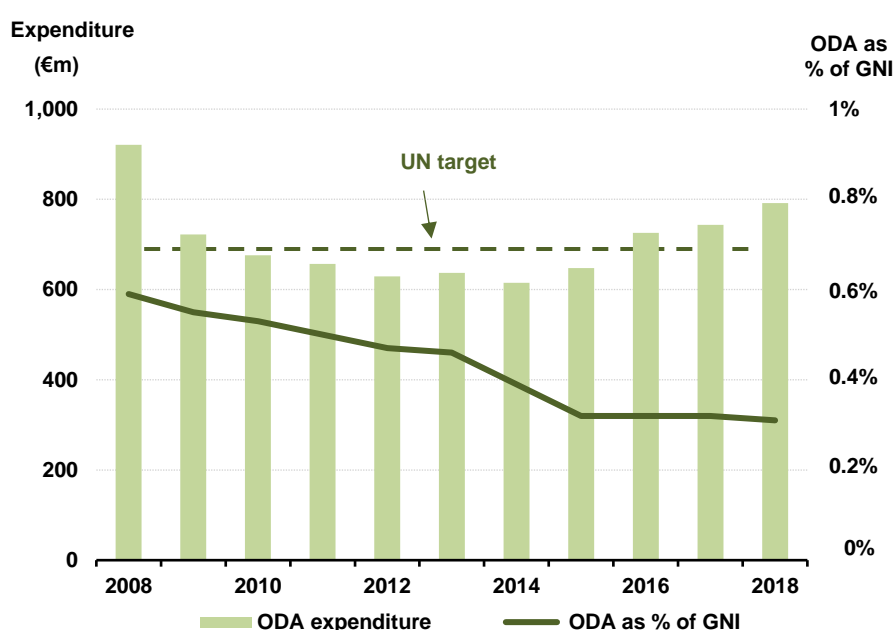
2 UN General Assembly Resolution 2626 (XXV), 24 October 1970.

3 Council of European Union Meeting No. 2660, External Relations Council, Brussels, 24 May 2005.

4 2030 Agenda and the Sustainable Development Goals adopted by world leaders at the UN Summit in New York in September 2015.

5 Irish Aid (draft) Annual Report 2018, annex four. The final report is due to be published in October 2019.

Figure 8.1 Irish official development assistance, 2008 to 2018



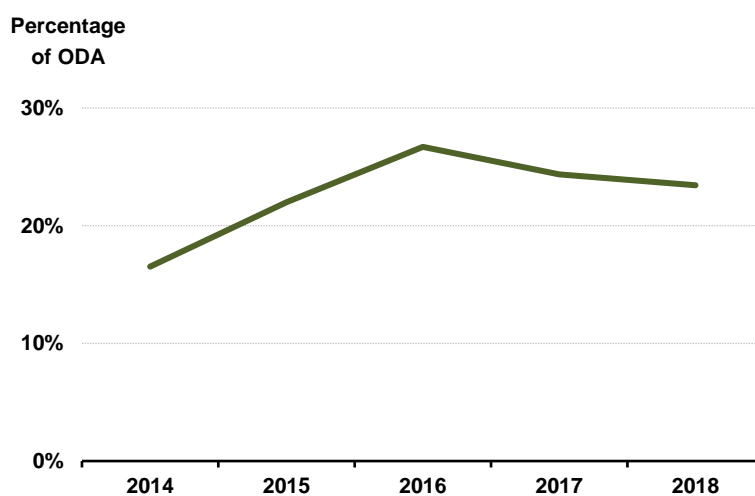
Source: Expenditure — Irish Aid annual reports. %GNI — the Organisation for Economic Co-operation and Development. Analysis by the Office of the Comptroller and Auditor General.

- 8.5** Ireland's annual ODA budget allocation is approved by Government as part of the annual national budget setting process. The Department's annual allocation is discussed and reviewed by relevant divisions within the Department of Foreign Affairs and Trade, the DCAD Director General, the Department's senior management group, the Secretary General and the Minister.
- 8.6** The Department has stated that the budget allocation process takes account of overall policy objectives, international commitments and ongoing crises. For humanitarian aid, specific international appeals are also considered. An interdepartmental committee meets to review and discuss Ireland's total ODA covering all government departments. The committee members include representatives from the Department of Foreign Affairs and Trade, the Department of Finance and a number of other relevant departments.

Humanitarian assistance

- 8.7** Humanitarian assistance is distinct from other development aid in that it is often reactive in nature e.g. in emergency situations, such as earthquakes, droughts, wars or political uncertainty resulting in refugee displacement. Such crises can be protracted and there may be a continuing need for humanitarian assistance over an extended period of time.
- 8.8** Responding to humanitarian crises is inherently difficult. Securing access to populations in need in areas of conflict can be one of the biggest challenges for humanitarian organisations.¹ Effective distribution of aid in such circumstances is challenging as timely provision of funds must be balanced with ensuring adequate control exists in respect of funds provided.
- 8.9** Humanitarian assistance currently accounts for almost a quarter of Irish ODA (see Figure 8.2).² It is deployed to meet humanitarian needs in many areas, including responses to the current crises in Syria and Yemen, as well as to continuing needs in South Sudan, Somalia, the Sahel and the Democratic Republic of Congo.

Figure 8.2 Humanitarian assistance as a percentage of overall Irish ODA, 2014 to 2018



¹ This is particularly difficult in areas controlled by terrorist or non-government groups. In 2017, there were over 1,500 denials of requests for humanitarian access in various conflict zones.

² Prior to 2015, the humanitarian assistance outturn figure reported by Irish Aid only included direct (i.e. bilateral) assistance provided. The Department has stated that following the adoption of its humanitarian assistance strategy in 2015, it began to more systematically capture and report on humanitarian spending from across the multilateral ODA programme.

Source: Department of Foreign Affairs and Trade. Analysis by the Office of the Comptroller and Auditor General.

Report focus

8.10 This report

- presents an overview of Ireland's expenditure on ODA with a particular focus on humanitarian assistance
- outlines Irish ODA funding since 2012 relating to the humanitarian situation in Syria
- describes the control framework established by the Department with the aim of ensuring that humanitarian funding reaches the intended recipients and is spent for the purposes intended.

8.11 The examination included a site visit to Jordan, to inspect a number of interventions funded by Irish Aid in response to the ongoing humanitarian crisis in Syria. The application of controls by the Department was tested in respect of the projects visited there.

Overview of official development assistance

8.12 About two thirds of Ireland's ODA in 2018 is accounted for through Vote 27. The remainder consists of

- Ireland's share of the EU development co-operation budget
- Ireland's contribution to the World Food Programme, the World Bank and other multilateral organisations
- payments to international bodies by other government departments.¹

8.13 Irish ODA funding is comprised of two types of assistance.

- **Bilateral assistance** — this involves the provision of direct assistance to a developing country through a variety of channels, including governments of developing countries, non-governmental organisations (NGOs), international agencies, and partnerships with private agencies and missionary societies.
- **Multilateral assistance** — this involves contributions to international agencies, institutions or organisations that pool contributions from their member countries and apply them for development purposes.

8.14 Figure 8.3 provides an overview of how Ireland's ODA was applied in 2018 — a more detailed breakdown of the 2018 ODA outturn is set out in Annex 8A.

Figure 8.3 Ireland's ODA by type of assistance, 2014 to 2018

	2014	2015	2016	2017	2018
	€m	€m	€m	€m	€m
Bilateral assistance	393	388	358	409	421
Multilateral assistance	197	230	337	306	342
Programme management and administration costs ^a	25	29	28	28	29
Total	615	648	724	743	792

Source: Department of Foreign Affairs and Trade

Notes: a Includes salaries of staff at Irish Aid headquarters and in key partner countries, consultancy fees to provide technical expertise and independent evaluation and audits, travel costs and chancery/residence costs.

b Any apparent differences in totals are due to rounding.

1 Contributions to ODA are made by the Department of Finance; the Department of Communications, Climate Action and Environment; the Department of Agriculture, Food and the Marine; among others (accounted for on their respective votes); and repayments by the Revenue Commissioners under the Charitable Donation Scheme in respect of qualifying donations to eligible charities and approved bodies.

Humanitarian assistance strategy

- 8.15** The objective of humanitarian assistance is to save lives, alleviate suffering and maintain human dignity following conflicts, shocks and natural disasters.
- 8.16** The overarching strategy for Irish humanitarian assistance is set by the Government's 2015 foreign policy¹ and its 2019 policy for international development.² Furthermore, effective delivery of humanitarian funding is consistent with the aims of the Government's 'Global Ireland 2025' strategy.³
- 8.17** The Department's humanitarian assistance policy, published in 2015, outlines specific objectives and the actions to be taken to achieve them.⁴ The objectives include to
- provide predictable and flexible assistance, on a needs basis, in response to sudden onset, protracted and forgotten humanitarian crises
 - emphasise actions focussed on gender issues, on protection and on targeting underfunded humanitarian crises
 - link humanitarian and development actions so as to prevent, prepare for, support recovery from, and build resilience to man-made crises and natural disasters
 - contribute to building an evidence base and improving outcomes through research, innovation, good practice and a focus on effectiveness and results.
- 8.18** Ireland is also party to a number of international agreements relating to development aid. In 2017, Ireland was one of more than twenty major donors to sign up to an international agreement. This agreement, referred to as the 'Grand Bargain', requires a series of changes to the working practices of donors and aid organisations with the overall aim of improving the predictability, effectiveness and quality of humanitarian funding.⁵ The Grand Bargain includes commitments for donors and aid organisations in relation to
- less earmarking of donor funds and more multi-year planning and funding
 - increased support for local and national responders, more cash-based schemes, thereby empowering affected people and increased participation, involving aid recipients in decisions affecting their lives
 - greater transparency on the use of donor funding, less duplication and lower management costs, and harmonisation and simplification of reporting requirements.
- 8.19** In addition, the Irish Aid framework for action provides a basis for measuring performance and demonstrating accountability of the Irish Aid programme. It is used to ensure that the structures and systems are in place to provide for the effective delivery of planned results.
- 8.20** Expected results are outlined for each proposed humanitarian aid project during the assessment conducted as part of the Department's standard approach to grant management, which distinguish where possible between expected outputs and outcomes.
- 8.21** As part of the Department's standard approach to grant management, proposals for humanitarian funding are assessed against a range of criteria, including how they contribute to the humanitarian assistance policy and the Irish Aid framework for action. For example, one NGO's 2017/2018 programme of work was assessed as contributing to five out of Ireland's ten high level outcomes.

1 *The Global Island: Ireland's Foreign Policy for a Changing World*, Government of Ireland, 2015.

2 *A Better World: Ireland's Policy for International Development*, Government of Ireland, 2019.

3 *Global Ireland: Ireland's Global Footprint to 2025* (Government of Ireland, 2018) is a strategy aimed at doubling the scope and impact of Ireland's global footprint over the period to 2025.

4 *Ireland's Humanitarian Assistance Policy, 2015*. Details of the policy objectives and planned actions by the Department are provided at Annex 8B.

5 The Grand Bargain is an international agreement between large donors and humanitarian aid organisations. The agreement arose from a concept in a report of a high-level panel established by the UN Secretary General, entitled *Too important to fail — addressing the humanitarian financing gap*, January 2016.

Humanitarian assistance funding

8.22 Humanitarian assistance may be provided by the Department in one of three forms.

- **Earmarked funds** must be used by the recipient to deliver a specified programme of work agreed with the Department.
- **Softly earmarked funds** are restricted but to a lesser degree e.g. funds may be provided to an NGO for use in connection with a specific crisis or to a UN agency for application to a specific sector.
- There are no restrictions on the use of **unearmarked funding**. Similar to other donors and in accordance with the principles of the Grand Bargain, Ireland has committed to increasing the proportion of humanitarian aid it provides in the form of unearmarked funding.

8.23 Ireland provided nearly €186 million in humanitarian assistance in 2018, of which €109 million (59%) may be categorised as bilateral assistance (see Figure 8.4). The remaining €77 million consisted of core support provided to a number of multilateral organisations.

Figure 8.4 Ireland's humanitarian assistance outturn, 2018

	€m
Bilateral assistance	
Crisis specific appeals	42.2
NGOs emergency response	18.1
Humanitarian assistance implemented through bilateral missions	17.5
Core funding to International Red Cross	11.1
EU facility for refugees in Turkey	6.9
Rapid Response Initiative	3.5
Humanitarian mine action	2.0
Gender and protection	1.5
Other areas	6.1
Sub-total	108.7
Core support to multilateral organisations	
UN agencies	47.9
European Union	28.3
Other	0.7
Sub-total	76.9
Total humanitarian assistance	185.6

Source: Department of Foreign Affairs and Trade

Note: a Any apparent differences in totals are due to rounding.

Figure 8.5 Ireland's key humanitarian partners, 2018

Source: Department of Foreign Affairs and Trade

8.24 In order to meet the most pressing humanitarian needs, and achieve the desired level of geographic and thematic coverage, the Department allocates grant funding to a diverse range of partner organisations, including partner governments, NGOs, UN agencies and multilateral organisations such as the World Bank. The key implementing partners for humanitarian funding are set out in Figure 8.5.

8.25 In addition, the Department recruits, trains, and maintains a roster of humanitarian experts, who can be deployed on short-term assignments of up to six months. Ireland also holds emergency supplies in six UN humanitarian response depots. These can be allocated quickly to partner organisations in the event of a sudden onset crisis.

Ireland's response to the crisis in Syria

8.26 The Department has stated that, prior to the outbreak of the Syria conflict,¹ Ireland's bilateral humanitarian assistance had mainly been focussed on crises in Africa. Over recent years, the civil war in Syria, as well as conflicts in Iraq and Yemen, has led to a significant increase in humanitarian need in the Middle East.

8.27 Since 2012, Ireland has provided over €118 million² in humanitarian assistance towards dealing with the Syria crisis, including €25.5 million in 2018 (see Figure 8.6). This represents Ireland's largest ever response to a single crisis. A large proportion of Ireland's funding to UN and International Red Cross partners in the region is unearmarked and is accordingly available for use by those organisations in accordance with their country and regional plans.

1 The conflict in Syria has caused an estimated 13.5 million people to be in need of humanitarian assistance. It has displaced over 11.5 million people: 6 million within Syria and 5.5 million displaced to neighbouring countries. The UN has classified it as a level 3 emergency, being the most severe category of large scale humanitarian crisis.

2 In addition to funding directly allocated towards the Syria crisis, Ireland provides core funding to many of the multilateral organisations responding to the crisis.

Figure 8.6 Syria crisis humanitarian assistance, 2012 to 2018

Partner	2012	2013	2014	2015	2016	2017	2018
	€m	€m	€m	€m	€m	€m	€m
UN agencies	1.4	8.0	6.5	8.3	7.9	5.5	8.8
Red Cross	0.4	1.5	2.0	1.8	3.5	1.5	2.0
NGOs	0.1	1.7	3.0	3.3	2.8	2.3	2.6
World Food Programme	—	—	1.1	0.7	6.4	6.0	6.0
Other ^a	—	—	2.5	—	4.9	10.2	6.2
Annual totals	1.9	11.2	15.1	14.1	25.4	25.5	25.5
					Overall total		118.6

Source: Department of Foreign Affairs and Trade

Notes: a Other humanitarian assistance includes Ireland's contributions to a multi-donor European regional development and protection programme and an EU facility for refugees in Turkey.

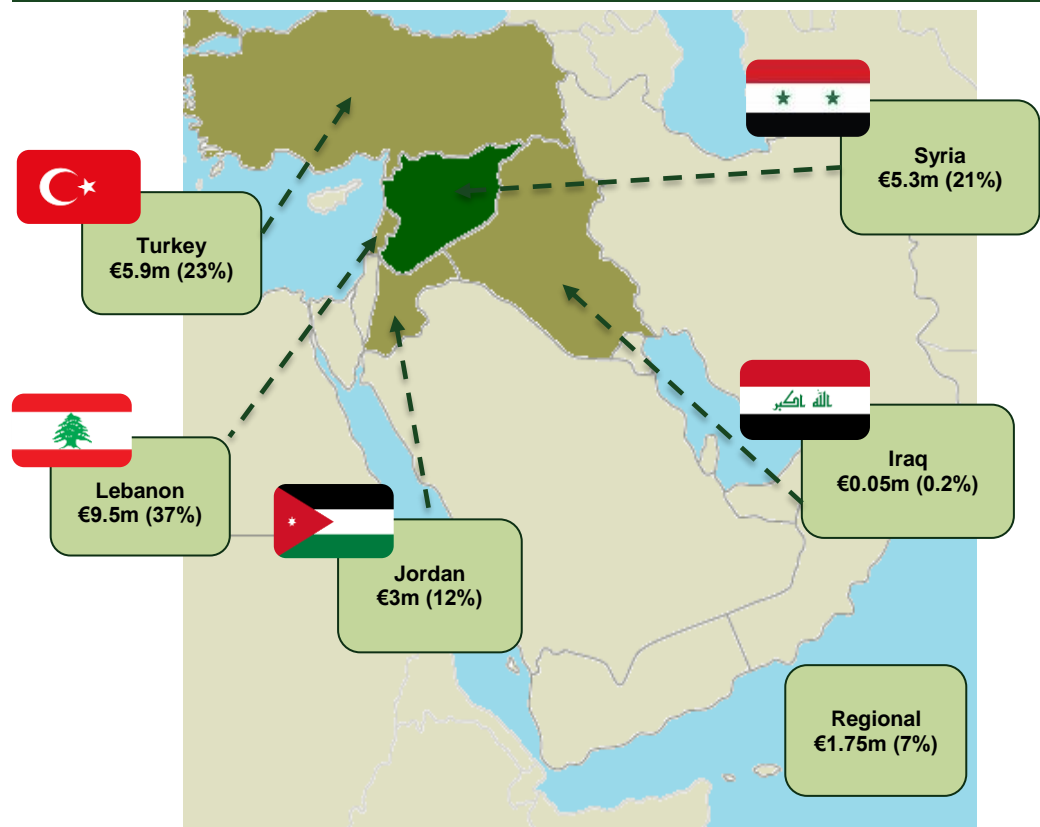
b Any apparent differences in totals are due to rounding.

- 8.28** The majority of Ireland's humanitarian assistance to Syria is managed by the Department of Foreign Affairs and Trade. Separately, as part of its annual core contribution to the World Food Programme (WFP), the Department of Agriculture, Food and the Marine has allocated a minimum of €6 million annually, since 2016, to the WFP's Syria Crisis response. All of the 2018 funding was used by the WFP in Lebanon. In December 2018, the Department of Agriculture, Food and the Marine signed a new strategic partnership agreement with the WFP for the period 2019 – 2021.
- 8.29** Ireland also contributes towards efforts to deal with the Syria crisis through its contributions to the UN Central Emergency Response Fund and to the EU general budget. Since the beginning of the Syria crisis, the European Commission has channelled approximately €1.2 billion to Jordan through humanitarian, development and macro-financial assistance.
- 8.30** Given the increased funding to the region, and the likelihood that the crisis would be protracted, in 2016, the Department created a new position of regional humanitarian advisor, based in Turkey. The Department has stated that this new role is the main control in which it has invested to protect its humanitarian spend in the region. It stated that the regional advisor undertakes regular site visits across the region, engaging with funding partners, following up on matters arising, engaging with other aid and political stakeholders and enhancing key working relationships. In relation to humanitarian aid in Jordan, the Department stated that the advisor has previously met all of Ireland's partners there and engages with them on an ongoing basis to monitor programme delivery. The advisor's job is to ensure that partners are delivering on agreed objectives. The regional advisor also sits on the advisory boards of three UN pooled funds in which Ireland invests.¹

¹ The Lebanon, Jordan and Turkey humanitarian funds.

- 8.31** In 2019, the Department opened a new embassy in Amman, Jordan, on foot of a decision made in 2017. The Department has stated that a key part of the embassy's mission is to provide additional oversight and monitoring of humanitarian aid in Jordan and the wider region, in a context where many of the UN and other international bodies have their regional humanitarian headquarters in Amman. The Department noted that the ambassador's significant development experience enables him to support its control function. The Department views the appointment of the advisor and the establishment of the embassy as significant investments in an enhanced control environment.
- 8.32** Humanitarian access to affected people in Syria is complicated by ongoing conflict, shifting frontlines, administrative and bureaucratic hurdles and violence along access routes. Departmental funding has focussed on supporting partnerships and programmes based in Syria and neighbouring countries such as Jordan and Lebanon, supporting Syrian refugees and host communities.
- 8.33** As illustrated in Figure 8.7, most of the Department's humanitarian support in 2018 was spent in neighbouring countries, rather than in Syria itself.

Figure 8.7 Breakdown by country of Irish Aid support to Syrian crisis, 2018



Source: Analysis by Office of the Comptroller and Auditor General

Note: a Any apparent differences in totals are due to rounding.

Grant management and control

- 8.34** In 2018, the Department rolled out a new standard approach to grant management (see the key stages at Figure 8.8) in response to the findings of an internal audit review of internal control and risk management systems.¹ The review had noted variations in the processes around disbursement of funds and in the monitoring and management of programmes across Department missions.
- 8.35** The Department states that all ODA funding is now allocated, monitored and evaluated using the standard approach, which has been applied to manage humanitarian assistance funding since 2018.
- 8.36** The Department's guidance material for the common grant management procedure specifies actions to be taken and the information and documentation to be available for each stage of the grant management cycle. It includes supporting templates and prompts managers and decision-makers to consider all potential projects, partners and funding decisions from the perspective of risk, results and financial accountability.

Figure 8.8 Key elements of the Department's grant management procedure

Stage	Key elements
Identification of projects and partners	<ul style="list-style-type: none"> ▪ Consideration of the relevance of expected results, the suitability of the prospective partner and the Department's capacity (in terms of the available financial and human resources) to manage the grant.
Design and development	<ul style="list-style-type: none"> ▪ Department supports partner to prepare a sound project/programme. ▪ Grant manager develops an understanding of the project/programme, the budget and the partner organisation and its performance history.
Appraisal and recommendation	<ul style="list-style-type: none"> ▪ Manager documents assessment of the project/programme, the partner and associated risk. ▪ Grant manager issues recommendation on whether a grant should be awarded and, where relevant, sets out any conditions that should be included in the grant agreement and/or monitoring of the grant.
Approval	<ul style="list-style-type: none"> ▪ Grant recommendation considered by budget holder and approved at an appropriate level.
Implementation	<ul style="list-style-type: none"> ▪ Involves entering into a written agreement with the relevant partner organisation, processing grant payments and monitoring performance.
Completion and learning	<ul style="list-style-type: none"> ▪ Involves accounting for and closing a grant file, noting results achieved and useful lessons learned.

¹ *The Assessment of Internal Control and Risk Management Systems in Key Partner Countries Synthesis Report*, February 2014.

Source: Department of Foreign Affairs and Trade

Controls and assurance structures

8.37 Figure 8.9 provides an overview of the Department's control and assurance regime in place in respect of humanitarian assistance, distinguishing between earmarked funding and funding provided on a softly earmarked or unearmarked basis. Some of the controls and tests are common to all funding bases, while others are tailored to reflect the nature of the funding.

Figure 8.9 Overview of humanitarian assistance controls on earmarked and softly/unearmarked funds

Stage	Earmarked funds	Softly/unearmarked funds
Identification of projects and partners	<ul style="list-style-type: none"> Assess potential contribution of project to objectives of humanitarian aid policy and Irish Aid framework for action. 	<ul style="list-style-type: none"> Assess fit between partner organisation's activity and objectives of humanitarian aid policy and Irish Aid framework for action.
	<ul style="list-style-type: none"> Partners must declare any conflicts of interest and comply with relevant legislation and financial obligations, including avoidance of fraud and corruption. Assess partner's capacity for managing risk. 	
	<ul style="list-style-type: none"> Select partners with proven track record in similar types of crisis. 	<ul style="list-style-type: none"> Assess partner organisation's track record in effectively delivering aid, examine internal audit and other relevant published reports. Seek analysis and observations from Irish embassy (if any) in target country.
Design and development	<ul style="list-style-type: none"> Develop an understanding of the project. 	<ul style="list-style-type: none"> Develop an understanding of the programme area.
Appraisal, recommendation and approval	<ul style="list-style-type: none"> Document manager's assessment and recommendation. Record grant decision and, where relevant, set out any conditions that should be included in the grant agreement and/or monitoring of the grant. 	
Implementation	<ul style="list-style-type: none"> Written agreement in place, including any relevant conditions. Obtain receipts for funds transferred. Periodic progress reports/audits from partner organisations are reviewed by grant managers and may be supplemented by periodic monitoring visits. 	
	<ul style="list-style-type: none"> Expected outputs and outcomes specified in written agreement. 	<ul style="list-style-type: none"> For UN agencies, Ireland may participate in field visits organised for donors.
	<ul style="list-style-type: none"> Department entitled to audit original documentation at offices of partner organisation. 	<ul style="list-style-type: none"> Department retains the right to conduct an evaluation on the activities funded out of its contributions.
Completion and learning	<ul style="list-style-type: none"> Partner provides a final report/statement showing how funding has been applied and the outcome achieved. Closure note (documenting results, learning and risk) completed by the grant manager and signed off by the budget holder. 	

Source: Department of Foreign Affairs and Trade

Site visit to Jordan

- 8.38** Jordan currently hosts more than 1.3 million Syrian nationals, including over 670,000 registered refugees, who face increasing vulnerability as their savings, assets and resources become exhausted. Individuals and families displaced from Syria now constitute 10% of the total population of Jordan. Jordan is also currently hosting over 90,000 refugees from other countries as well as over 2.1 million long-term registered Palestinian refugees. The World Bank estimates that hosting of registered refugees costs Jordan around €2.25 billion per year.
- 8.39** The examination team travelled to Jordan in April 2019 to inspect a number of humanitarian interventions funded by Irish Aid in response to the Syria crisis. The review encompassed examples of each of the three types of funding intervention used by Irish Aid in 2018. These related to
- Unearmarked — €750,000 in humanitarian funding to a UN agency supporting Syrian refugees in Jordan
 - Softly earmarked — €500,000 provided to another UN agency for education projects for Syrian refugees in Jordan
 - Earmarked — €233,000 for an NGO assisting conflict-affected children in a community education facility in Amman.

Unearmarked funding

- 8.40** The Office of the United Nations High Commissioner for Refugees (UNHCR) leads the refugee response in Jordan, coordinating and providing assistance in line with the Jordan Response Plan.¹ Irish Aid provided the UNHCR with total funding of €13.2 million in 2018, of which the agency applied €750,000 as humanitarian funding for Syrian refugees.
- 8.41** UNHCR operates a number of services in the Zaatari refugee camp in North Jordan, which is home to nearly 80,000 refugees. The supports provided in Zaatari Camp include education facilities and schools, a water and sanitation facility and a 12.9-megawatt solar power plant, the largest ever built for a refugee settlement. It also operates a refugee registration centre in Amman, the largest such facility in the Middle East. It relies on a biometric identification system which is used to distribute cash payments to refugees from enabled ATMs.

Softly earmarked funding

- 8.42** The United Nations International Children's Emergency Fund (UNICEF) is one of the largest recipients of Irish ODA funding. In addition to annual core funding of over €7 million, Irish Aid funds specific UNICEF humanitarian operations on a case-by-case basis. In 2018, Irish Aid provided a grant of €500,000 to UNICEF, softly earmarked for education projects for Syrian refugees in Jordan. One of the programmes supported provides financial incentives to keep children of refugees in the schooling system.

¹ The *Jordan Response Plan to the Syria Crisis (2016 – 2018)* represents a three-year programme of high priority interventions to enable the Kingdom of Jordan to respond to the effects of the Syria crisis without jeopardising its own development trajectory.

Earmarked funding

- 8.43** NGO 1 aims to assist conflict-affected children and to support access to education for women and girls. It supports a community education facility in Amman, providing early childhood care and development for 3–5 year olds and informal education for adolescents. The facility is funded jointly by NGO 1 and a Jordan-based NGO. Since 2016, Irish Aid has provided grant funding of €576,000 to NGO 1, earmarked for projects in the community education facility in Amman.

Control observations from site visit to Jordan

- 8.44** The evaluation team assessed the extent to which key controls were applied by the Department in respect of the funding interventions inspected in Jordan. Figure 8.10 (over) summarises the results of that assessment.
- 8.45** It was found that the majority of controls had been appropriately applied by the Department in respect of the three funding interventions examined.
- 8.46** In relation to the softly earmarked grant, documentation retained by the Department in relation to the implementing partner (a UN agency) included a report on the Jordan country office conducted by the UN's Office of Internal Audit and Investigations in December 2017. The report identified two cases where subcontractors of the implementing partner had infringed labour market rules in Jordan. In response, the partner committed to ensuring that its subcontractors are aware of the rules and to strengthening its monitoring of contract compliance. Following the report, the partner provided the Department with a copy of its updated policy and details of related workshops that it had implemented. However, the examination team did not find evidence of the Department verifying that the partner had fully implemented the agreed actions arising from the December 2017 report, prior to awarding the grant in September 2018. Ireland, represented by Irish Aid, was a member of the implementing partner's executive board in 2017.
- 8.47** In relation to the earmarked funding, the examination found that the Department's appraisal documentation had noted, in 2016, potential operational issues in relation to the prospective partner's planned operations, as a result of the partner's inexperience in dealing with refugees in Jordan. While there is evidence that staffing matters were raised by the Department in a bilateral meeting with the prospective partner in June 2016, there is no documentary evidence of any specific assurance received by the Department in relation to the potential operational issues noted.
- 8.48** In cases where it provides earmarked funding, the Department reserves the right to conduct audits of original documentation at the offices of the partner organisation. It was noted that no such audits have taken place in Jordan. The Department informed the examination team that no such audits were carried out by the Humanitarian Unit during 2018 in respect of any projects. The Department stated that such audits are carried out on a risk basis, in cases where it has indications of potential issues.

Figure 8.10 Application by Department of key controls for sample projects, 2018

	Partner organisations		
	UNHCR	UNICEF	NGO 1
Irish Aid funding in 2018	€750,000	€500,000	€233,067
Funding basis	Unearmarked	Softly earmarked	Earmarked
Identification of projects and partners			
Clear link between project and Department's strategic objectives	n/a	n/a	●
Partner selection process	●	●	●
Evidence of Department's consideration of relevant findings from UN internal audit reports	●	●	n/a
Evidence of risk assessment undertaken	●	●	●
Appraisal, recommendation and approval			
Record of grant decision made	●	●	●
Grant approved at appropriate level	●	●	●
Implementation			
Written grant agreement in place	●	●	●
Expected project results specified	n/a	n/a	●
Payment receipts on file	●	●	●
Progress reports received from partner organisation as per agreement	n/a	n/a	●
Completion and learning			
Final report received from partner organisation as per agreement	n/a ^a	n/a ^a	●

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

Notes: a In accordance with the grant agreements, final financial statements are not yet due from the partner organisations.

- b
- Control applied
 - Minor control issue noted
 - Significant control issued noted

Conclusions and recommendations

- 8.49** Given the level of humanitarian assistance expenditure, as well as the acute needs of intended beneficiaries, robust control and assurance procedures are key to ensuring that funds are used for the purposes intended and that positive results are achieved. In 2018, the Department completed the rollout of a new standard procedure for grant management in order to ensure a common approach across its different programmes and locations.
- 8.50** The critical controls over unearmarked and softly earmarked funding are those applied at the partner identification stage. Once such grants have been awarded, the Department does not control how the funding is used by the recipient. It will receive a retrospective financial statement showing how the funding was applied, but this may be some time after completion of the programme activity period. As unearmarked and softly earmarked funding is generally applied by partner organisations to large programmes already in operation, it is often not possible to directly attribute results (e.g. beneficiary numbers or specific outcomes) to the Irish Aid contribution.
- 8.51** For earmarked funding, the Department is in a position to exercise more control at project implementation stage and it is easier to evaluate whether expected project outcomes are actually being achieved.
- 8.52** The examination team found that the majority of controls had been appropriately applied by the Department in respect of the three funding interventions inspected in Jordan.
- 8.53** Where earmarked funds are provided, the Department reserves the right to carry out an audit of original documentation in support of grant requests, held at the offices of the implementing partner. The Department has procedures in place for monitoring financial statements submitted by partner organisations. Audits in funded agencies are only conducted in circumstances where this analysis highlights problems or there are other indicators of concern.

Recommendation 8.1

The Department should undertake a limited number of planned audits each year, to verify information reported by selected humanitarian assistance partners in receipt of earmarked funding and to check original documentation supporting financial returns.

Accounting Officer's response

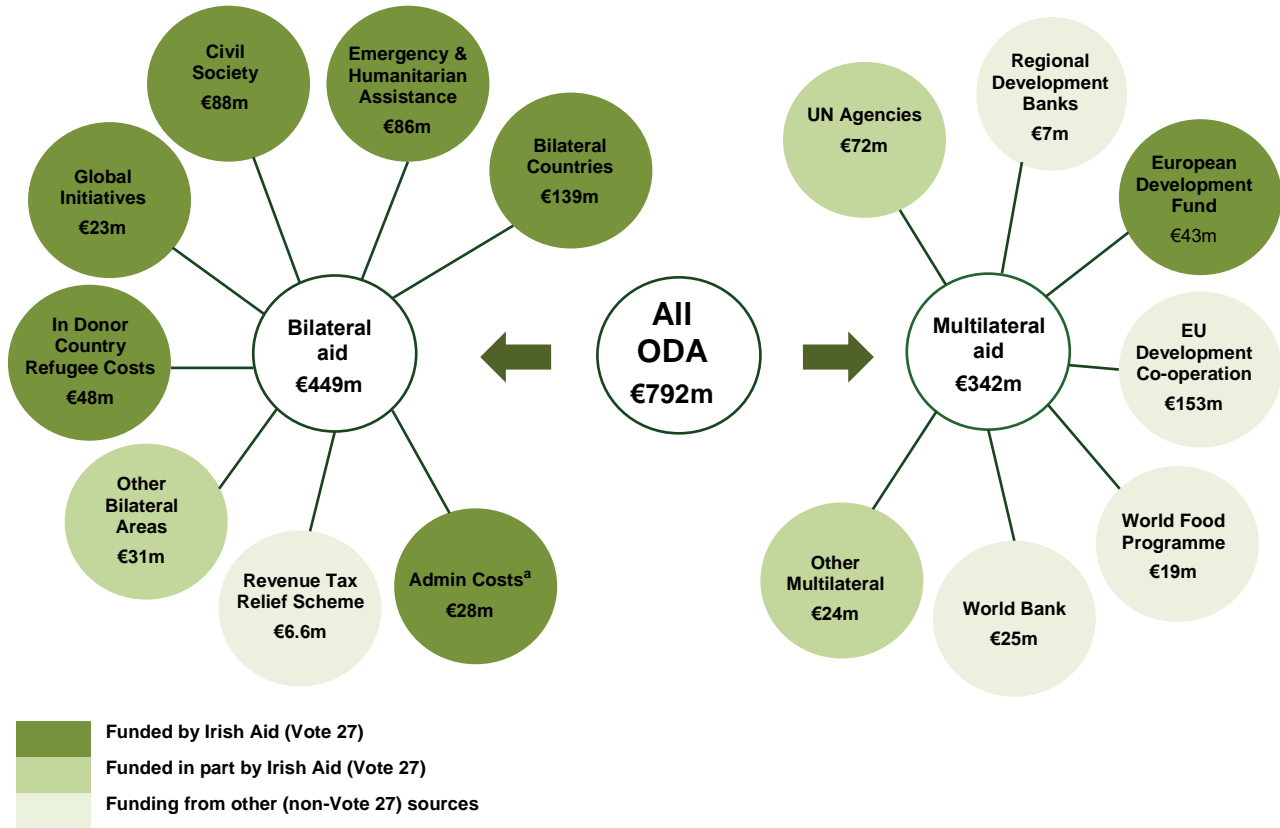
The recommendation is partly accepted.

On an overall basis, the Department will consider conducting some audits of partners in receipt of earmarked funding. This consideration will be informed by the Department's ongoing risk assessment. That risk assessment will be informed in large part by the ongoing monitoring arrangements which the Department has put in place, including the deployment of a full time regional humanitarian advisor.

The Department will continue to actively manage the process of assessing the adequacy of partners' own systems of oversight and assurance, including internal and external audit. This includes amending procedures as required to ensure that necessary assurance regarding partners' management and execution of Irish Aid funding is received, including clear flow of funds for given earmarked grants.

Annex 8A

Figure 8A.1 Overview of Ireland's ODA in 2018



Source: Department of Foreign Affairs and Trade

- Notes:
- a Vote 27 administration costs include salaries of staff at Irish Aid HQ and in key partner countries, consultancy fees to provide technical expertise and independent evaluation, travel costs and chancery/residence costs.
 - b Any apparent differences in totals are due to rounding.

Annex 8B

Figure 8B.1 Ireland's humanitarian assistance policy objectives, 2015

Policy objectives	What the Department will do
To provide needs-based humanitarian assistance in a way that is predictable and flexible to respond to sudden onset, protracted and forgotten humanitarian crises	<ul style="list-style-type: none"> ▪ Channel funding through trusted partners ▪ Categorise needs to inform decisions ▪ Pay attention to forgotten/neglected crises ▪ Support local capacities ▪ Ensure accountability to affected communities ▪ Focus on vulnerable groups ▪ Increase funds aimed at preventing sexual violence ▪ Support rapid response corps ▪ Continue to stockpile relief material ▪ Provide pre-positioned funding
To demonstrate Ireland's leadership and partnership for effective international humanitarian action with a particular emphasis on gender, protection and on targeting forgotten and underfunded humanitarian crises	<ul style="list-style-type: none"> ▪ Follow good humanitarian donor principles ▪ Promote principled humanitarian action ▪ Support the European Consensus on Humanitarian Aid ▪ Advance commitment to gender and protection ▪ Support the transformative agenda ▪ Work to improve donor coordination and financing mechanisms ▪ Fulfil commitments under the National Action Plan on Women, Peace and Security ▪ Contribute to global emergency response ▪ Review stockpiled materials
To link Ireland's humanitarian and development approaches so as to prevent, prepare for, support recovery from, and build resilience to, man-made crises and natural disasters	<ul style="list-style-type: none"> ▪ Ensure complementarity between humanitarian and development efforts ▪ Tackle root causes of vulnerability ▪ Adopt a disaster risk reduction, early recovery and resilience approach where appropriate ▪ Support the implementation of the EU's Action Plan for Resilience in Crisis Prone Countries ▪ Deliver on the objectives of the Rapid Response Initiative ▪ Support early warning systems linked to early response ▪ Support joint humanitarian and development of context specific analysis ▪ Provide flexible funding ▪ Ensure disaster risk reduction is a core element of development programming

Policy objectives

To contribute to building a humanitarian evidence base and improving humanitarian response through research, innovation, good practice and a focus on effectiveness and results

What the Department will do

- Base funding decisions on evidence based analytical processes of need
- Funding decisions will be informed by a robust appraisal mechanism
- Support research and innovation
- Promote and invest in humanitarian standards
- Support research and good practice in protection of women and girls
- Track and communicate results
- Use evidence to inform international policy dialogue
- Work with parliamentarians to shape international humanitarian policy
- Use of the World Humanitarian Summit to produce a coordinated Irish response

Source: Department of Foreign Affairs and Trade, Humanitarian Assistance Policy, 2015

9 Greenhouse gas related financial transactions

9.1 Cutting greenhouse gas (GHG) emissions is arguably the most pressing environmental challenge for all nations. The critical nature of the challenge facing Ireland is set out in the Government's recently published *Climate Action Plan 2019*.

9.2 The Department of Public Expenditure and Reform revised the *Public Spending Code*¹ in July 2019 to, *inter alia*, introduce an abatement cost model to be used by departments and state agencies for valuing the likely future GHG emissions attributable to public investment decisions.²

¹ The *Public Spending Code* is the set of rules and procedures for the appraisal, management and evaluation of public expenditure which must be applied by public sector entities in Ireland.

² Application of the abatement cost model involves estimating the level and timing of future emissions and then applying a shadow price for carbon based on the likely cost to Ireland of removing those emissions from the atmosphere. The previous method for valuing GHG emissions was based on the market value of allowances in the EU Emission Trading System.

³ The Kyoto Protocol was adopted in December 1997 and entered into force in February 2005.

⁴ The Department of Public Expenditure and Reform has published a paper which outlines its approach to implementing green budgeting. (<https://igees.gov.ie/wp-content/uploads/2019/01/The-Implementation-of-Green-Budgeting-in-Ireland.pdf>)

⁵ The system was previously known as the emissions trading scheme. The terminology was changed to EU emissions trading system under EU Directive 2018/410 of March 2018.

9.3 GHGs such as carbon dioxide, nitrous oxide and methane play an important role in sustaining a habitable temperature for the planet. These gases, through the 'greenhouse effect', are responsible for absorbing and emitting thermal radiation which in turn creates a liveable environment.

9.4 However, increases in industrial activity have led to a substantial increase in long term consumption of fossil fuels. As a result, the amount of GHGs in the atmosphere is at the highest level ever recorded. This concentration of GHGs has affected the climate system and contributed to global warming.

9.5 The United Nations Framework Convention on Climate Change and its Kyoto Protocol set the basis for international action to address climate change.³ The Kyoto Protocol set binding targets for 37 industrialised nations (including Ireland) and the EU to reduce GHG emissions over two commitment periods, 2008 – 2012 and 2013 – 2020. In 2015, Ireland also signed up to the Paris agreement which sets other targets for emissions reductions between 2021 and 2030.

9.6 Following on from these commitments, Ireland and the EU are pursuing climate targets through a combination of carbon pricing and taxation, public expenditure, regulation and public awareness policies, some of which give rise to certain financial transactions. A significant number of GHG-related transactions are occurring in Ireland but because these are spread across a wide range of State organisations, the net impact on Exchequer finances is not readily visible. The planned introduction of a green budgeting framework, announced in Budget 2019, has the potential to bring greater transparency to the impact of climate change policies on public finances.⁴

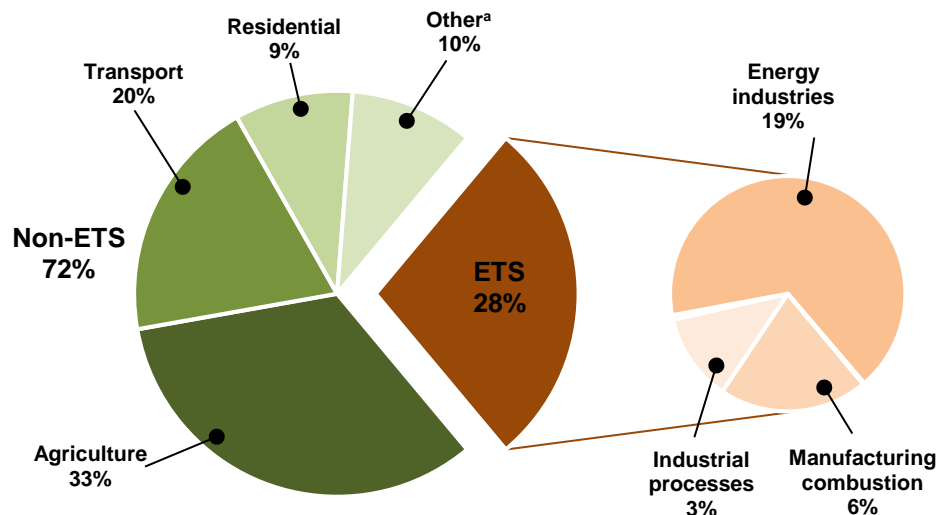
9.7 The purpose of this report is to present an overview and consolidate information about current financial transactions related to

- Ireland's GHG emissions
- the European emissions trading system (ETS)⁵
- climate action targets, and
- carbon taxes.

Ireland's GHG emissions

- 9.8** The Department of Communications, Climate Action and Environment monitors Ireland's GHG emissions through the Environmental Protection Agency (EPA). The EPA is responsible for compiling and reporting on Ireland's emissions, for submission to the EU and UN as well as publication for national stakeholders. A national inventory report is published annually to inform all relevant stakeholders of emission levels. While the EU's Monitoring Mechanism Regulation (525/2013/EU) requires biennial reporting on current and projected emissions, the EPA produces annual reports to meet national stakeholder needs.¹
- 9.9** Figure 9.1 provides an overview of the source of Ireland's GHG emissions in 2017, the latest year for which verified data is available. In 2017, Ireland emitted nearly 61 million tonnes carbon dioxide equivalent (Mt CO₂e), up from 55 Mt CO₂e in 1990.
- 9.10** In the context of EU climate policies, emissions in each member state are split into two categories; sectors of activity subject to the EU Emissions Trading System (ETS) and sectors not within the ETS (non-ETS). The ETS, first launched in 2005, covers approximately 11,000 power stations and manufacturing plants across the EU, Iceland, Liechtenstein and Norway, as well as aviation activities in those countries. All other emissions (e.g. transport, agriculture, built environment) are captured by the non-ETS sector.
- 9.11** For the first commitment period of the Kyoto Protocol (2008 – 2012), Ireland's national emissions targets covered both ETS and non-ETS emissions. However, since 2013, emissions from the ETS sector do not count towards national emissions targets.

Figure 9.1 Ireland's greenhouse gas emissions by sector, 2017



Source: Environmental Protection Agency

Note: a The other sources of non-ETS emissions include some emissions from manufacturing combustion, commercial services, waste, energy industries, the public sector and F-gases. The F-gases are hydrofluorocarbons, perfluorocarbons, sulphur hexafluoride and nitrogen trifluoride.

¹ The preparation of the EPA inventories and projections is a collaborative process involving government departments and State agencies, including the Sustainable Energy Authority of Ireland and Teagasc.

- 9.12** Around 28% of Ireland's emissions fall within the scope of the ETS. In other EU member states, the average proportion of emissions covered by the ETS is about 40%. The lower share in Ireland is mainly due to the relatively low level of heavy industry and the relatively large scale of the agricultural sector — emissions from agriculture are not covered by the ETS. Details of how the ETS operates are provided in the next section.
- 9.13** The non-ETS sector incorporates all other types of emissions and is dominated in Ireland by emissions from agriculture and transport. Non-ETS producers account for 72% of Ireland's total GHG emissions.

EU Emissions Trading System

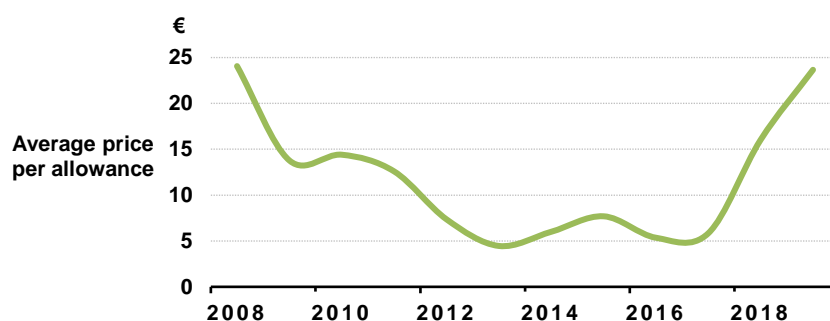
- 9.14** The ETS sets a Europe-wide cap on the level of emissions by the sectors covered and establishes a market where GHG allowances can be traded by participating operators in those sectors. The overall emissions cap is decreased each year. In the current trading period (2013 – 2020), the cap reduces by 1.74% each year, with the aim of ensuring an aggregate decrease of 21% on 2005 emissions levels by 2020. Over the next trading period (2021 – 2030), the cap will reduce by 2.2% each year, with the aim of achieving an aggregate reduction of 43% on 2005 levels by 2030.
- 9.15** The trading system effectively puts a price on carbon emissions, allowing operators the choice to either reduce their emissions below a certain limit, or to continue with business as usual and buy a commensurate amount of compensating credits from the market.
- 9.16** The system is designed around trading periods, with the rules being modified from one period to the next in order to improve the overall integrity of the system. Participation in the EU ETS is mandatory for companies that operate in an activity set out in Annex 9A of the ETS Directive. Smaller institutions with emissions falling below certain thresholds are excluded. The activity under which most of Ireland's operators qualify for the ETS is combustion of fuels with total installed capacity above 20 MW.
- 9.17** In Ireland, there are currently 104 stationary sites and 13 aircraft operators participating in the EU ETS, including entities involved in power generation and in the cement, lime and oil refining sectors. The list also includes large companies in the food and drink, pharmaceuticals, electronic and aviation sectors.¹

¹ See Annex 9A for a list of installations in Ireland holding a GHG permit as at 1 July 2019.

Price of emission trading allowances

- 9.18** The unit used for emissions trading is referred to as an ‘allowance’. This is equivalent to one metric tonne of carbon dioxide. Auctions of allowances take place on a daily basis within participating member states, but are open to buyers from all other states within the system. The price for allowances fluctuates over time (see Figure 9.2). During 2018, the market price on a common auction platform used by Ireland and 24 other states ranged from below €10 during the first quarter of the year to a high of nearly €25 during August.
- 9.19** Since 2009, there has been an excess of emission allowances on the market largely as a consequence of the economic downturn at EU level following the financial crisis in 2008. Reductions in emissions were far greater than anticipated, leading to a surplus of allowances and lower allowance prices. To alleviate this, following amendments to the EU ETS legislation, the EU Commission first postponed auctioning 900 million allowances until 2020 and subsequently introduced a ‘market stability reserve’. From 2019, allowances from postponed auctions and excess allowances in circulation will be transferred to the market stability reserve instead of the ETS market. These new policies have led to the market tightening and have driven up the price for allowances.

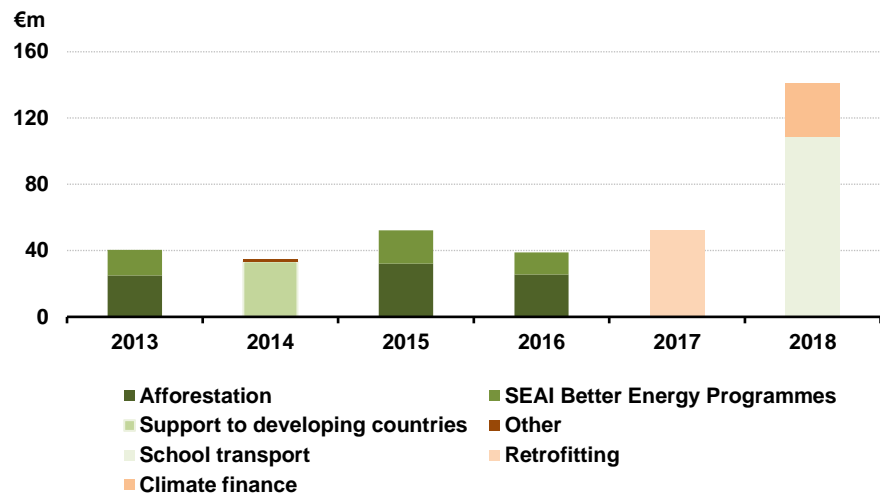
Figure 9.2 Market price for ETS allowances, 2008 to 2019



Source: Sandbag — Carbon Pricing Viewer

Revenue from trading

- 9.20** Revenue generated from the auction of allowances is divided between the member states, mainly based on their overall ETS emissions as a proportion of total EU ETS emissions. Ireland’s receipts totalled €367.3 million between 2013 and 2018 (see Figure 9.3). The increase in revenue for 2018 reflects the higher price for allowances.
- 9.21** Under Directive 2003/87/EC, at least 50% of the revenue generated from auctions should be used by member states to finance specific climate and energy programmes. The EU Monitoring Mechanism Regulation requires each member state to report on their use of such revenues. The Department of Communications, Climate Action and Environment has stated that while Ireland does not formally ring-fence ETS auction revenues for specific purposes, amounts equivalent to 100% of such revenue (less administration costs) in each year have been attributed to emission reduction activities. The composition of the declared activities has varied from year to year, as indicated in Figure 9.3, with the overall expenditure on declared activities varying also in line with fluctuating ETS auction revenues.

Figure 9.3 Application of receipts from ETS auctions, 2013 to 2018^a

Source: Department of Communications, Climate Action and Environment

Note: a EPA administration costs for the period were deducted from receipts prior to application as shown above.

- 9.22** The European Commission noted in 2017 that Ireland is one of ten member states where revenue raised through the auction of allowances is not earmarked or ring-fenced in its budget.¹ Along with nine other member states, Ireland was also deemed to provide a low level of detail on the application of revenue to projects aimed at reducing emissions.

Performance of individual operators in Ireland

- 9.23** Individual operators covered by the EU ETS must report their emissions for each calendar year by 31 March of the following year and must surrender sufficient allowances to cover excess emissions by 30 April.² Failure to surrender the necessary allowances incurs a penalty of €100 per tonne of excess emissions. Payment of the penalty does not release the operator from their obligation to surrender an amount of allowances equal to the excess in the following calendar year.
- 9.24** Prior to 2018, all Irish operators had been fully compliant with their obligations under the ETS. Two operators failed to surrender sufficient allowances in respect of 2017 by the deadline of 30 April 2018. In accordance with SI 490 of 2012 (as amended), the EPA imposed fines of €201,100 on St James's Hospital Board and €51,171 on Vodafone Group Services Ireland Limited. All operators surrendered the necessary allowances in respect of 2018 by 30 April 2019.

¹ European Commission Report: *Analysis of the use of auction revenues* by the member states, March 2017. (https://ec.europa.eu/clima/sites/clima/files/ets/auctioning/docs/auction_revenues_report_2017_en.pdf).

² Allowances are held and surrendered by operators through their accounts on the union registry controlled by the European Commission. Each member state administers a section of the registry for its own operators.

Climate action targets

- 9.25** As previously outlined, Ireland's national emissions targets covered both ETS and non-ETS emissions in the context of the first Kyoto Protocol commitment period (2008 – 2012). Since then, separate targets have applied for the ETS and non-ETS sectors.
- 9.26** Whereas annual targets are set to reduce Europe-wide emissions for the ETS sector, legally binding national targets are set at EU level for participating countries to reduce their non-ETS emissions. Figure 9.4 sets out the relevant targets for both Ireland and the EU as a whole over the period from 2008 to 2030.

Figure 9.4 Climate action targets for Ireland and the EU

Reference periods	Targets to be achieved by end of reference period	
	Irish targets	EU targets
2008 – 2012^a	Limit overall Irish emissions to 13% above 1990 levels	Reduce overall EU emissions to 8% below 1990 levels
2013 – 2020	Reduce non-ETS emissions to 20% below 2005 levels ^b	Reduce non-ETS emissions to 10% below 2005 levels
	16% total energy to come from renewable energy sources	20% total energy to come from renewable energy sources
	20% improvement in energy efficiency, relative to 2001-2005 period	20% improvement in energy efficiency
2021 – 2030^c	Reduce non-ETS emissions to 30% below 2005 levels ^b	Reduce non-ETS emissions to 30% below 2005 levels
		32% total energy to come from renewable energy sources
		At least 32.5% improvement in energy efficiency

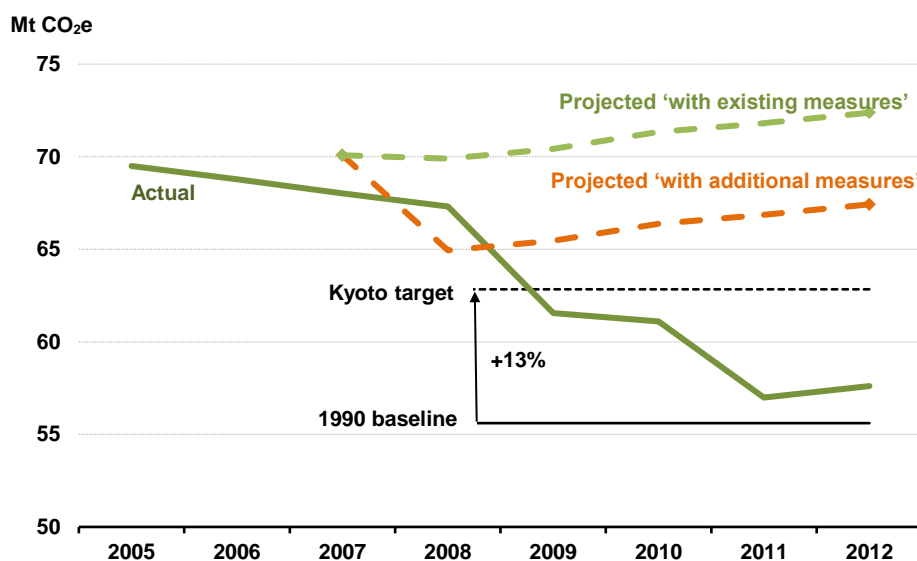
Source: Kyoto Protocol 1997, Paris Agreement 2015

- Notes:
- a The Kyoto Protocol allowed groups of countries to meet their targets jointly, with the EU's overall 8% reduction broken down into legally binding national targets. Ireland received an 'emission limitation' target, as opposed to an 'emission reduction' target.
 - b Binding annual limits have also been set for each year within the commitment period.
 - c The Department of Communications, Climate Action and Environment has stated that national targets for energy efficiency and renewable energy will be finalised in the National Energy and Climate Plan, by end 2019.

Commitment period 2008 to 2012

- 9.27** In 2005, under the Kyoto Protocol, the EU set an overall reduction target of 8% below 1990 levels that was broken down into national targets. These targets were tailored to the relative wealth of each country under a 'burden sharing' agreement, included in Decision 2002/358/EC as part of the approval of the Kyoto Protocol. While the target for the EU as a whole was to reduce emissions to at least 8% below 1990 levels, Ireland's target was to limit its annual average GHG emissions for the 2008 – 2012 period to not more than 13% above the 1990 baseline.¹ This equated to an annual target of 62.8 Mt CO₂e.
- 9.28** In this commitment period, separate targets were not specified under the Protocol for the ETS and non-ETS sectors — it was up to each participating country to decide how best to achieve the national target. In Ireland, responsibility for achieving the target was divided between the State i.e. non-ETS sector (40.5 Mt CO₂e or 64%) and the ETS sector (22.3 Mt CO₂e or 36%) in accordance with a national allocation plan approved by Government.
- 9.29** Figure 9.5 plots Ireland's progress against the national GHG emissions target set for the first Kyoto commitment period. The *National Climate Change Strategy (2007 – 2012)*, published in 2007, projected that emissions in Ireland would exceed the limit set in each year of the commitment period, for two scenarios: 'with existing measures' (WEM) or 'with additional measures' (WAM).²
- 9.30** According to the latest inventory data for the period, reported to the UN Framework Convention on Climate Change in April 2019, Ireland's actual GHG emissions over the 2008-2012 reference period were just under 305 Mt CO₂e, which was about 10 million units below the target level.³ However, the reduction in emissions achieved was due mainly to the contraction in economic activity over the commitment period, rather than the impact of abatement measures implemented.

Figure 9.5 Ireland's total greenhouse gas emissions, 2005 to 2012



1 The level of Ireland's GHG emissions in 1990 was 55.607 Mt CO₂e. The first Kyoto target for Ireland was to keep emissions below 314.18 Mt CO₂e for the five-year period from 2008 to 2012 inclusive.

2 Separate projections were produced for the WEM and WAM scenarios to reflect the estimated impact of emission-reducing initiatives that could be implemented during the period.

3 The emissions figure for the 2008 – 2012 period reported to the UNFCCC in April 2014 was 308.5 Mt CO₂e. The difference is due to changes over time in the methodology used to calculate GHG emissions.

Unused carbon credits

- 9.31** As illustrated in Figure 9.5, it was initially projected that Ireland's GHG emissions would exceed the national limit set for the 2008 – 2012 period, notwithstanding the impact of planned abatement measures. A Government decision of March 2006 approved the establishment of a carbon purchasing programme, whereby the State could purchase up to 18 million carbon credits over the period.¹ A carbon fund was set up to record the transactions. The fund is managed by the National Treasury Management Agency (NTMA). As the designated purchasing agent on behalf of the State, the NTMA administers and manages purchases of carbon credits.
- 9.32** The State, through the NTMA as appropriate, may use the following mechanisms to obtain carbon credits
- direct purchase from other Kyoto Protocol parties
 - direct investment in joint implementation measures and clean development mechanism projects²
 - investment in managed funds³
 - direct market purchase of carbon credits.
- 9.33** By the end of 2012, the State had spent €89.5 million on purchasing carbon credits. Separately, the State has invested €31.8 million to date in managed funds. Details of these transactions are set out in Figure 9.6.
- 9.34** At the end of the first Kyoto commitment period, the State surrendered 3 million carbon credits to comply with Ireland's obligations for that period (each member state was required to transfer units to a retirement account to show compliance with its emissions commitment under Article 3, Paragraph 1 of the Kyoto Protocol). Ireland was able to carry forward 5.27 million unused credits to contribute towards the State's obligations under the EU Effort Sharing Decision (coinciding with the second Kyoto commitment period ending in 2020).

Figure 9.6 Transactions to obtain carbon credits

NTMA market transactions	Credits	Average price €/credit^a	Cost €m
Settlements 2008	3,455,000	15.09	52.1
Settlements 2009	1,800,000	12.00	21.6
VAT	-	-	15.8
Subtotal	5,255,000	14.03	89.5
Fund transactions	Fund units		Commitment €m
Multilateral Carbon Credit Fund	1,661,130		20.0
Carbon Fund for Europe	244,169		4.1
BioCarbon Fund	1,536,872		7.7
Subtotal	3,442,171		31.8
Total	8,697,171		121.3

Source: Department of Communications, Climate Action and Environment

Note: a Average price (€/credit) net of VAT.

1 A carbon credit is equivalent to one metric tonne of carbon dioxide.

2 Joint implementation measures are climate protection projects part-financed by one country but located in another. The clean development mechanism involves developed countries engaging in climate change projects designed to reduce emissions in developing countries, as an alternative to more expensive emission reduction measures in their own countries.

3 The total number of carbon credits, if any, to be received by Ireland in return for its investment is only known once the carbon reducing projects are complete.

Commitment period 2013 to 2020

9.35 The 2020 EU climate and energy framework is a package of legislation to ensure the EU meets its climate and energy targets for the year 2020. Arising from the framework, Ireland has three key sets of commitments to meet for the 2013 to 2020 period.¹

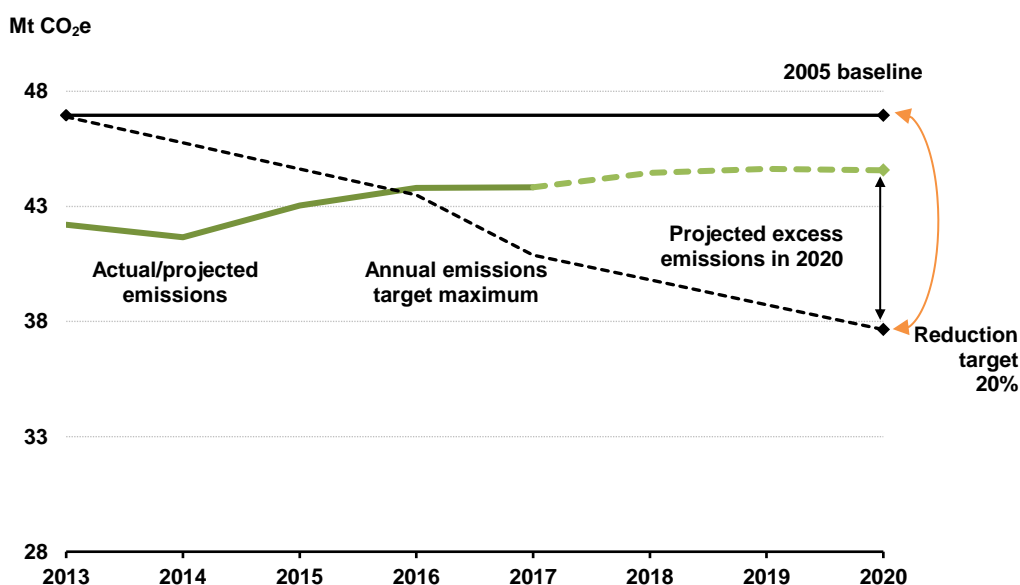
- Ireland's commitments under the second period of the Kyoto Protocol will mostly be discharged through its membership of the EU via the 2009 EU Effort Sharing Decision (ESD).² The ESD has set binding annual targets for non-ETS emission reductions by each member state.
- The EU Renewable Energy Directive aims to increase the growth in renewable energy in Ireland and the EU.³ The Directive sets out two mandatory targets for increasing the share of renewable energy in Ireland to be met by 2020.
- In response to the EU Energy Efficiency Directive, Ireland has adopted a national non-binding target of a 20% increase in energy efficiency by 2020 relative to the 2001 – 2005 baseline.⁴

Emissions targets

9.36 Ireland's binding target for the year 2020 is for non-ETS emissions to be 20% below their level in 2005. Annual targets are also set for each year within the commitment period. Figure 9.7 shows Ireland's performance against emissions targets up to 2017 and projections for the period 2018 to 2020.

9.37 Ireland failed to meet its emissions target for 2017 and is expected to do so again each year to 2020. The latest EPA projections indicate that Ireland's emissions in 2020 will only be between 5% and 6% below 2005 levels, under the 'with existing measures' and 'with additional measures' scenarios respectively.

Figure 9.7 Ireland's greenhouse gas emissions (non-ETS), 2013 to 2020



¹ See <https://ec.europa.eu/clima/policies/strategies/2020>

² Decision No 406/2009/EC, of 23 April 2009. ESD compliance doesn't fulfil Kyoto Protocol compliance fully. Kyoto Protocol accounting rules will describe in detail when the Doha Amendment has been ratified by a sufficient number of parties and enters into force.

³ Directive 2009/28/EC on the promotion of the use of energy from renewable sources.

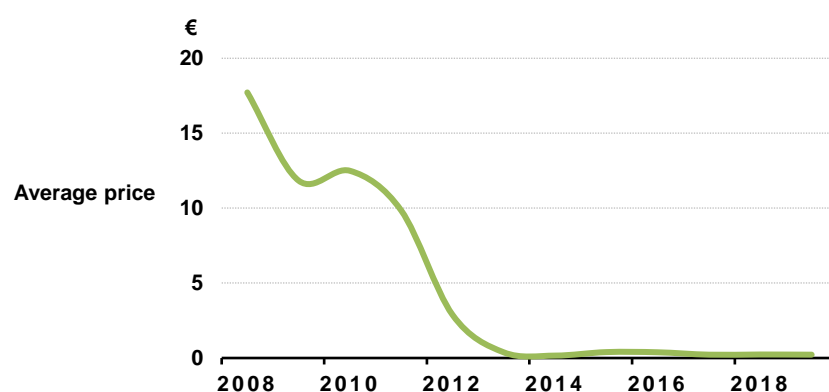
⁴ Directive 2012/27/EU on energy efficiency.

Source: Environmental Protection Agency, 2019

Note: a Projections are based on the 'with existing measures' scenario. Projections to 2020 using the 'with additional measures' scenario do not differ significantly.

- 9.38** Where excess emissions are produced in a given year, the ESD allows member states to meet their targets by applying unused credits from earlier years, or by purchasing credits from other member states or on international markets. These credits are different to those sold on the ETS market. Some of these credits e.g. certified emissions reductions (CERs), can be purchased in an over-the-counter market. Figure 9.8 tracks the price of CERs which currently stands at €0.20 per credit. Other credits, such as emissions reduction units (ERUs) are generated by investing in emission reduction projects in other countries.

Figure 9.8 Trend in prices for certified emission reductions, 2008 to 2019



Source: Department of Communications, Climate Action and Environment

- 9.39** After applying the 5.27 million unused carbon fund credits eligible for use in ESD compliance from the 2008 – 2012 commitment period, it is expected that Ireland will still need to buy additional credits. The Department estimates that purchasing the required credits will cost in the range of €2–€14 million, depending on the final quantity needed and the prevailing market price.¹ This range is based on sensitivity analysis carried out by the Department (see Figure 9.9). The Department used the EPA's estimated shortfall of 15.8 Mt CO₂e (based on a low fuel price scenario)² and current spot price (€0.20) to determine the lower estimate of €2.10 million. The higher limit of the range was set by assuming the shortfall increases by 20% (to 18.96 Mt CO₂e) and the spot price rises to €1.

Figure 9.9 Estimated cost of purchasing credits to meet 2020 target

	Projection (2019)	Sensitivity analysis	
		(+10%)	(+20%)
Cumulative shortfall (2013 to 2020)	15.8 Mt	17.38 Mt	18.96 Mt
ESD-eligible international credits held in reserve	5.27 Mt	5.27 Mt	5.27 Mt
Estimated purchasing requirement	10.53 Mt	12.11 Mt	13.69 Mt
Cost @ €0.20 spot price (current)	€2.10m	€2.42m	€2.74m
Cost @ €0.50 spot price	€5.27m	€6.06m	€6.85m
Cost @ €1.00 spot price	€10.53m	€12.11m	€13.69m

Source: Department of Communications, Climate Action and Environment

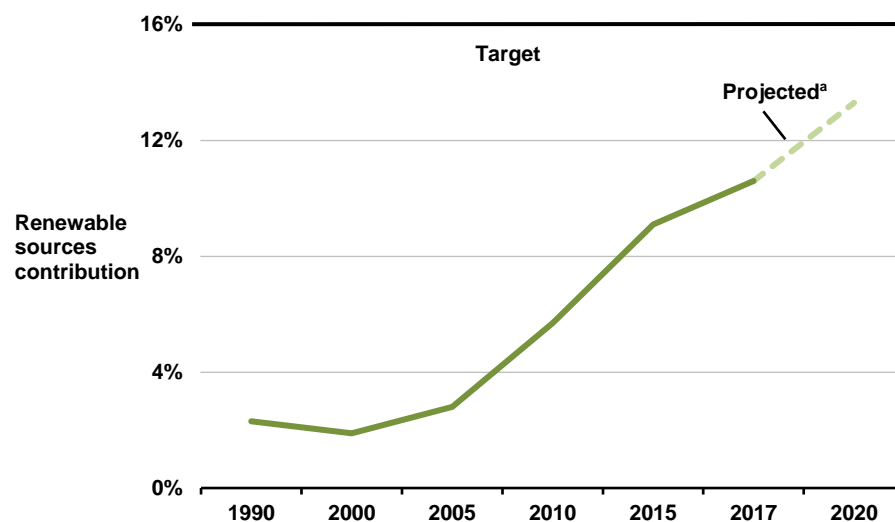
¹ This is in addition to the €121 million (see Figure 9.6) that has already been spent as part of Ireland's strategy to meet its targets under the first commitment period.

² Under a high fuel price scenario, the cumulative shortfall would be lower which would reduce the number of credits to be purchased.

Renewable energy targets

- 9.40** In terms of renewable energy, Ireland's target is for at least 16% of gross final energy consumption to come from renewable sources by 2020. Figure 9.10 shows progress to date and projections to 2020.

Figure 9.10 Ireland's progress towards 2020 renewable energy targets



Source: Sustainable Energy Authority of Ireland

Note: a The projected figure for 2020 is shown as the midpoint (i.e. 13.3%) of the range projected by the Sustainable Energy Authority of Ireland.

- 9.41** The Sustainable Energy Authority of Ireland (SEAI) projects that Ireland will achieve between 12.3% to 14.3% renewable energy use by 2020.¹ Relative to the binding target of 16%, Ireland therefore faces a projected shortfall of circa 3% of its energy demand from renewable sources by 2020.
- 9.42** The EU Renewable Energy Directive provides for member states falling short of their mandatory target to purchase 'statistical transfers' from other member states that have excess renewable statistics at the end of the commitment period. The Department of Communications, Climate Action and Environment has stated that any requirement for the purchase of statistical transfers to meet compliance, within the framework of the Renewable Energy Directive 2009, will be undertaken against a background of discussions by the Irish authorities with the EU Commission and relevant member states. To date, Ireland has not purchased statistical transfers from another EU member state. Indications based on trades between other member states suggest that the shortfall could result in costs of the order of €110 million, subject to prevailing market conditions.
- 9.43** The Department has stated that the actual cost of acquiring statistical transfers would be spread over a period and the full cost would not be known with certainty until 2021.

¹ SEAI National Energy Projections 2019.

Energy efficiency targets

9.44 In addition to renewable energy, Ireland's 2020 target of a 20% increase in energy efficiency is a non-binding national target adopted in response to the EU Energy Efficiency Directive. Notwithstanding expenditure under a range of grant schemes and programmes delivered by the SEAI on behalf of the Government and a broader suite of policies and measures as detailed in Ireland's draft *National Energy and Climate Plan*, the SEAI projects that Ireland will fall short of this target, with a forecasted energy efficiency improvement of 16% relative to the 2001 – 2005 baseline. While there is no direct financial penalty for failure to achieve the energy efficiency target, underperformance in this area may impact Ireland's ability to meet the binding renewable energy and emissions targets.

Post-2021

9.45 The Paris Agreement was adopted by members of the UN Framework Convention on Climate Change in December 2015. It aims to limit the rise in global temperature to well below 2°C above pre-industrial levels, with a further ambition to pursue efforts to limit the increase to 1.5°C.

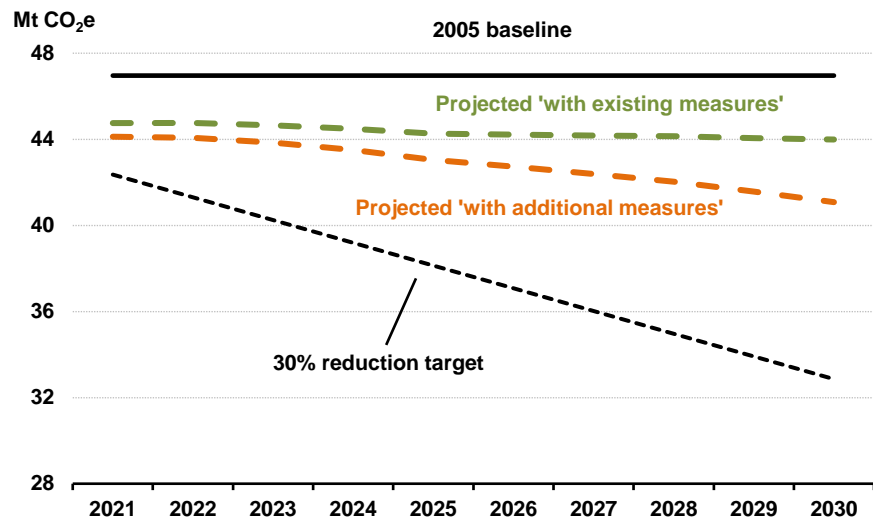
9.46 The agreement is designed to meet its objective through nationally determined contributions (NDCs) submitted by all parties. Ireland will contribute via the NDC submitted by the EU on behalf of its member states, committing to a 40% reduction in EU-wide emissions by 2030, compared to 1990. The overall commitment for 2030 is based on EU-wide reductions of 43% in the ETS sector and 30% in the non-ETS sector.

9.47 The contributions to be made by the non-ETS sectors in each member state are laid down in the EU Effort Sharing Regulation (ESR), which sets out binding annual national targets for the 2021 – 2030 period.¹ The reductions required by individual member states range from 0% to 40% on 2005 levels. Ireland's target under ESR is a reduction in non-ETS emissions of 30% on 2005 levels (see Figure 9.11).

9.48 Two flexibility options built into the ESR may contribute to the achievement of member states' non-ETS targets for emissions reduction. Ireland may transfer credits, representing 4% of 2005 non-ETS emissions, from the ETS sector to contribute towards its 2030 non-ETS target. This would require Ireland to forfeit the revenue that it would otherwise be due from the proceeds of auctioning those ETS allowances, and would therefore represent a cost to the Exchequer. Separately, Ireland may attribute a pre-determined maximum number of credits, set out in the ESR, from sustainable land use, land-use change and forestry measures, towards its non-ETS target.

9.49 The EPA prepares an annual set of projections of Ireland's future emissions under two scenarios; with existing measures (WEM) and with additional measures (WAM). Figure 9.11 tracks these projections along with the 2030 targets.

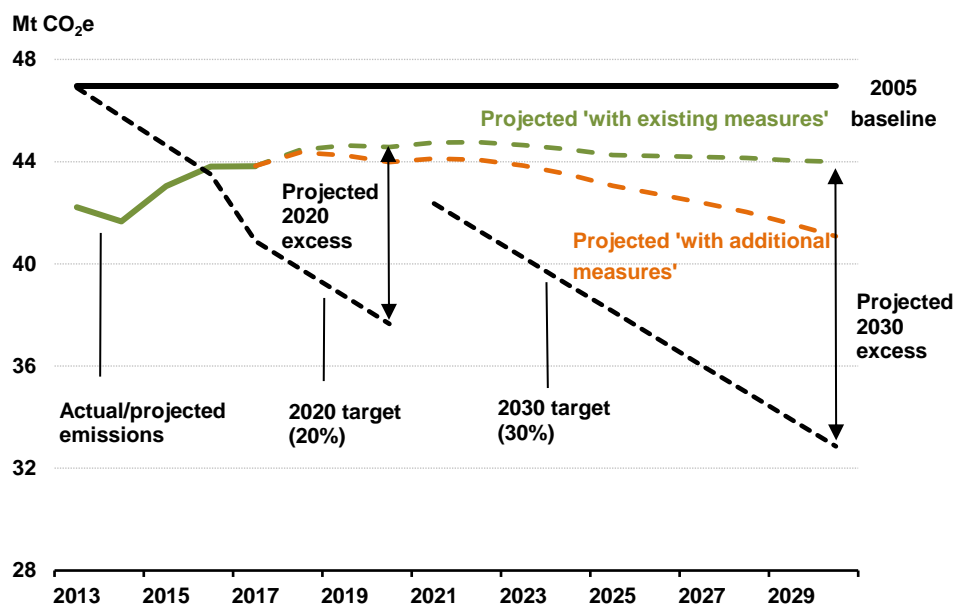
¹ The ESR recognises the different capacities of member states to take action by setting differential targets according to gross domestic product per capita across member states.

Figure 9.11 Projections of Ireland's non-ETS emissions, 2021 to 2030

Source: Environmental Protection Agency, 2019

- 9.50** The EPA's latest projections indicate that over the 2021 – 2030 period, Ireland will not meet the 30% target for reduction in emissions. Even allowing for the full impact of planned abatement measures under Project Ireland 2040 and assuming the flexibilities within the ESR are used to full effect, emissions are projected to exceed the allowable limit for the period. Figure 9.12 shows Ireland's actual and projected emissions for the period 2013 to 2030 along with the targets due to be met in 2020 and 2030. These projections do not yet incorporate the policies and measures set out in the *Government's Climate Action Plan*, published in 2019.
- 9.51** In order to meet its obligations under the ESR, the EPA projections indicate that Ireland will need to implement additional abatement measures. In the event that the planned policies and measures contained in the Climate Action Plan are insufficient to meet Ireland's annual targets under the ESR, Ireland may need to purchase additional credits during the 2021 – 2030 period. While credits have been available to buy from over-performing states at relatively low prices during the current commitment period, there is no guarantee that this will continue to be the case from 2021 onwards, particularly given that all outstanding over-performance will effectively be cancelled from 31 December 2020.
- 9.52** In 2011, the EU published plans to reduce GHG emission to 80–95% below 1990 levels by the year 2050. This target was updated in 2018, when the Commission presented its strategic long-term vision for a climate-neutral economy by 2050. The communication from the Commission identified eight different emissions reduction pathways for 2050, including pathways to achieve a net zero emission objective in this timeframe.

Figure 9.12 Ireland's non-ETS emissions, 2013 to 2030



Source: Environmental Protection Agency, 2019

Environmental taxes

- 9.53** In 2018, €5.1 billion in environmental taxes was collected by the State.¹ Those environmental taxes included energy taxes such as duties on hydrocarbon oil products (€2.2 billion), as well as transport taxes like motor tax (€1 billion) and vehicle registration taxes (€871 million). Environmental taxes generate substantial sums but are not considered further in this chapter, with the exception of carbon tax.

Carbon tax

- 9.54** Carbon tax is a tax on fossil fuels such as natural gas, hydrocarbon oils, coal and peat. It is based on the amount of carbon dioxide (CO₂) emitted when the fuel is combusted. The tax, initially calculated at a rate of €15 per tonne of CO₂ emitted, was introduced in Ireland with effect from 2010. It was first applied to the two main transport fuels (petrol and auto-diesel) as a carbon component of mineral oil tax, known as a mineral oil tax carbon charge (MOTCC). Carbon tax was extended to other hydrocarbon fuels (principally marked gas oil, kerosene, fuel oil and liquefied petroleum gas) in May 2010, when a natural gas carbon tax (NGCT) was introduced.

- 9.55** The tax rate was increased to €20 per tonne of CO₂ emitted for transport fuels in December 2011 and for liquid heating fuels in May 2012. The NGCT rate was also increased to €20 per tonne of CO₂ emitted in May 2012.

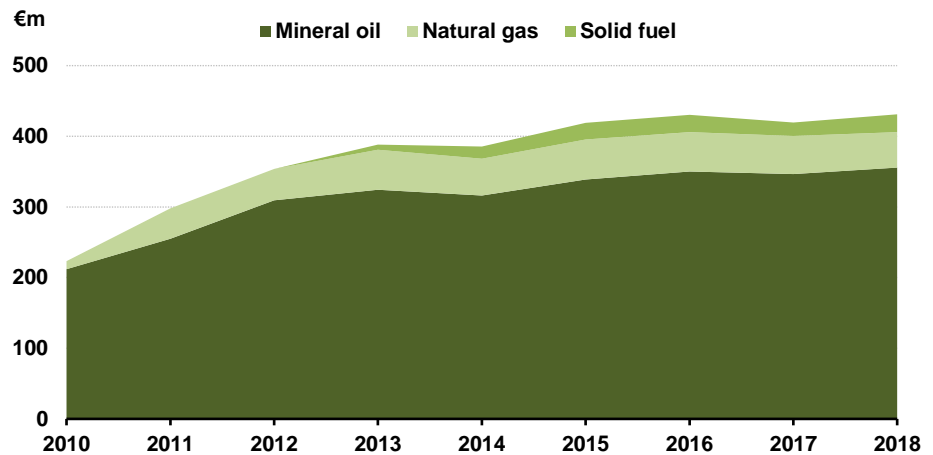
- 9.56** In May 2013, a solid fuel carbon tax (SFCT) was introduced initially at a reduced rate of €10 per tonne of CO₂ emitted — it applied to coal, peat and peat products supplied in Ireland. The full rate of €20 per tonne of CO₂ emitted has been applied to supplies of solid fuel from May 2014.

- 9.57** The current rates for MOTCC, NGCT and SFCT are €20 per tonne of CO₂ emitted.² The combined receipts for all three taxes in 2018 were over €431 million. Receipts from each of the carbon taxes are tracked in Figure 9.13.³

¹ See <https://www.cso.ie/en/releasesandpublications/er/eaet/environmenttaxes2018>.

² Legislation provides for certain reliefs from carbon taxes in respect of fuels used in installations in possession of greenhouse gas emissions permits. The reliefs operate by way of remission or repayment of the tax.

³ A breakdown of excise receipts by commodity is available on the Revenue website at <https://www.revenue.ie/en/corporate/documents/statistics/excise/net-receipts-by-commodity.pdf>

Figure 9.13 Carbon tax receipts, 2010 to 2018

Source: Office of the Revenue Commissioners

Government action plan

- 9.58** The Government's *Climate Action Plan* was published in June 2019. The Department of Communications, Climate Action and Environment has stated that the plan sets out, for the first time, how Ireland can reach its 2030 targets to reduce greenhouse gas emissions and also puts Ireland on a trajectory towards net-zero carbon emissions by 2050. The plan focuses on actions to be implemented, providing specific timelines and responsibilities. The plan is to be updated annually, including an analysis of progress towards 2030 targets.
- 9.59** The Department has stated that the action plan clearly identifies the nature and scale of the challenge facing Ireland. It outlines the current state of play across key sectors including electricity, transport, built environment, industry and agriculture and charts a course towards ambitious decarbonisation targets. It also sets out governance arrangements including carbon-proofing policies, establishment of carbon budgets, a strengthened Climate Change Advisory Council and greater accountability to the Oireachtas.
- 9.60** It is noted that implementation of the action plan is to be funded through *Project Ireland 2040*, which provides €30 billion for low carbon and sustainable mobility investments in the period to 2027.

Conclusions

- 9.61** Through its membership of the EU and participation in various international agreements, Ireland has a number of clear targets in the climate change area, some of which are binding. There are significant financial consequences of not meeting those binding targets.
- 9.62** Ireland met its GHG emissions target under the first commitment period of the Kyoto Protocol from 2008 to 2012, but this was mainly due to an unanticipated contraction in economic activity rather than the impact of abatement measures adopted. The EPA projects that Ireland will not meet its emissions targets in the non-ETS sector for the 2013 to 2020 period.
- 9.63** A total of €121 million was spent on acquiring carbon credits as part of Ireland's strategy to meet its targets under the first commitment period of the Kyoto Protocol (2008 – 2012). Ireland retired 35% of the credits to comply with its obligations for that period. The remaining carbon credits are available for use in the second commitment period from 2013 to 2020. However, those credits are expected not to be sufficient to meet Ireland's obligations for the 2013 – 2020 period. The Department of Communications, Climate Action and Environment estimates that the cost to Ireland of purchasing the additional credits required will fall in the range €2–€14 million.
- 9.64** In terms of renewable energy, Ireland has a mandatory target for at least 16% of gross final energy consumption to come from renewable sources by 2020. The SEAI projects that Ireland will fall short of this target. The Department has stated that this could result in costs of the order of €110 million, subject to prevailing market conditions.
- 9.65** Ireland also has a national target for 2020 of increasing energy efficiency by 20% on 2001 – 2005 levels. The SEAI projects that the actual increase will be around 16%. As the energy efficiency target is non-binding, there is no direct financial penalty for failing to achieve it.
- 9.66** A significant number of GHG-related transactions are occurring in Ireland but because the income and expenditure is spread across a wide range of state organisations, the net cost is not visible. Accurate and comprehensive information on relevant costs (including costs of abatement measures and carbon credit purchases) and incomes (including auction revenues and tax yields) would assist in informing future decisions on climate change initiatives.
- 9.67** One of the actions from the 2017 *National Mitigation Plan*¹ is to develop proposals for identifying, monitoring and reporting of climate related expenditure through the Exchequer. In Budget 2019, the Minister for Finance indicated his intention to introduce a green budgeting framework with the aim of embedding climate change in the budgetary process.² Implementation of the framework offers the opportunity to develop a comprehensive national account capturing income and expenditure relating to climate change initiatives.
- 9.68** Given the increasing level of related income and expenditure, it would be timely for relevant accounting officers to consider the potential to provide additional information and disclosures in respect of climate change initiatives in the statutory accounts they produce.

¹ *National Mitigation Plan*, Department of Communications, Climate Action and Environment, July 2017.

² The *Revised Estimates for Public Services 2019* included, for the first time, an appendix identifying climate-related Exchequer expenditure.

Annex 9A ETS stationary sites

**Figure 9A.1 Installations in Ireland holding a GHG permit as at 1 July 2019
stationary operators**

Account holder	Number of permits
Abbott Ireland	1
Alexion Pharma International Operations Unlimited Company	1
Allergan Pharmaceuticals Ireland	1
Amazon Data Services Ireland Limited	5
Anglo Beef Processors Ireland Unlimited Company	2
Arrabawn Cooperative Society Limited	1
Aurivo Dairy Ingredients Limited	1
BASF Ireland Limited	1
Baxter Healthcare SA	1
Bord Gais Energy Limited	1
Bord na Mona Fuels Limited	2
C&D Foods Unlimited Company	1
Carbery Food Ingredients Limited	1
College Proteins Unlimited Company	2
CRH plc	4
Cushaling Power Limited	1
DAA Public Limited Company	1
Dairygold Co-Operative Society Limited	2
Diageo Ireland	1
Dublin Products Limited	1
Edenderry Power Limited	1
EdgeConneX Ireland Limited	1
Electricity Supply Board	8
Eli Lilly Kinsale Limited	1
Equinix (Ireland) Enterprises Limited	2
FMC Manufacturing Limited	1
Gas Networks Ireland	1
Genzyme Ireland Limited	1
Glanbia Ireland Designated Activity Company	3
Google Ireland Limited	1
Guerbet Ireland Unlimited Company	1
Health Service Executive West	1
Hovione Limited	1
Huntstown Power Company Limited	1
Intel Ireland Limited	1
Irish Distillers Limited	1
Irving Oil Whitegate Refinery Limited	1
Janssen Sciences Ireland UC	1
K2 Critical Facilities Management (Ireland) Limited	1
Kerry Ingredients (Ireland) Limited	2
Lagan Brick Limited	1
Lagan Cement Limited	1
Lakeland Dairies Co-operative Society Limited	3
Limerick Alumina Refining Limited	1

Account holder	Number of permits
Masonite Ireland Unlimited Company	1
Medite Europe Designated Activity Company	1
Microsoft Ireland Operations Limited	1
Minch Malt Limited	1
Mondelez Ireland Production Limited	1
MSD International GmbH	2
Novartis Ringaskiddy Limited	1
Nutricia Infant Nutrition Limited	2
Pelagia Feed (Ireland) Limited	1
Pfizer Ireland Pharmaceuticals	3
Premier Periclase Limited	1
PSE Kinsale Energy Limited	1
Quinn Cement Limited	1
Regeneron Ireland Unlimited Company	1
Runways Information Services Limited	1
Saint-Gobain Construction Products (Ireland) Limited	1
Smartply Europe Designated Activity Company	1
SSE Generation Ireland Limited	4
St James's Hospital Board	1
Synergen Power Limited Power Plant	1
Tipperary Co Operative Creamery Limited	1
Tynagh Energy Limited	1
Upjohn Manufacturing Ireland Limited	1
Vermilion Exploration and Production Ireland Limited	1
Viridian Power Limited	1
Vodafone Group Services Ireland Limited	1
Waspar Limited	1
Wexford Proteins Limited	1
Wyeth Nutritionals Ireland Limited	1
Total	104

Source: Environmental Protection Agency

10 Forestry grants

- 10.1** The forestry sector in Ireland employs approximately 12,000 people and contributes an estimated €2.3 billion to GDP.¹ However, Ireland has one of the lowest levels of forestation in the EU. In 2017, 11%² of the total area of the State was forested, compared to an average of 38% for the EU (2015).³
- 10.2** Increasing the amount of land forested provides opportunities for diversification from farming, employment opportunities in local associated industries (such as timber processing) and potentially enhances environmental and recreational benefits to citizens. In addition, forests are increasingly recognised as a means to sequester carbon and help reduce the State's greenhouse gas emissions.
- 10.3** The Department of Communication, Climate Action and Energy's *National Mitigation Plan 2017* noted that the forestry sector offers considerable scope for climate change mitigation by increasing the amount of land forested and through the use of forest-based biomass and wood products.
- 10.4** In order to encourage afforestation, Exchequer-funded grants are provided to landowners to cover the cost of initial planting. In addition, an annual premium is provided to assist with the on-going costs of maintenance and to provide an income to the land holder. The grants provided are based on the type of tree planted, with higher grants available for broadleaf trees.
- 10.5** Since 2007, all new applicants for forestry grants have been fully funded by the Exchequer.⁴ The Department of Agriculture, Food and the Marine commenced a new programme, *Forestry programme 2014 – 2020* (the programme) in January 2015. Along with changes to the grant system, the programme contained annual targets for *inter alia* the total land area to be forested each year, and targets for the mix between broadleaf and coniferous trees to be achieved. The programme was subject to a mid-term review in February 2018.
- 10.6** European Commission State aid approval was required for the Exchequer assistance provided via the programme, and this was received in 2015. A condition of that approval was that Ireland had to aim to achieve 30% broadleaf planting as a percentage of total annual planting.
- 10.7** The targets set for the programme are the basis for many of the estimates for forestry — and its impact on carbon mitigation — contained in the *National Mitigation Plan*.

¹ Department of Agriculture, Food and the Marine, *Ireland's Forests – Annual Statistics 2016*. Includes direct, indirect and induced effects.

² National Forest Inventory 2017.

³ Eurostat — *Forestry and logging value added per forest area available for wood supply, 2016*.

⁴ Before 2007, grant payments were part funded by the EU.

Strategic objectives

- 10.8** The Department's forestry programme is based on the European Commission's *Guidelines for Strategic Programming* for the period 2014 – 2020. Based on these guidelines, the programme focused on four objectives. These were
- to increase the level of forest cover
 - to increase supply of forest-based biomass to bridge an expected supply gap by 2020 and beyond
 - to support private forest holders in actively managing their forests
 - to enhance the environmental and social benefits of new and existing forests.
- 10.9** The programme devised 11 measures (see Figure 10.1) that would assist in achieving the four objectives. Each measure has a budget and associated performance targets.
- 10.10** In the period 2015 – 2018, a total of €404 million Exchequer funding was spent on forestry development by the Department. Of this, €225 million related to the 2014 – 2020 forestry programme, with the remainder relating to on-going payments from the previous programmes.
- 10.11** Although the programme set 11 measures, two measures (one and three) accounted for nearly all (95%) of the spend in 2018.
- 10.12** The focus of this examination is to review the forestry programme and its targets, and examine the outputs to date. The chapter also looks at how the grant scheme is administered and the changes that were introduced after the mid-term review in 2018.

Figure 10.1 Measures under the Forestry Programme 2014 to 2020

Measure 1	Afforestation and creation of woodlands	Afforestation Scheme; Native Woodland Establishment Scheme; Agro-Forestry Scheme and Forestry for Fibre Scheme.
Measure 2	Investments improving the resilience and environmental value of forestry	Development of attractive 'close-to-home' woodland amenities for public access, use and enjoyment. This measure is aimed primarily at local authorities.
Measure 3	Investments in infrastructure: Forest road scheme	Construction of forest roads for access to forest plantations for thinning and harvesting.
Measure 4	Prevention and restoration of damage to forests	Restoration and retention of forests and forest ecosystems following significant damage by natural causes such as diseases.
Measure 5	Investments improving the resilience and environmental value of forestry woodland improvement	Woodland improvement of broadleaf forests planted since 1980 and enhancement of environmental qualities of existing broadleaf forests.
Measure 6	Investments improving the resilience and environmental value of forests	Application of appropriate restorative management of existing native woodlands.
Measure 7	Knowledge transfer and information actions	Development of knowledge transfer groups, continued professional development and providing advisory services.
Measure 8	Setting up of producer groups	Assists the establishment of forest producer groups.
Measure 9	Innovative forest technology	Development of technologies focused on helping forest owners, producer groups, forest contractors and haulage operators.
Measure 10	Forest environment and climate services	Increasing the resilience, productivity and quality of Irish forests, and increasing the self-sufficiency in tree seed production.
Measure 11	Forest management plans	Help forest holders devise management plans to assist in the development of forest resources and the protection of the environment.

Source: Department of Agriculture, Food and the Marine. Analysis by the Office of the Comptroller and Auditor General.

Measure one — afforestation and creation of woodlands

- 10.13** In order to increase the amount of land forested, the State provides financial assistance to land holders through its Afforestation Scheme. Afforestation refers to the planting of trees at a location that was not previously forested. Afforestation grants account for approximately 91% of the Department's total spend on forestry.
- 10.14** There are 12 different afforestation grant categories (see Annex 10A) based on the type, and mix, of trees that are planted. Higher grants are paid in respect of broadleaf and native trees.

Broadleaf and native trees

Broadleaves are trees that have flat leaves and produce seeds inside of fruits. In Ireland, the most common broadleaf species include oak, beech and ash.

Conifers are trees with needle or scale like leaves.

Most trees native to Ireland are broadleaf, with some exceptions such as scot's pine and yew.

Broadleaf forests are considered more environmentally desirable as they support a greater diversity of plant and animal life, and have greater amenity value.

While broadleaves are more desirable for the environment and to the public, they are less commercially attractive. A coniferous tree — such as Sitka spruce — matures after about 40 years, while an oak can take over 120 years.

- 10.15** The highest grants are for the planting of native trees such as alder and oak. The lowest grant categories are for planting on unenclosed land (e.g. open land in upland areas) or for planting made up predominately of coniferous trees. The scheme consists of two different types of payment: an establishment grant and an annual premium.
- 10.16** The establishment grant is designed to cover 100% of total costs of establishing the afforestation project, subject to a maximum amount (see Annex 10A). The establishment grant ranges from €2,140 to €5,620 per hectare depending on the tree type planted and whether the area is enclosed or not.¹ This grant is paid in two instalments. 75% is payable immediately after planting. The remainder is payable four years after planting. Additionally, an applicant may receive an extra payment of between €350 and €600 per hectare for fencing.
- 10.17** An annual premium is also payable for 15 years for new forests that qualify for an establishment grant. It is paid to compensate for maintenance costs incurred and income from the land forgone. The annual premium ranges from €185 per hectare to €680 per hectare, depending on the tree type planted.²
- 10.18** All establishment grants applications are subject to a desk review by the Department. Sites above ten hectares are also subject to site inspection prior to payment. These reviews and/or inspections also take place (on the same basis) before the payment of the second instalment. Sites below ten hectares are selected for site inspection on a risk assessment basis at all stages of the payment process.

¹ These are the rates set in 2018 following a mid-term review. The range of rates set in 2015 was from €1,665 to €5,250 per hectare.

² These are the rates set in 2018 following a mid-term review. The range of rates set in 2015 was from €180 to €635 per hectare.

10.19 In 2018, the Department received 1,074 applications for grants in respect of 8,623 hectares. In the same period, 855 applications in respect of 6,964 hectares were approved. In 2017, 1,409 applications for 11,483 hectares were received and 1,243 applications for 9,980 hectares were approved.

10.20 The Government has indicated that it intends to review the grant application process. In July 2019, it commissioned an external party to analyse the process undertaken by the Department in the approval of forestry planting applications.

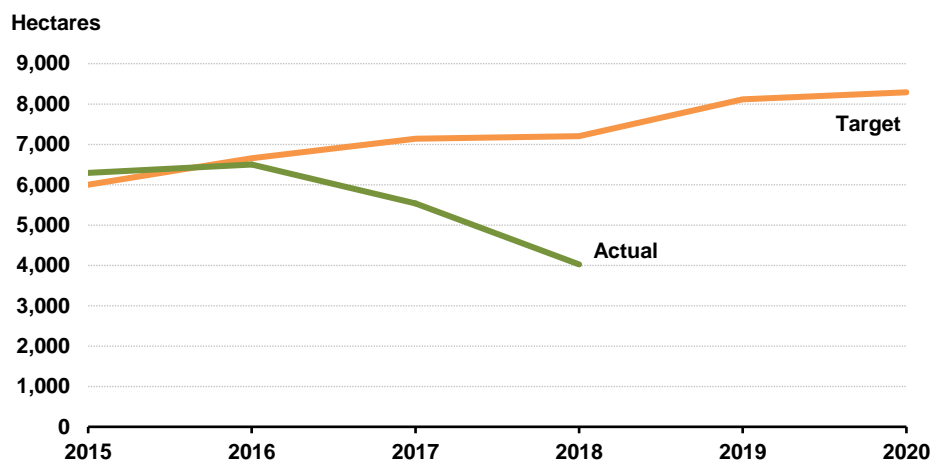
Progress in achieving planned outputs

10.21 The primary aim of the afforestation measure is to increase the amount of land forested. The measures include

- the number of hectares to be planted annually — just over 7,235 hectares per year on average, with a total of 43,410 over period 2015 to 2020, and
- the percentage of broadleaf trees in the mix planted — 30% of planted trees.

10.22 Figure 10.2 shows the actual number of hectares planted from 2015 to 2018 against the targets contained in the programme. Although the target was exceeded marginally in 2015, each subsequent year saw a shortfall. For 2018, a shortfall of 44% was recorded. Since 2015, the total shortfall against target was 4,651 hectares.

Figure 10.2 Hectares afforested in year, target against actual



Source: Department of Agriculture, Food and the Marine. Analysis by the Office of the Comptroller and Auditor General.

10.23 The Department has stated that the reasons for this shortfall in afforestation may include the following

- As more landowners participate in the afforestation scheme, remaining farmers are more difficult to convince and there is less land available for planting each year. Therefore, as the years progress, it becomes more challenging to attract new entrants.
- Negative publicity in relation to coniferous planting damages the perception of and participation in the scheme.
- There is competition for land for other agricultural enterprises e.g. dairy expansion.
- Forestry is viewed as a permanent land-use change, whereas competing agri-schemes do not require permanent land-use change.
- There are increased areas of environmental sensitivity. For example, no planting in special protection areas for hen harriers has been allowed since 2012; and there are new restrictions on planting in areas near curlew nesting sites.
- The high price of land discourages purchase of land specifically for planting.

10.24 In order to comply with the conditions of State aid (which includes habitat protection), the Department agreed to meet a national target of at least 30% for broadleaf planting each year. To date, this target has not been met. Between 2015 and 2017, 20% of the trees planted were broadleaf. However, the broadleaf planted percentage increased to 27% in 2018.

10.25 In addition to the number of hectares planted, another objective of the programme was to increase the size of new and existing forests. A target of 7.2 hectares was set for the average size of a plantation in the programme. The average size achieved for 2015 to 2018 was 6.5 hectares, a shortfall of 10%.

Current afforestation rates

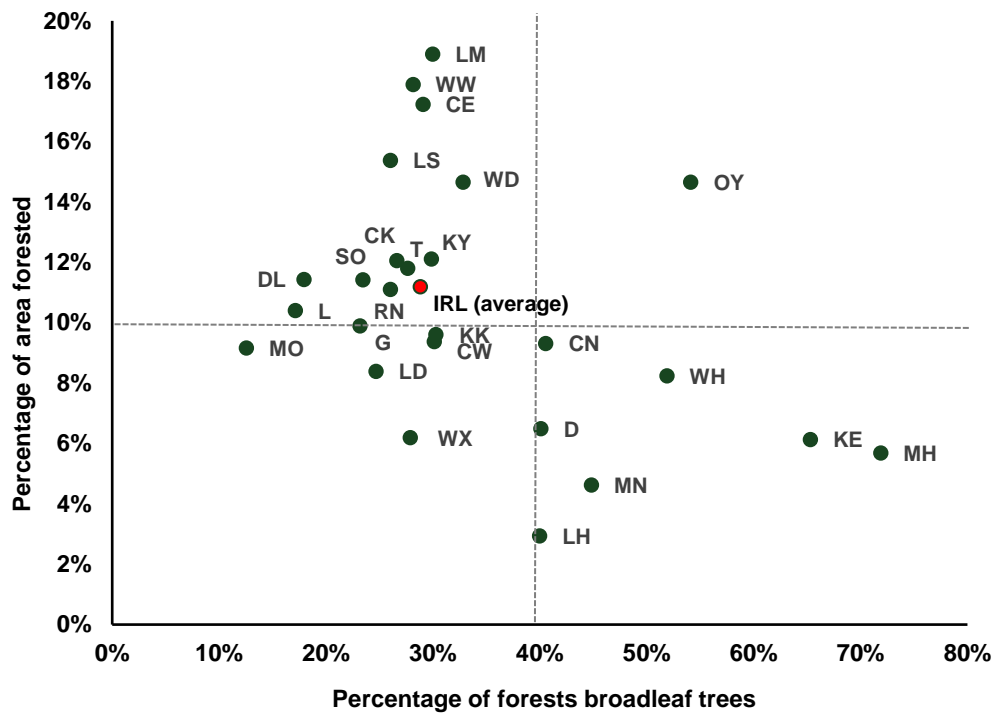
10.26 The State has achieved a marginal improvement in its level of forestation and proportion of broadleaf trees in the past decade.¹ There was an increase in the level of forestation from 10% in 2006 to 11% in 2017. The proportion of broadleaf species in the forest estate increased from 25% in 2006 to 29% in 2017.

10.27 Figure 10.3 analyses the amount of forested land in each county against the proportion of broadleaf trees. The average for the State is indicated in red.

10.28 The three counties with the greatest level of forest cover are Leitrim with 19%, Wicklow with 18% and Clare with 17%. Meath and Kildare have the highest proportion of forested land that is broadleaf with 72% and 65%. However, Offaly achieved the best mix of the two objectives, with a forest cover rate of 15%, and a mix of 54% broadleaf trees.

¹ National Forestry Inventory 2006, 2012 and 2017.

Figure 10.3 Level of forestation, and proportion of forested land that is broadleaf, for each county, 2017

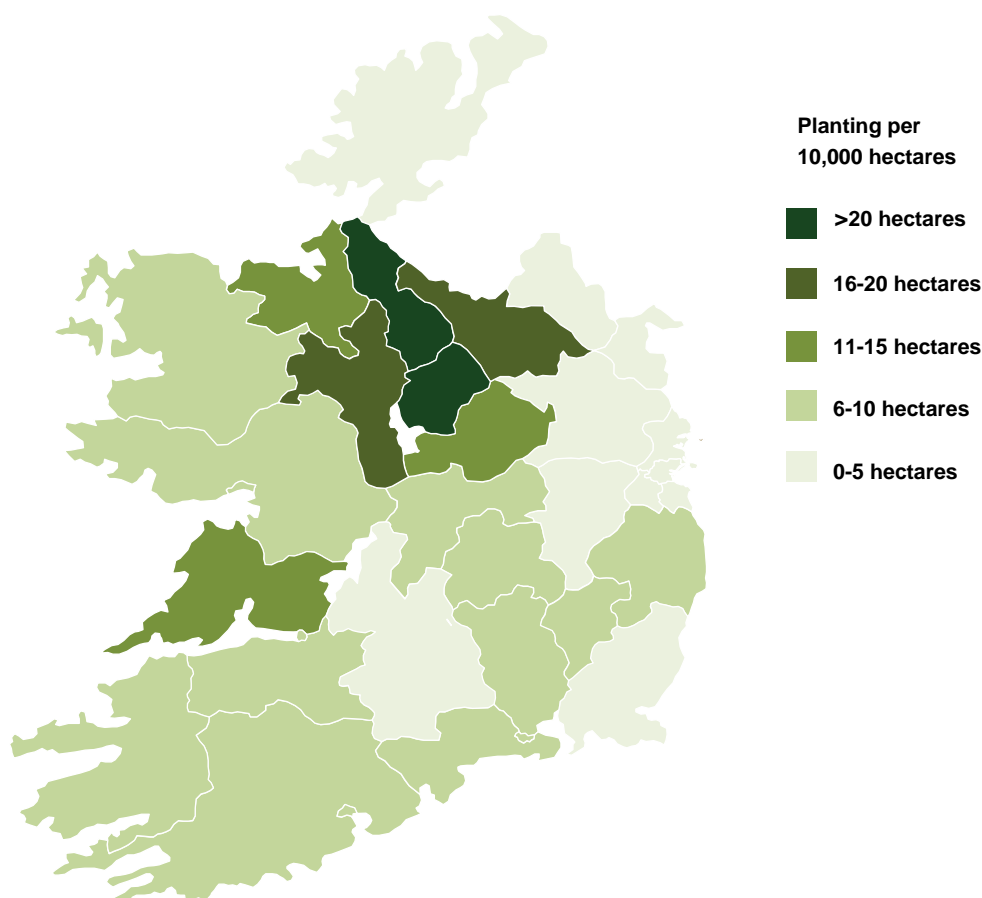


Source: Department of Agriculture, Food and the Marine. Analysis by the Office of the Comptroller and Auditor General.

Planting rates

- 10.29** There are no regional targets for the afforestation programme, but the Department publishes annual statistics on the levels of afforestation in each county. Annex 10B details the breakdown by county for 2018.
- 10.30** Figure 10.4 analyses the relative intensity of afforestation for each county since the commencement of the programme. The map shows the average number of hectares afforested, from 2015 to 2018, per 10,000 hectares in the county. There was a significant divergence in activity between counties. The rate of afforestation in Leitrim (28 per 10,000 hectares) was almost 40 times the level in Dublin (0.7 per 10,000 hectares) and just over 24 times the level in Donegal (1.16 per 10,000 hectares).
- 10.31** The two counties with the greatest levels of activity in the period were Leitrim (28 per 10,000 hectares) and Longford (21 per 10,000 hectares). The counties with the least activity were Dublin, Donegal, Kildare, Louth, Wexford, Meath, Monaghan and Tipperary with less than six hectares per 10,000.
- 10.32** The counties with the lowest levels of broadleaf planting in 2018 were Sligo at 12% of total planting, and Wexford at 13%. The highest levels of broadleaf planting were achieved in Louth and Carlow, with rates of 60% and 48% respectively.

Figure 10.4 Average afforestation activity by county 2015 – 2018, hectares planted per 10,000 hectares in county



Source: Department of Agriculture, Food and the Marine. Analysis by the Office of the Comptroller and Auditor General.

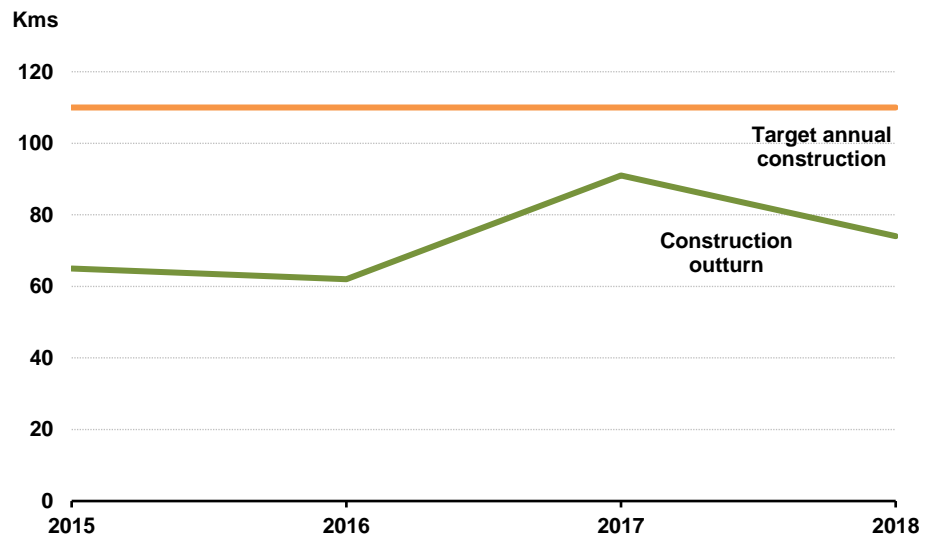
Measure three — investments in infrastructure: Forest Road Scheme

- 10.33** In order to maintain and harvest forest plantations in a sustainable and efficient manner, access to and within the forest plantation is required. For example, the construction of forest roads allows machinery the access required to thin and harvest trees. There are significant construction costs associated with the building of forest roads.
- 10.34** In 2014, the Forest Policy Review Group outlined the lack of forest roads in private forests in Ireland and the associated impact on the private forestry sector. Measure three was designed to address this concern, with the Department assisting in the provision of this infrastructure through its Forest Road Scheme.
- 10.35** The scheme provides grants to forest owners at a fixed rate per metre of road constructed — a rate of €40 per metre was set in 2015. In 2018, €3 million or around 3% of the Department's spend on forestry was for this scheme.

Progress in achieving planned outputs

- 10.36** A target of 110 kilometres of roads constructed per annum was set for the Forest Road Scheme. Figure 10.5 details the outturn for this scheme for the period 2015 to 2018. The total distance of roads constructed over this period was approximately 66% of the targeted level.

Figure 10.5 Roads constructed, target against actual, kilometres



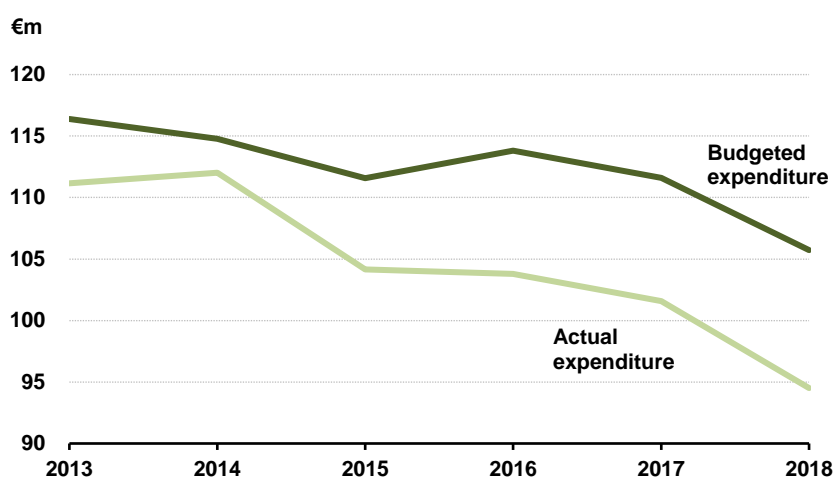
Source: Department of Agriculture, Food and the Marine. Analysis by the Office of the Comptroller and Auditor General.

- 10.37** The mid-term review concluded that one of the main reasons for the shortfall in forest road construction is the requirement to seek planning permission from local authorities where the forest road application includes an exit onto a public road.
- 10.38** The Department has stated that it is working with the Department of Housing, Planning and Local Government and that regulations should be in place shortly to ensure that the Department is the single consent authority for forest road works, where the exit is onto a public road.

Financial outturn

10.39 In 2018, the Department spent just over €11 million less than budgeted. As Figure 10.6 shows, there has been a consistent underspend in this vote sub-head over recent years.

Figure 10.6 Programme expenditure budgeted vs. actual, 2013 to 2018^a



Source: Department of Agriculture, Food and the Marine. Analysis by the Office of the Comptroller and Auditor General.

Note: a Includes deferred surrender.

Administration of grants

10.40 The Department is responsible for the development of forestry within Ireland delivered across three divisions

- the Forestry Division which *inter alia* administers grant payments
- the Forestry Inspectorate which is responsible for the environmental and technical aspects of forestry and
- the Forest Sector Development section which deals with the development of the sector.

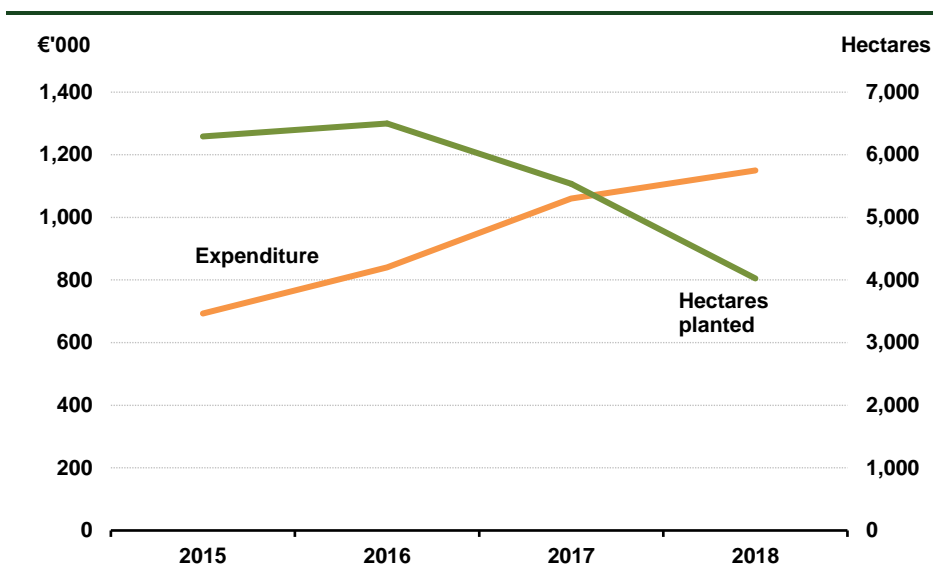
10.41 Teagasc, which operates under the auspices of the Department, has a role in providing research, promotion, training and information for the farm forestry sector. In 2018, it received approximately €670,000 from the Department to promote the programme.

10.42 In 2018, the Department spent around €1.8 million on administrative support (such as promotion, training and knowledge transfer) for the programme. This does not include the Department's staffing costs which it has estimated at around €6 million per annum.

10.43 Expenditure on promotion includes money spent on training, knowledge transfer groups and advisory services. This annual budget has almost doubled since the start of the programme. Figure 10.7 compares the amount spent by the Department on promotion of the programme against the number of hectares planted each year.¹

¹ The Department noted that not all promotion and advisory spending is aimed at new planting. Increasingly, advice and training on the management and mobilisation of timber from existing private forests needs to be supported as the forest estate matures.

Figure 10.7 Promotion and advisory expenditure against hectares planted, 2015 to 2018

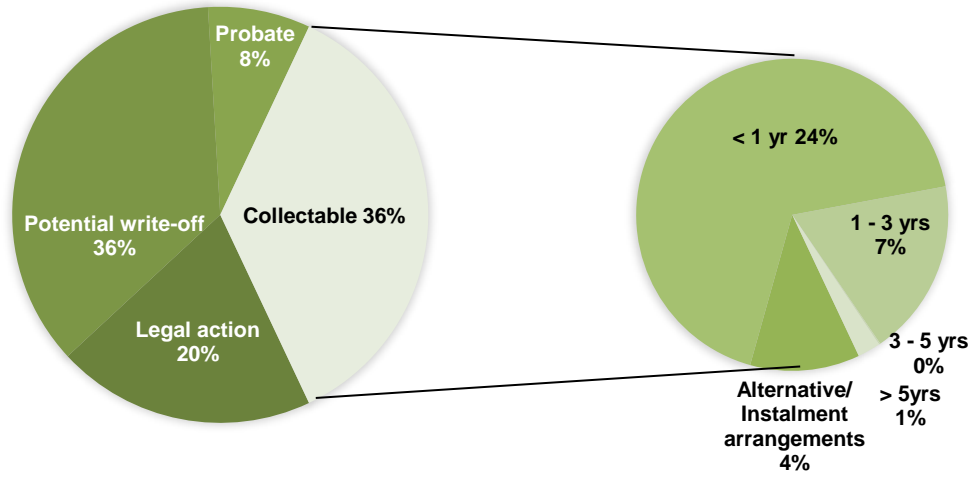


Source: Department of Agriculture, Food and the Marine. Analysis by the Office of the Comptroller and Auditor General.

Non-compliance with scheme conditions

- 10.44** Where conditions of the grant have not been met, payments to the applicant will be immediately suspended. The applicant is notified of the reason for the suspension. They are given three months to repay any overpayments. No grants or premiums will be paid during this three-month window. If the overpayment is not repaid, the amount owed will be deducted from subsequent grant and premium payments. In these cases, or where the landholder decides to revert to the previous land use, establishment grants and premiums are repayable to the Department.
- 10.45** At the end of 2018, the Department was owed €952,000 (2017: €939,000) for the repayment of forestry grants and premiums. As Figure 10.8 shows, over half of this figure (56%) represented amounts either expected to be written off or subject to legal action, and 8% was owed by the estates of deceased individuals. The remainder (€342,000) was deemed collectable by the Department. Figure 10.8 also age-analyses this amount, with the largest element (€232,000, 24% of the overall total) aged less than one year. The Department wrote off €99,660 in 2018.

Figure 10.8 Moneys owed to the Department due to non-compliance with forestry grant conditions



Source: Department of Agriculture, Food and the Marine. Analysis by the Office of the Comptroller and Auditor General.

Economic basis for programme

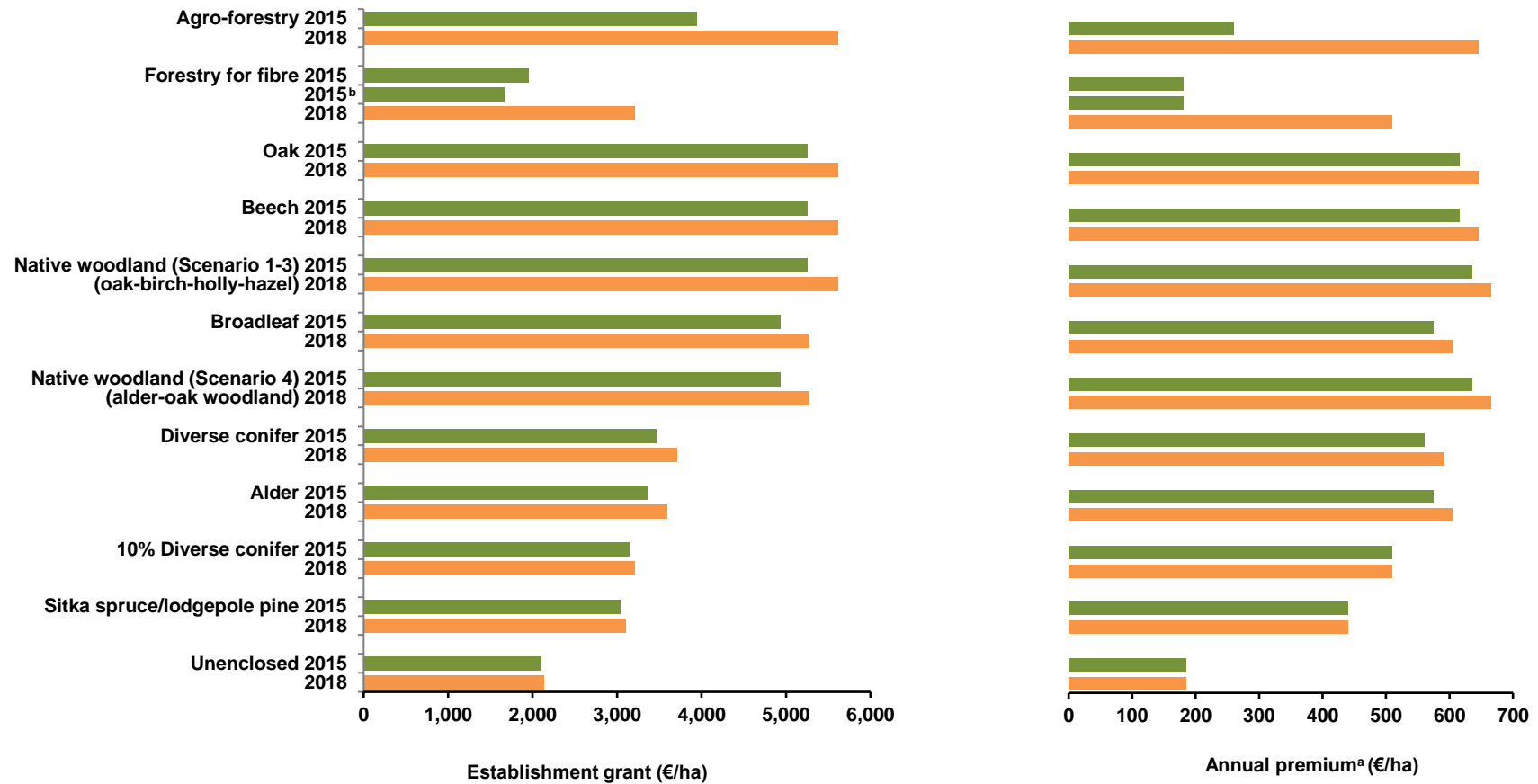
- 10.46** In 2014, the Department completed a cost-benefit analysis prior to the commencement of the programme. A number of cost factors, while noted, were not included in the analysis due to the difficulty in quantifying a figure. These included the tax treatment of forestry, the cost of agricultural supports, and the displacement of other activities.
- 10.47** The cost to benefit ratio was calculated as 1:1.18 for the programme (based on the assumed planting of 7,500 hectares per annum).¹ Around 39% of the benefit was calculated to come from carbon sequestration based on an assumed value of €39 per tonne of carbon dioxide.

¹ The analysis concluded that the State would derive €1.18 in benefit for every €1 in cost.

Changes to programme

- 10.48** A mid-term review of the programme took place in 2018 as required under the approval for State aid. The purpose of the mid-term review was to
- compare targets against outturn
 - where targets were not achieved, identify why this was so
 - introduce measures that will help address barriers to achieving future targets
 - ensure these proposals are consistent with State aid approval for the forestry programme.
- 10.49** As a result of the 2018 mid-term review, a number of changes were introduced in February 2018 in order to improve the future performance of the programme and ensure compliance with the conditions of the State aid. These changes were to encourage *inter alia* greater broadleaf planting and larger plantation sizes. Figure 10.9 shows the original and post review grant entitlements. The key changes included increases in grants payable in respect of forestry for fibre and agro-forestry.
- 10.50** In addition, other changes were made to afforestation grants such as improvements in the funding available for forest fencing, and an increase in the number of premiums available for the forestry for fibre scheme from 10 to 15.
- 10.51** The Department estimated that the total cost of the changes over the remaining period of the programme was €15.7 million versus the “no change scenario”. This funding was not deemed to be additional funding as it is not over and above what was originally sought for the programme.

Figure 10.9 Forestry grant payment categories, original (green) vs post review (orange)



Source: Department of Agriculture, Food and the Marine. Analysis by the Office of the Comptroller and Auditor General.

Notes: a The 2018 mid-term review increased these annual premiums by between €5–€15 per hectare for plantations >10 hectares.

b A reduction of €285 per hectare was applied to the Forestry for fibre establishment grant if only aspen was planted.

Conclusions and recommendations

- 10.52** Up to the end of 2018, there has been a consistent underspend on the Forestry Programme 2014 – 2020. The shortfall in 2018 between the annual estimate and the actual spend was €11 million or 10.6% of the amount provided. The underspend was mainly due to the lower than anticipated take up of grants by land holders.
- 10.53** The primary focus of the programme is to increase the amount of land forested. The programme set a target of just over 27,000 hectares in the period 2015 to 2018. Over that period, almost 22,500 hectares was afforested — a shortfall of around 17%.
- 10.54** The Department is required to target at least 30% broadleaf planting, and grant rates were structured to encourage this. The average achieved for the period 2015 to 2017 was 20% broadleaf. This increased to 27% in 2018. The Department attribute the increase to the higher grant rates introduced in February 2018.
- 10.55** Forest road construction achieved only two thirds of the target of 110 kilometres per year. In February 2018, the Department also increased the amount of road eligible per hectare from 20 metres to 25 metres to encourage participation in the scheme.
- 10.56** The Department conducted a cost benefit analysis in respect of the programme in 2014. This showed a cost to benefit ratio of 1:1.18 based on the planting of 7,500 hectares per annum. The values associated with a number of assumptions used in the cost benefit analysis have changed since then, in particular the amount of the grants and the value of the savings made in the expected cost of EU carbon dioxide emission credits. A number of cost factors were also not included in the original analysis due to the difficulty in quantifying them.

Recommendation 10.1

Where significant programme changes are being considered, a revised and updated cost benefit analysis should be undertaken. The analysis should take account of any revised targets and consider the alternative methods to achieving those targets.

Response of Accounting Officer

Agreed.

A cost benefit analysis will be undertaken as part of the development of the new Forestry Programme 2021 – 2027, in line with the *Public Spending Code*.

- 10.57** The forestry programme has national targets for afforestation and broadleaf/conifer mix. Grant rate differences are the mechanism designed to achieve the planting mix targets. In practice, the programme is demand led. As well as a shortfall in broadleaf planting, there is significant divergence in activity between counties — for example, in the period 2015 to 2018, the rate of afforestation in Leitrim was just over 24 times the level in Donegal.

Recommendation 10.2

The Department should review the impact of changes to grant payment rates to ensure that continuation of the programme (as amended in February 2018) represents good value for the State.

Response of Accounting Officer

Agreed.

Grant and premium rates for afforestation are set in accordance with EU regulatory requirements. Grants cover establishment costs and premiums cover income forgone, all of which comply with State aid rules on proportionality. The development of the new Forestry Programme 2021 – 2027 will include an analysis of the State's total investment in forestry since 1980 and the value of timber produced from this investment. It will also include an estimate of the value of carbon based on the new shadow price of carbon as provided for in the revised *Public Spending Code* (see Department of Public Expenditure and Reform circular 18/2019).

Annex 10A

Figure 10A.1 Afforestation grants and premium 2018 and 2015

GPC category	Establishment grant ^a €/ha		Annual premium (€ per ha)	
	1 st instalment	2 nd instalment	<10ha	>10ha
2018				
1 Unenclosed	1,605	535	185	190
2 Sitka spruce/lodgepole pine	2,330	775	440	450
3 10 % diverse conifer	2,410	805	510	520
4 Diverse conifer	2,785	925	590	600
5 Broadleaf	3,960	1,320	605	620
6 Oak	4,215	1,405	645	660
7 Beech	4,215	1,405	645	660
8 Alder and birch	2,695	900	605	620
9 Native woodland establishment (oak-birch-holly-hazel)	4,215	1,405	665	680
10 Native woodland establishment (alder-oak woodland)	3,960	1,320	665	680
11 Agro-forestry	4,215	1,405	645	660
12 Forestry for fibre	2,410	805	510	520
2015				
1 Unenclosed	1,575	525	185	
2 Sitka spruce/lodgepole pine	2,310	735	440	
3 10% diverse conifer	2,360	790	510	
4 Diverse conifer	2,625	840	560	
5 Broadleaf	3,780	1,155	575	
6 Oak / beech	3,990	1,260	615	
7 Beech	3,990	1,260	615	
8 Alder	2,520	840	575	
9 Native woodland establishment (Scenario 1-3)	3,990	1,260	635	
10 Native woodland establishment (Scenario 4)	3,780	1,155	635	
11 Agro-forestry	2,960	990	260	
12a Forestry for fibre	1,460	490	180	
12b Forestry for fibre - aspen	1,245	420	180	

Source: Department of Agriculture, Food and the Marine

Note: a Excludes payment of between €350 and €600 for fencing.

Annex 10B

Figure 10B.1 Land afforested in 2018, by county in hectares

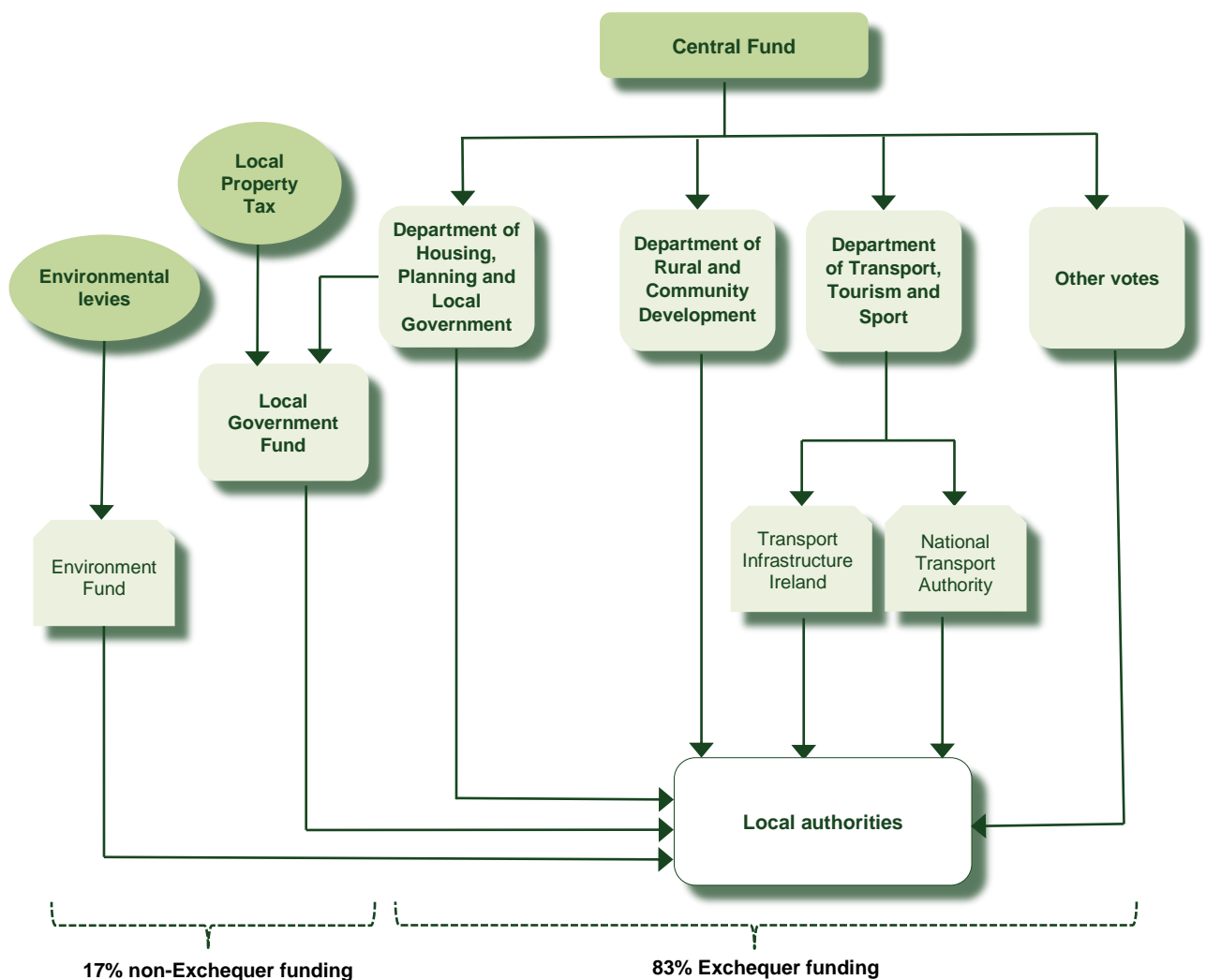
County	Hectares
Carlow	26
Cavan	321
Clare	262
Cork	297
Donegal	64
Dublin	4
Galway	287
Kerry	332
Kildare	79
Kilkenny	136
Laois	71
Leitrim	299
Limerick	81
Longford	171
Louth	10
Mayo	256
Meath	106
Monaghan	87
Offaly	72
Roscommon	399
Sligo	139
Tipperary	128
Waterford	43
Westmeath	175
Wexford	60
Wicklow	121

Source: Department of Agriculture, Food and the Marine

11 Central government funding of local authorities

11.1 Local authorities receive a substantial part of their annual funding from a range of central government departments and agencies (see Figure 11.1). The primary objective of this report is to provide an overview of the funds flowing from and through central government sources to local authorities, and of the purposes for which funds have been provided.

Figure 11.1 Flow of central government funding to local authorities in 2018

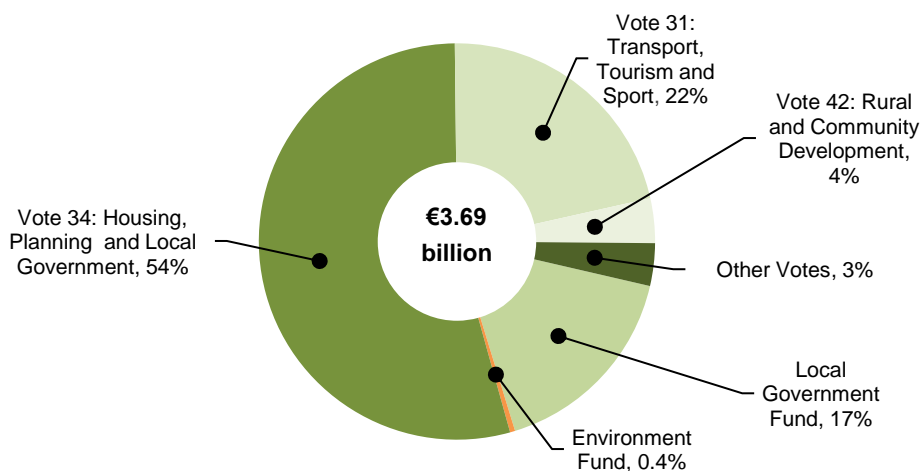


Source: Office of the Comptroller and Auditor General

Central government transfers

- 11.2** In 2018, funding to local authorities from central government sources totalled €3.69 billion (see Figure 11.2) — an increase of 39% on the €2.66 billion in 2017.¹ About 83% of this total originated as Exchequer funding, compared to 64% in 2017. The balance of the funding was provided through the Local Government Fund and the Environment Fund.
- 11.3** The Local Government Fund (LGF) is administered by the Department of Housing, Planning and Local Government (the Department). In 2018, the LGF was financed mainly by local property tax (LPT) receipts (€482 million) and a contribution of €125 million from the Exchequer, via the Vote for Housing, Planning and Local Government.²
- 11.4** The flow of funds to and from the LGF changed materially from 1 January 2018.³
- Local property tax receipts are now paid directly to the LGF by the Office of the Revenue Commissioners — previously, those receipts had passed through the Exchequer.
 - Motor tax receipts are no longer paid into the LGF — they are now paid into the Central Fund.
 - Payments to Irish Water for subvention, payments to local authorities for Group Water Schemes and recoupment of local authority water services capital loans are no longer made from the LGF — these are now paid by the Department.
 - There are no longer payments from the LGF to the Department of Transport, Tourism and Sport to fund regional and local roads and other public transport — that Department now provides this funding directly.

Figure 11.2 Sources of central government financing for local authorities, 2018



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

² Local property tax is administered by the Revenue Commissioners. Receipts are paid by the Revenue Commissioners into the Local Government Fund.

³ The amendments were provided for by Part 8 of the Water Services Act 2017.

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

- 11.5** The Environment Fund is administered by the Department of Communications, Climate Action and Environment. It was established primarily to support environmental initiatives, campaigns and programmes, many of which are organised at local or regional level under the auspices of local authorities. The Fund is comprised of the proceeds of the plastic bag levy, which is paid by consumers and collected from retailers by the Revenue Commissioners, and receipts from the landfill levy. Disbursements from the Fund are ring-fenced to assist projects that aim to protect or enhance the environment.

Local property tax allocations to local authorities

- 11.6** Up to 2014, the Local Government Fund provided funding to local authorities for their 'day to day' activities through 'general purpose grants'. From 2015, general purpose grants are no longer paid and have been replaced by LPT allocations.
- 11.7** The estimated LPT yield for each local authority is calculated using the Revenue Commissioners' data on net declared liabilities (pre-variation) in the prior year. In accordance with Government decisions, annual LPT allocations are calculated on the following basis
- 80% of LPT yield is **locally retained** in the authority where the tax is raised.
 - The remaining 20% is allocated to **equalisation funding**, for distribution among local authorities that do not have a sufficient LPT base to meet their 'baseline' funding requirements.
 - The 2018 **baseline** of €355 million is linked, for the most part, to the level of funding previously allocated from the Local Government Fund as general purpose grants (€282 million in 2014) and to the level of pension related deductions retained by local authorities (€74 million in 2014).¹ Effectively, the LPT allocation now replaces both of these previous sources of funding.
 - Where equalisation funding from all local authorities is insufficient to bring each local authority to the baseline funding requirement, the Exchequer contributes the difference.
 - The final LPT allocation takes into account decisions taken by elected members of local authorities to apply a **variance** to LPT rates in the local authority area in accordance with the Finance (Local Property Tax) Act 2012 (2012 Act).
- 11.8** Figure 11.3 provides an overview of the allocation of LPT to local authorities.

¹ Pension related deductions are now paid to the Department. In 2018, the Department received €50.9 million from local authorities in respect of pension related deductions — receipts are accounted for as appropriations-in-aid.

Figure 11.3 Allocation of LPT to local authorities for 2018

			2018	2017
	In a surplus position	Requiring equalisation	All	All
	€m	€m	€m	€m
Number of local authorities	10	21	31	31
Local retention (80%)	253	135	388	386
Equalisation funding				
- LPT redistribution (20%)	—	97	97	97
- Exchequer contribution	—	42	42	44
Pre-variation LPT allocations	253	274	527	527
LPT variations	(28)	5	(23)	(26)
Post-variation LPT allocations	225	279	504	501
Of which				
- self-funding of housing/roads services	109	—	109	108
- for authority's own general use	116	279	395	393

Source: Department of Housing, Planning and Local Government

11.9 Local authorities have discretion to vary the LPT rates in their area of operation (a local variation) by up to 15% in accordance with the 2012 Act. Annex 11A shows the impact of variations applied by local authorities in 2018.

11.10 For the 21 local authorities requiring equalisation, €279 million was available for the local authorities' own use, including an additional €5 million collected due to a local variation implemented by seven local authorities.

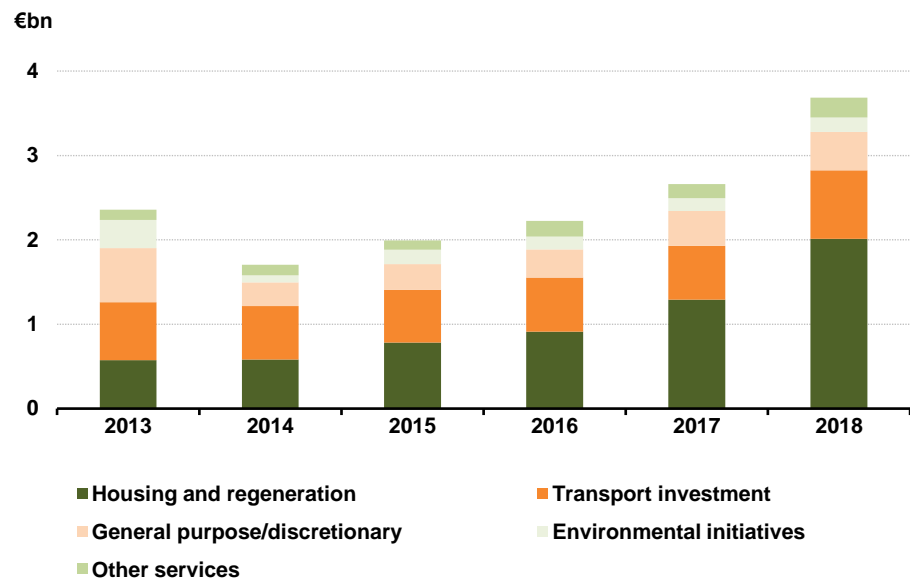
11.11 For the ten authorities in a surplus funding position (relative to the baseline), the Government decided that a portion of the surplus (no more than 20% of estimated LPT yield) should be available for the authority's discretionary purposes, with the remainder (if any) to fund some local services in the housing and roads areas. In 2018

- €116 million was available for the local authorities' own use, after a reduction of €28 million due to a local variation implemented by four local authorities
- €109 million for self-fund housing and road services.

Application of central government funding

- 11.12** Most of the funding sourced from central government and provided to local authorities must be used for specified local authority services. These can be grouped into five broad programme categories. Figure 11.4 presents a breakdown of the transfers to local authorities for 2013 to 2018 showing the programmes being supported (a detailed breakdown is at Annex 11B).
- 11.13** In 2018, around 77% of the total provision from central government to local authorities was accounted for by two categories — housing and regeneration programmes (55%), and transport (22%).

Figure 11.4 Central government transfers to local authorities, by expenditure programme, 2013 to 2018



Source: Annex 11B

Housing

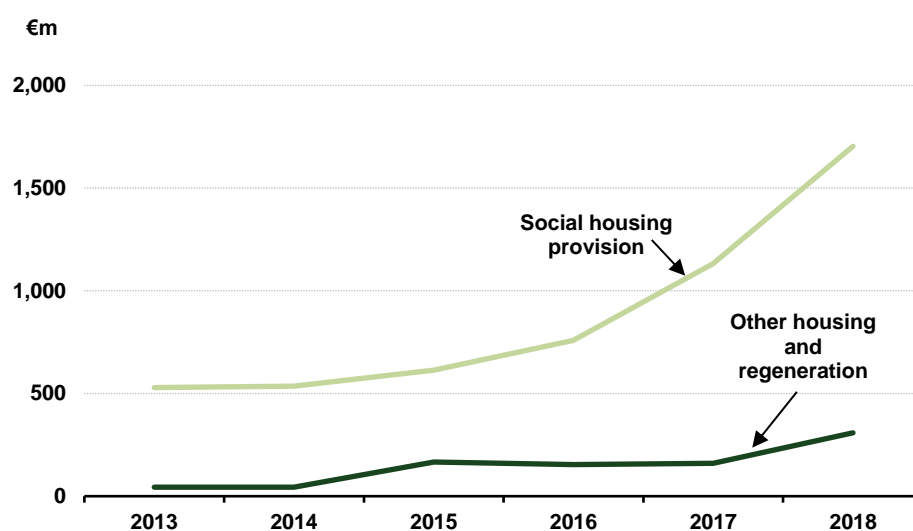
11.14 The Department provides the bulk of the funding for housing and regeneration directly to local authorities. In addition, nine local authorities were required to fund housing services from their LPT receipts, to a value notified to the authority by the Department. Figure 11.5 indicates the trend in the level of central government funding for social housing provision and other regeneration.

11.15 The funding is used by the local authorities to support the provision of social housing stock and a range of social housing and other housing supports, including through

- the local authority build and acquisitions programme
- voluntary and cooperative housing
- the housing assistance payment
- the social housing current expenditure programme
- the rental accommodation scheme
- regeneration and remedial work
- returning vacant local authority housing stock to productive use
- accommodation for homeless persons
- provision of traveller-specific accommodation
- adaptation grants for older people and people with a disability
- energy efficient works on local authority stock.

11.16 In 2018, the Department of Justice and Equality provided €0.5 million to local authorities for housing support activities eligible for EU funding under the Asylum, Migration and Integration Fund (AMIF) — that Department may recoup from the EU up to 75% of the funding provided.

Figure 11.5 Funding to local authorities for investment in housing and regeneration, 2013 to 2018

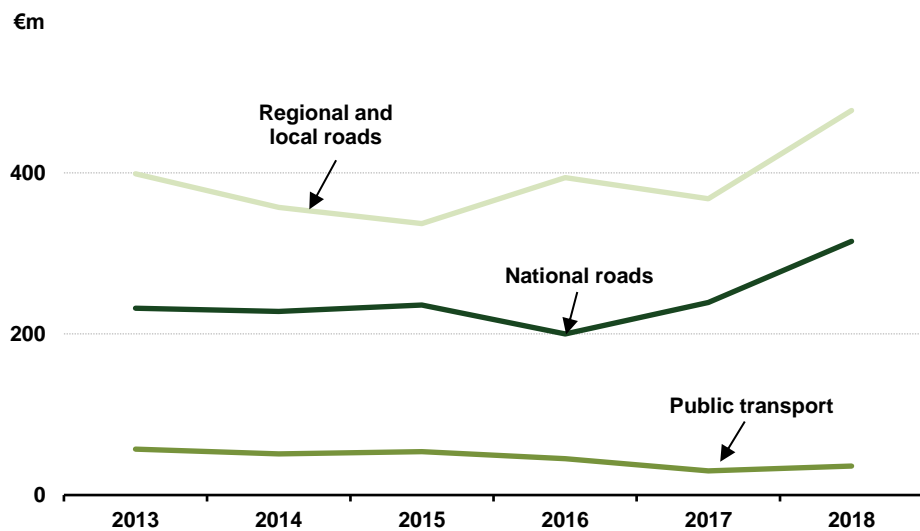


Source: Annex 11B

Transport investment

- 11.17** Improvement and maintenance of national roads is the responsibility of Transport Infrastructure Ireland, operating under the aegis of the Department of Transport, Tourism and Sport. Transport Infrastructure Ireland normally uses local authorities as its agents to deliver roads projects, and channels expenditure through them.
- 11.18** The Department of Transport, Tourism and Sport directly funds local authorities for the upkeep of regional and local roads. The Department determines the amount allocated to each local authority, and uses Transport Infrastructure Ireland's payment system to make the transfers.
- 11.19** The National Transport Authority, also operating under the aegis of the Department of Transport, Tourism and Sport, funds local authorities for certain improvements in the public transport system. Funding objectives include increased accessibility to public transport for older people, improved traffic flows, more routes for cyclists and pedestrians and better access for buses and taxis.
- 11.20** The Department of Rural and Community Development provided funding of €16 million to local authorities (shown in Figure 11.6 under regional and local roads) to carry out improvement works on private and non-publicly maintained roads leading to, for example, multiple homes, farmland, or amenities such as lakes and beaches.
- 11.21** Figure 11.6 shows the trend in the level of funding from central government sources provided to local authorities in respect of the key transport areas.

Figure 11.6 Funding to local authorities for transport infrastructure, 2013 to 2018

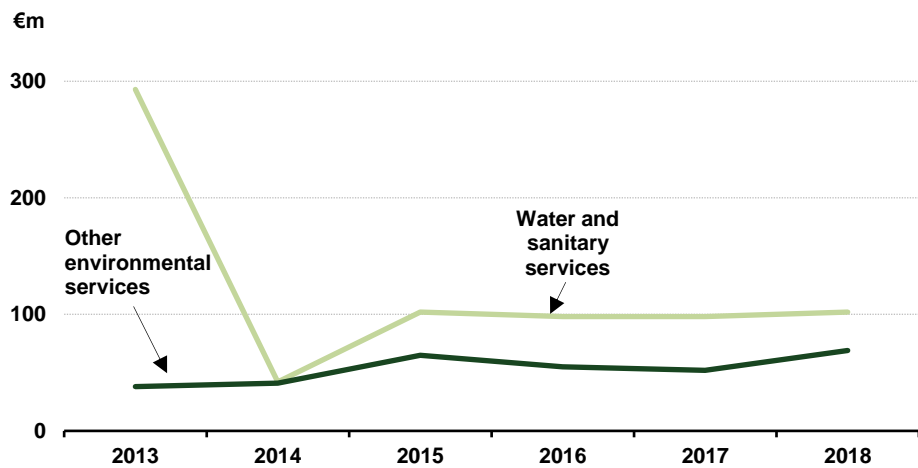


Source: Annex 11B

Environmental initiatives

- 11.22** Figure 11.7 shows the trend in the level of funding from central government sources provided to local authorities in respect of environmental initiatives. Central government funding of local authorities for water and sanitary services investment projects decreased significantly from 2013 due to the transfer of these functions from local authorities to Irish Water.
- 11.23** Funding for environmental initiatives in 2018 includes funds for flood relief works provided by the Office of Public Works.
- 11.24** The Department of Communications, Climate Action and Environment provided €9.5 million in 2018 to local authorities in relation to landfill remediation costs.

Figure 11.7 Funding to local authorities for environmental initiatives, 2013 to 2018



Source: Annex 11B

Other services

11.25 Central government bodies also fund local authorities to assist in providing a range of services such as education, employment, sports and cultural projects, fire and emergency services, heritage services, and library and archive services. Figure 11.8 shows the trend in the level of funding in respect of such services.

Employment

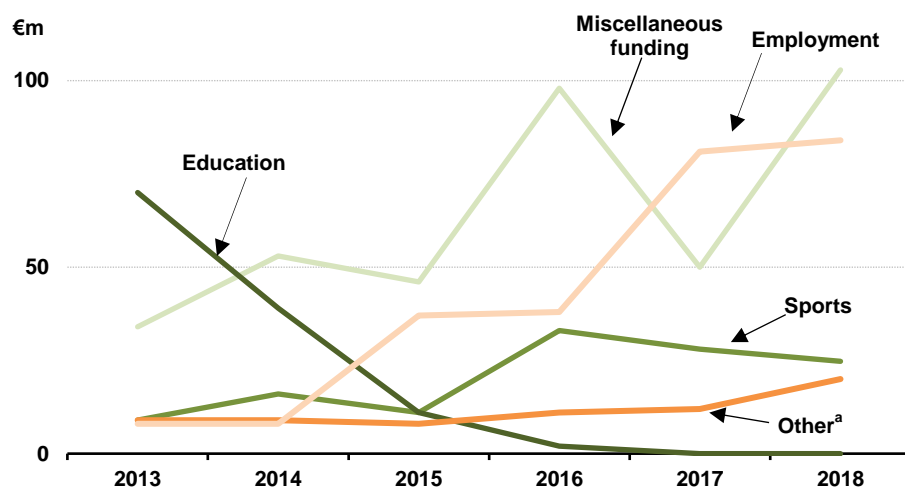
11.26 In 2015, the Department of Business, Enterprise and Innovation (DBEI) began to provide funding to local authorities through Enterprise Ireland (EI), to cover the costs associated with providing local enterprise development supports to the micro-enterprise sector via their Local Enterprise Offices (LEOs). Funding amounted to €33.4 million in 2018.

11.27 The Department of Rural and Community Development provided funding of €40.2 million to local authorities under the Social Inclusion and Community Activation Programme (2018 – 2022).

11.28 The Department of Social Protection reimburses local authorities for expenditure incurred on certain community employment and jobs initiative projects (€8.1 million in 2018).

11.29 The Department of Communications, Climate Action and Environment provides funding to the LEOs through EI in respect of the Department's Trading Online Voucher Scheme which supports small businesses to trade online (€1.9 million in 2018).

Figure 11.8 Funding to local authorities for other services, 2013 to 2018



Source: Annex 11B

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

Miscellaneous services

- 11.30** The Department of Rural and Community Development provided €52.2 million for miscellaneous capital services.
- 11.31** The Department of Defence paid €3.2 million to local authorities for Civil Defence activities.

Sports and cultural projects

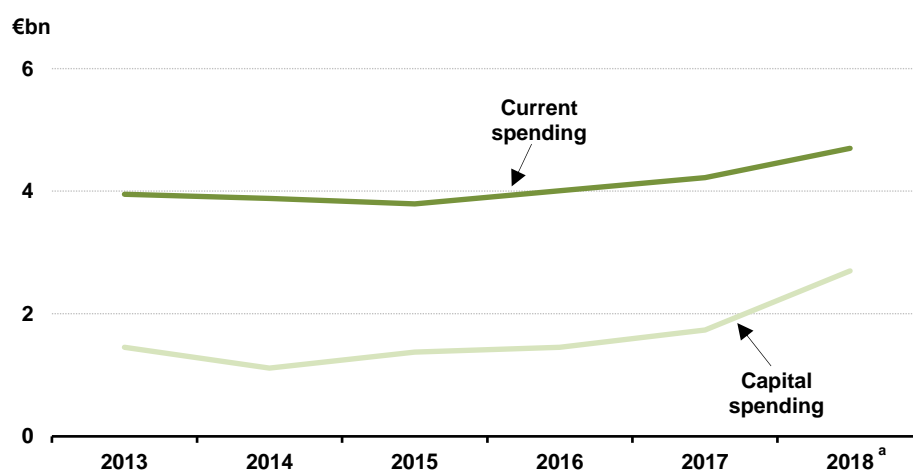
- 11.32** Funding was allocated to sports grants, playgrounds and cultural projects — mainly from the Department of Rural and Community Development (€10.7 million) and the Department of Culture, Heritage and the Gaeltacht (€6.5 million).

Other

- 11.33** The Department of Health provided €7.3 million in funding to local authorities, over 85% of which was for the Local Authority Veterinary Service.

Trends in local authority expenditure, 2013 to 2018

- 11.34** Aggregate expenditure by local authorities in 2017 (the last year for which full audited information is available) was €5.96 billion.¹ This comprised around €4.22 billion in current expenditure and around €1.74 billion in capital expenditure (see Figure 11.9).
- 11.35** Expenditure for 2018 is expected to be €7.4 billion — €4.7 billion of current expenditure and €2.7 billion of capital expenditure.² On that basis, transfers from central government accounted for 49.8% of the total spent by local authorities in 2018 (2017: 44.7%).

Figure 11.9 Local authority expenditure by type, 2013 to 2018

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

² Collation of local authority expenditure outturns for 2018 had not been finalised by the Department of Housing, Planning, and Local Government at the time of this report.

Source: Department of Housing, Planning and Local Government

Note: ^a Figures for 2018 are estimates. For all earlier years, audited figures are used.

Central oversight of local authorities

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

Local Government Audit Service

- 11.37** The financial statements of each local authority are audited by the Local Government Audit Service (LGAS).¹ The audit opinion and any matters arising from the audit are reported to the relevant local authority. A copy of each audit report is sent to the Minister for Housing, Planning and Local Government and published on the Department's website. The Department identifies sector wide issues in audit reports for follow up, and engages with relevant local authorities in the event it requires information on a particular issue.
- 11.38** The LGAS also carries out value for money audits of local authority operations. The results of those audits are reported to the Minister.
- 11.39** A LGAS activity report is published annually. It summarises the audit findings in respect of the annual financial statements of each local authority. The latest annual activity report was published in March 2019 and includes the results of the audits of the 2017 financial statements.² The report highlights both sectoral and authority specific issues such as income and expenditure for the sector, the cumulative revenue position of each local authority, and revenue collection performance.

National Oversight and Audit Commission

- 11.40** The National Oversight and Audit Commission was established in July 2014.³ The Commission has a wide range of functions focused on the scrutiny of local government performance, including their financial performance.
- 11.41** It exercises this scrutiny by means of thematic reports and, where warranted, oral hearings on matters within its remit.⁴ It also monitors the implementation by local authorities of its recommendations.

1 Local Government audit fees of €2.1 million were paid to the Department and accounted for as appropriations-in-aid.

2 Local Government Audit Service, *Overview of the Work of the Local Government Audit Service*, March 2019.

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

4 The Commission's annual report for 2018 sets out its strategy and reports on its activities. See *National Oversight and Audit Commission Annual Report 2018* (April 2019).

Conclusions

- 11.42** Central government funding to local authorities is highly complex, with transfers from a number of departments for a wide variety of stated purposes. Some streams of funding are delivered directly from funding departments to local authorities, while others are routed through departmental agencies.
- 11.43** Transfers of funding from central government sources to local authorities in 2018 totalled almost €3.7 billion. This represents a cumulative increase of 116% from the lowest level of transfer in 2014, coinciding with the replacement of general purposes grants by LPT-based funding transfers. In parallel with the increased funding, oversight of local authority spending has increased since 2014, through the operation of the National Oversight and Audit Commission.

Annex 11A

Local authorities may vary the rate of Local Property Tax (LPT) in their administrative area for the following year by up to 15% of the basic rate of the Tax.

Four local authorities resolved to reduce their LPT rates for 2018 and seven authorities decided to increase their 2018 LPT rates above the basic rate.

Where an authority decides to vary the LPT basic rate upwards, it retains 100% of the resultant additional income collected in that local authority area. Likewise, where the rate is reduced, that authority absorbs the full impact of the reduction of LPT that is not collected.

Figure 11A.1 Impact of variation by local authority

Local authority	2018 Local variation factor (percentage)	(Loss)/gain to LA following variation, compared to original allocation	Total 2018 LPT allocation post variation
		€	€
Local authorities requiring equalisation			
Kerry County Council	+5%	704,097	14,480,857
Laois County Council	+10%	492,822	9,051,699
Limerick City & County Council	+7.5%	1,176,448	18,730,912
Longford County Council	+5%	105,588	9,012,236
Tipperary County Council	+10%	1,182,910	27,134,513
Waterford City and County Council	+2.5%	232,545	18,911,516
Wexford County Council	+10%	1,218,517	14,766,033
Total		5,112,927	
Local authorities in surplus			
Dún Laoghaire-Rathdown County Council	-15%	-7,773,682	33,685,955
Dublin City Council	-15%	-11,968,437	51,863,225
Fingal County Council	-10%	-3,822,079	26,754,556
South Dublin County Council	-15%	-4,726,401	20,481,072
Total		-28,290,599	

Source: Department of Housing, Planning and Local Government

Annex 11B

Figure 11B.1 Central government transfers to local authorities, by expenditure programme, 2013 to 2018^a

Expenditure Category	2013 €m	2014 €m	2015 €m	2016 €m	2017 €m	2018 €m
Housing and regeneration^b						
Social housing provision	529	536	614	759	1,133	1,704
Affordable housing, etc. ^c	43	39	3	2	3	—
Infrastructure funding ^c	—	—	—	—	—	7
Other housing supports	1	5	114	92	79	215
Regeneration	—	—	50	60	78	86
	573	580	781	913	1,293	2,012
Transport investment						
National roads improvement	232	228	236	200	239	315
Regional and local roads improvement ^b	399	357	337	394	368	461
Public transport (capital payments)	57	51	54	45	30	36
	688	636	627	639	637	812
Environmental initiatives						
Water and sanitary services	293	42	102	98	98	102
Flood relief works	10	21	44	34	28	31
Waste management	9	5	3	18	17	25
Recycling	8	2	—	—	—	—
Other environmental measures	12	13	18	3	7	13
	332	83	167	153	150	171
Other services						
Higher education grants	70	39	11	2	—	—
Employment schemes	8	8	37	38	81	84
Swimming pools	6	—	1	4	6	1
Fire and emergency services	5	7	6	9	12	13
Library service	4	2	2	2	7	7
Sports grants, playgrounds and cultural projects	2	10	9	28	13	22
Heritage services (architectural heritage)	1	5	1	1	2	1
Miscellaneous funding	34	53	45	99	48	108
	130	124	112	183	169	236
General purpose grants	642	282	—	—	—	—
LPT allocations — general purpose/discretionary ^b	—	—	306	310	393	395
Remuneration-related payments (LGF) — general purpose/discretionary	—	—	—	25	20	60
Total funding provided to local authorities	2,365	1,705	1,993	2,223	2,662	3,686

Source: The Office of Public Works; Department of Housing, Planning and Local Government; Department of Education and Skills; Department of Transport, Tourism and Sport; Department of Culture, Heritage, and the Gaeltacht; Department of Health; Department of Children and Youth Affairs; Department of Justice and Equality; Department of Agriculture, Food and the Marine; Department of Employment Affairs and Social Protection; Department of Communications, Climate Action and Environment; Department of Defence; Department of Business, Enterprise and Innovation; Department of Rural and Community Development; Local Government Fund and Environment Fund financial statements (2018 unaudited).

Notes: a Adjustments have been made to some previously reported amounts to reflect amounts not previously included and reclassifications.
b The total LPT allocation from the Local Government Fund in 2018 was €504.1 million, allocated as follows: housing €92.3 million; roads €16.5 million; general purpose/discretionary €395.3 million.
c From 2018, expenditure incurred under the Affordable Housing/Shared Ownership Subsidy is included under 'Other Housing Supports'. In 2017, expenditure amounting to €1.6 million relating to Infrastructure Funding was included in 'Other Housing Supports'.

12 Regularity of social welfare payments

12.1 The Department of Employment Affairs and Social Protection (the Department) is required to ensure that the expenditure it incurs has been applied for the purposes for which the money was made available by Dáil Éireann, and that its financial transactions conform with the authorities under which they purport to have been carried out. Financial transactions are considered to be 'regular' when both of these conditions are satisfied.

12.2 Any payments in excess of entitlements under the terms of welfare schemes are, accordingly, irregular. Such excess payments can arise in a number of ways, including

- **Claimant fraud** — where a claimant for welfare payments intentionally provides incomplete or inaccurate information in relation to a claim, or deliberately fails to inform the Department of relevant changes in circumstances (such as an increase in means or a change in medical condition) affecting a claim in payment.
- **Claimant error** — which arises when the claimant has provided inaccurate or incomplete information, or failed to report a relevant change in circumstances, but there is no fraudulent intent on the claimant's part.
- **Official error** — where benefits are paid incorrectly due to inaction, delay or mistakes made by the Department's staff.^{1,2}

12.3 The Department has a well-established programme to undertake control surveys of social welfare schemes.³ The surveys involve 'point-in-time' reviews of random samples of 500 to 1,000 claims in payment to establish if the recipients are entitled to the payments they are currently receiving and if so, whether the correct amounts are being paid. The surveys assist the Department in identifying scheme-specific risks and the need for any changes to the scheme control measures in place. Higher value schemes are surveyed more frequently than low value schemes.

12.4 The Department has stated that, following a review, it intends to move from point-in-time surveys to continuous sampling for larger schemes — such as jobseeker's allowance, disability allowance and State pension (contributory and non-contributory) schemes. Other schemes will continue to be reviewed on a point-in-time basis. Annex 12A outlines past surveys, surveys underway and those planned for 2020.

¹ In some cases, claimant and official error can also result in claimants receiving less than they are entitled to (an underpayment).

² Where the last review of a claim was conducted more than five years previously, the case is categorised as an official error.

³ The sample-based surveys aim to provide an estimate — to a 95% confidence level — of the level of incorrect payment.

Eligibility for payment

- 12.5** Eligibility to a welfare payment varies from scheme to scheme and may require satisfying criteria relating to age, family circumstances and/or economic status. Most scheme payments depend on either a social insurance contribution record or a claimant's income from other sources determined through means testing.
- 12.6** Medical eligibility is a key qualifying criterion for payment under a number of welfare schemes. For example
- Recipients of disability allowance must have an injury, disease, or physical or mental disability that has continued or may be expected to continue for at least one year and as a result of that disability, be substantially restricted in undertaking work that would otherwise be suitable for a person of their age, experience and qualifications.
 - Recipients of illness benefit must be unable to work due to illness or injury — weekly or monthly certification of their continuing inability to work must be provided to the Department by their general practitioner (GP).
 - Recipients of invalidity pension must be assessed to be permanently incapable of work, or have been incapable of work for at least 12 months and be likely to be incapable for work for at least a further 12 months.
- 12.7** When the Department carries out a control survey of a scheme which has medical eligibility payment criteria, medical reviews of a subset of cases are undertaken. This may result in cases being identified whose medical condition is considered to no longer meet the specified criteria. Where this occurs, welfare payments may be stopped, or the amount payable may be reduced (an excess payment), and is included in the estimation of irregular payment levels.
- 12.8** Where a medical ineligibility decision is subsequently successfully appealed, the case is not included in the estimation of irregular payment levels.

Survey results

- 12.9** Figure 12.1 shows the expenditure in 2018 on Vote and Social Insurance Fund schemes in respect of which control surveys have been undertaken (at least once) since 2012.¹ It also shows the estimated percentage level of excess payment for each scheme found during the latest surveys due to suspected fraud, error or medical ineligibility. In aggregate, the schemes included in Figure 12.1 accounted in 2018 for 80% (€8.7 billion) of voted expenditure, and 83% (€8.4 billion) of Social Insurance Fund expenditure.
- 12.10** Figure 12.1 also shows
- the impact of transfers to other schemes — where a claimant (and/or a dependent person) was found to be paid in excess of their entitlements on the scheme reviewed, but was entitled to a different benefit welfare payment
 - net excess payment — the value of gross excess payments less transfers to other schemes.
- 12.11** In addition, Figure 12.1 shows the percentage (by value) of underpayments — these are cases where the survey found that the claimant was receiving less than they were entitled to.

¹ The results of the 2016 household benefits survey have not been included because it related to 7% of the beneficiaries (i.e. those in receipt of the household benefit package only). Since 2016, entitlement to household benefits (as well as income support) has been examined in a number of other surveys. The Department estimates the error rate in respect of entitlement to the benefits packages for the schemes surveyed (a combined 69% of benefits package recipients) to be 1.3% by value.

Figure 12.1 Estimated level of irregular payments in surveyed schemes

Account and scheme	Scheme cost in 2018 €million	Excess payments		Underpayments	
		Gross	Eligible to transfer to other schemes	Net	
Vote funded schemes					
Child benefit	2,097	0.5%	0%	0.5%	0%
Jobseeker's allowance	1,841	5.0%	(1.5%)	3.5%	0.4%
Disability allowance	1,586	5.6%	(1.0%)	4.6%	0.5%
State pension (non-contributory)	1,020	6.5%	0%	6.5%	1.1%
Carer's allowance	795	10.2%	(1.1%)	9.1%	0.4%
One-parent family payment	511	3.0%	(0.3%)	2.7%	0%
Working family payment ^a	411	2.0%	(1.4%)	0.6%	0.1%
Rent supplement	175	7.0%	(1.0%)	6.0%	1.0%
Supplementary welfare allowance (BASI)	112	2.8%	(0.2%)	2.6%	0.2%
Back to work enterprise allowance	90	3.3%	0%	3.3%	0%
Farm assist	74	12.7%	0%	12.7%	2.5%
Total vote funded schemes	8,712				
Social insurance funded schemes					
State pension (contributory)	5,217	2.1%	0%	2.1%	0%
Widow's/widower's/surviving civil partner's contributory pension ^b	1,510	0.7%	0%	0.7%	0%
Invalidity pension	694	1.5%	0%	1.5%	0%
Illness benefit	623	6.1%	(0.1%)	6.0%	0.1%
Jobseeker's benefit	339	2.5%	(0.9%)	1.6%	0%
Total social insurance fund schemes	8,383				

Source: Department of Employment Affairs and Social Protection. Analysis by the Office of the Comptroller and Auditor General.

Note: a Previously known as the family income supplement.

b **Correction:** The originally published figures for gross and net excess payments were incorrectly stated as 7.4% and the underpayments figure was incorrectly stated as 0.2%. The correct figures are now shown.

12.12 There is wide variation in the level of excess payments found by surveys of Vote funded schemes. Apart from child benefit, which is a universal payment (i.e. not means-tested), estimated rates of excess payments, range from 2% of scheme expenditure (working family payment) to 12.7% of scheme expenditure (farm assist).

12.13 There is also variation in the level of excess payment in the social insurance funded schemes surveyed. Estimated rates of excess payments for social insurance funded schemes range from 0.7% (widow's/widower's/ surviving civil partner's contributory pension) to 6.1% (illness benefit).¹

¹ **Correction:** The originally published report incorrectly stated the range of excess payments. The correct range of excess payments is now shown.

New compliance metric

12.14 The Department stated that the assessment and recovery of overpayments forms a key part of its compliance and anti-fraud strategy. Since 2018, the Department has been using a metric called 'Net Loss to Government' to measure the compliance level of schemes. This metric takes account of overpayments recovered, in addition to transfers, when assessing the impact on the Exchequer of scheme non-compliance. Therefore, the Department's published figures for non-compliance for the two most recently surveyed schemes (State pension non-contributory and back to work enterprise allowance) differ from those shown in Figure 12.1. This measure will be considered in the context of the audit of the 2019 appropriation accounts.

State pension (non-contributory) control survey, 2019

- 12.15** In January 2019, the Department published the result of a control survey of the vote-funded non-contributory State pension scheme. This benefit is means tested and accounted for expenditure of €1.02 billion in 2018. The survey examined 1,000 randomly selected payments made during one week in October 2017, at which time there were 99,000 beneficiaries.
- 12.16** The survey found that one in five of the claims reviewed involved payments in excess of entitlement, and so were irregular — the excess payments identified represent 6.5% of the value of payments for claims examined. The required reduction in payment averaged around €50 per week for claims in excess of entitlements.
- 12.17** The survey also found that 8.2% of claims reviewed were in underpayment — the underpayments identified represent 1.1% of the value of payments for claims examined. As a result, claimants who were identified as being underpaid received an average increase of around €30 per week (plus arrears).
- 12.18** The survey found that 94% of incorrect payments were because the claimant's means were not correctly accounted for.¹ The principal cause of incorrect payments was a change in claimant circumstances which was not reported by the claimant and there had been no review by the Department in the interim to identify that change. The survey found that there was a low rate of error in the original decision made, based on information then available.
- 12.19** Risks found by the survey include
- 38% of claimants who were over 80 years of age were in receipt of an incorrect rate of payment compared to 24% of claimants aged 66 to 79.
 - Claimants in Dublin had a lower rate of incorrect payment than the rest of Leinster and the other provinces.
 - Three in four claimants had no known means. Of that group, 34% were found to be receiving an incorrect benefit. In comparison, only 6% of claimants with declared means were receiving an incorrect payment.
 - Claimants with means (particularly a private or non-Irish pension) were identified as being impacted by fluctuating means due to adjustments in the rate of pension payment or exchange rates.

¹ The survey report does not disaggregate incorrect payments between excess payments and underpayments.

12.20 The Department has initiated changes to the control framework on the basis of the results of this survey, including

- a revision to the control framework to reflect the risks identified in the report
- in 2019, notifying 10,000 claimants (selected on the basis of risk) of their obligation to advise the Department of change to their circumstances
- reviewing means rules for the scheme
- improving the notification of deaths from the General Register Office.

Conclusion

12.21 The level of irregular payments found by the Department's control surveys is material. Accordingly, I have referred in my audit reports on the 2018 Appropriation Account for Vote 37 Employment Affairs and Social Protection and the 2018 Account of the Social Insurance Fund to the material level of irregularity of scheme payments.

Annex 12A

Figure 12A.1 Schedule of control surveys published and underway 2010 to 2019, and planned, 2020



Source: Office of the Comptroller and Auditor General

Key: ● Planned, subject to confirmation on finalisation of new control strategy (2019 to 2023)
 ● Underway
 ● Published

Note: a Report is expected to be published in Autumn 2019.

13 Timeliness of income support claim processing

- 13.1** Persons who claim income support are entitled to have their claims processed as quickly as possible, and to have payments to which they are entitled commence promptly. For many of those entitled to support, the payments may be essential to allowing them to access basic necessities. Timely processing of claims is consequently a key performance objective of the Department of Employment Affairs and Social Protection (the Department).
- 13.2** This chapter examines the use of key performance indicators (KPIs) by the Department to measure the timeliness of claim processing.¹

Claims processing performance reporting

- 13.3** To monitor claim processing performance, the Department produces a number of key internal and external reports
- a 'traffic light' report providing a weekly update by local office on claim processing rates and targets — with negative performance highlighted in amber or red
 - a statistical bulletin and a management information report produced each month for the management board — these detail claim processing information, as well as expenditure and trends in the live register
 - the Department's annual statistics report publishes claims processing information, such as the number of claims awarded and the average time taken to award claims^{2,3}
 - the annual management information report details claims processing information for each scheme, with historical comparisons.
- 13.4** The Department's Statistics and Business Intelligence Unit (Statistics Unit) is responsible for the compilation of claim processing data.

Claims processing targets included in the estimates

- 13.5** The Department has defined a processing time target for each scheme — this is the percentage of claims expected to be awarded within a defined time period. Claim processing time targets for a number of schemes have been included in the annual vote estimate for many years.⁴
- 13.6** The processing time target varies between schemes — for example, the Department aim to complete the processing of 90% of jobseeker's allowance awarded claims within six weeks and 70% of carer's allowance awarded claims within twelve weeks.

¹ Annex 13A provides background information on the characteristics of good performance measures.

² The *Statistical Information on Social Welfare Services Annual Report* publishes details on changes in the number of recipients (and beneficiaries) by scheme and the value of payments — the report includes data for the last ten years.

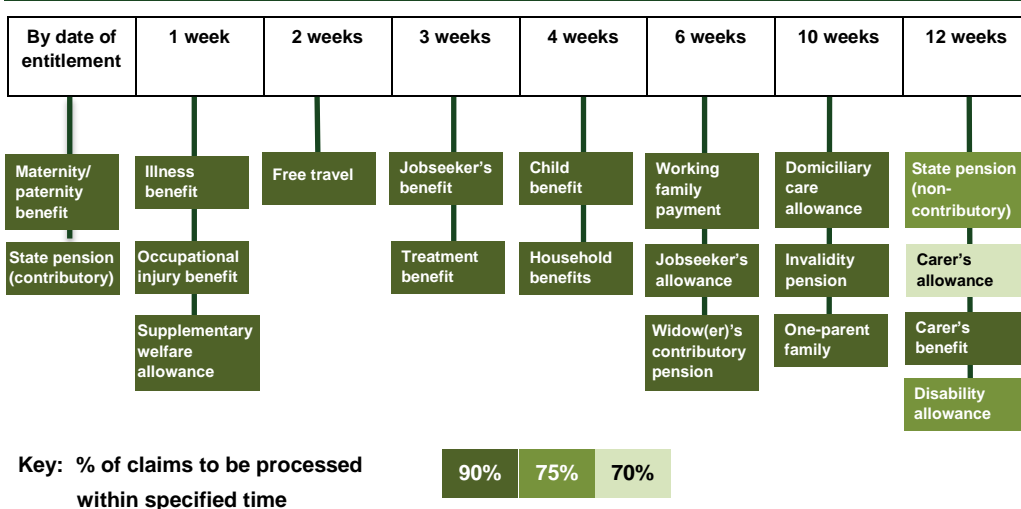
³ The definition of 'time taken to award' differs between schemes. This is explored in more detail in paragraphs 13.22 – 13.24.

⁴ The Department also publish statistics on the average number of weeks to award a claim — setting a target based on a percentage of claims to be awarded within a certain time may be more demanding than an average processing time standard.

13.7 The Department stated that the different targets set relate to the nature of the schemes — some schemes are dependent on one main decision, often on fact-based criteria (e.g. contribution records in respect of a person claiming illness benefit) whereas others are more complex and require assessment across multiple clients and criteria. For example, a claim for carer’s allowance requires an assessment of the carer’s means and residency arrangements, as well as an assessment of the caree’s care requirements, including an assessment of what can often be complex medical and care issues.

13.8 Figure 13.1 shows the current target rate of claims to be processed within the processing time standard.

Figure 13.1 Target volume of claims to be processed by processing time standard



Source: Department of Employment Affairs and Social Protection

13.9 The appropriate processing time standard is considered for each new scheme and where the schemes strategic objectives are revised. Processing time standard targets did not change for most (fourteen) of the main schemes in the period 2009 to 2018. Changes which were made in that period mainly lengthened the target processing time, as shown in Figure 13.2.

13.10 The Department has stated that reviews of targets take account of actual experience given the volume of claims, the complexity of eligibility criteria, and the number of staff available in processing areas.

Figure 13.2 Changes to processing time standards, 2009 to 2018

Scheme	Year of change	Original target	Revised target	Impact on processing time target
Non-contributory State pension	2017	90% in 10 weeks	75% in 12 weeks	↓ ↓
Child benefit	2015	90% in 2 weeks	90% in 4 weeks	↓
Carer's allowance	2017	90% in 12 weeks	70% in 12 weeks	↓
Disability allowance	2017	90% in 12 weeks	75% in 12 weeks	↓
Invalidity pension	2017	90% in 6 weeks	90% in 10 weeks	↓
Domiciliary care allowance	2017	70% in 15 weeks	90% in 10 weeks	↑ ↑

Source: Department of Employment Affairs and Social Protection

Key: ↑ A shorter duration to process or greater volume to be processed in the same period.

↓ A longer duration to process or reduced volume to be processed in the same period.

Claim processing performance

13.11 On the following pages, Figure 13.3 and Figure 13.4 show key input (staffing resources), output (claims cleared) and claim processing data for vote funded schemes and for Social Insurance Fund schemes.

Staffing resources allocated to schemes and number of claims cleared

13.12 The Department operates centralised processing offices for some schemes, such as pensions. Other schemes, such as jobseeker's payments and the one-parent family payment, are processed in the Department's network of Intreo centres and branch offices.

13.13 The Department stated that, as well as claim processing in each scheme area, staff are also engaged in a wide range of other work such as claim maintenance and claim reviews, customer reception and telephone call handling. The level of this work varies by scheme area — control-related work forms a larger proportion of the workload in Intreo/jobseeker centres than in other scheme areas, while the client base in disability schemes tends to have a higher level of maintenance than in, for example, pension schemes.

13.14 The Department's ability to monitor the cost, by type of activity, of resources employed in the processing of claims is limited by the manner in which schemes are administered. While it can identify the staffing resources used in providing centralised schemes, it cannot do so for Intreo centre and branch office resources because individual staff may have responsibilities across a number of schemes and types of activity (e.g. reception duties, control duties, etc.) during any period over which costs are assessed.

Time to award

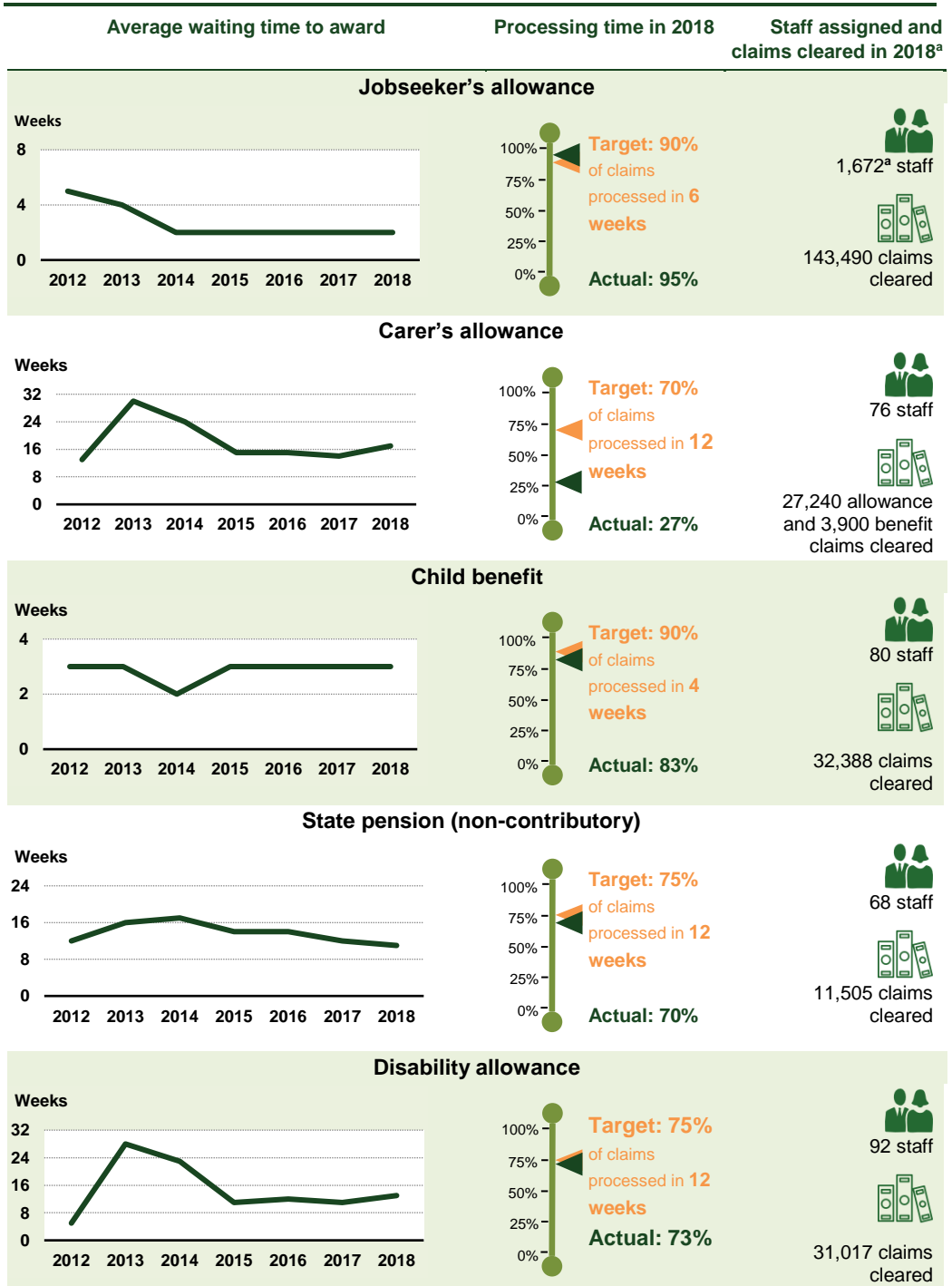
13.15 Figure 13.3 and Figure 13.4 show the trend in the average number of weeks to award claims in the period 2012 to 2018, for a selection of the Department's schemes.¹

13.16 For the majority of schemes, the average weeks to award has decreased over the period, with some schemes showing a very marked improvement

- invalidity pension decreasing from 52 weeks in 2013 to 7 weeks in 2018
- carer's allowance decreasing from 30 weeks in 2013 to 17 weeks in 2018
- State pension (non-contributory) decreasing from 16 weeks in 2013 to 11 weeks in 2018.

¹ The time to award a claim does not include claims that are initially rejected but subsequently successfully appealed.

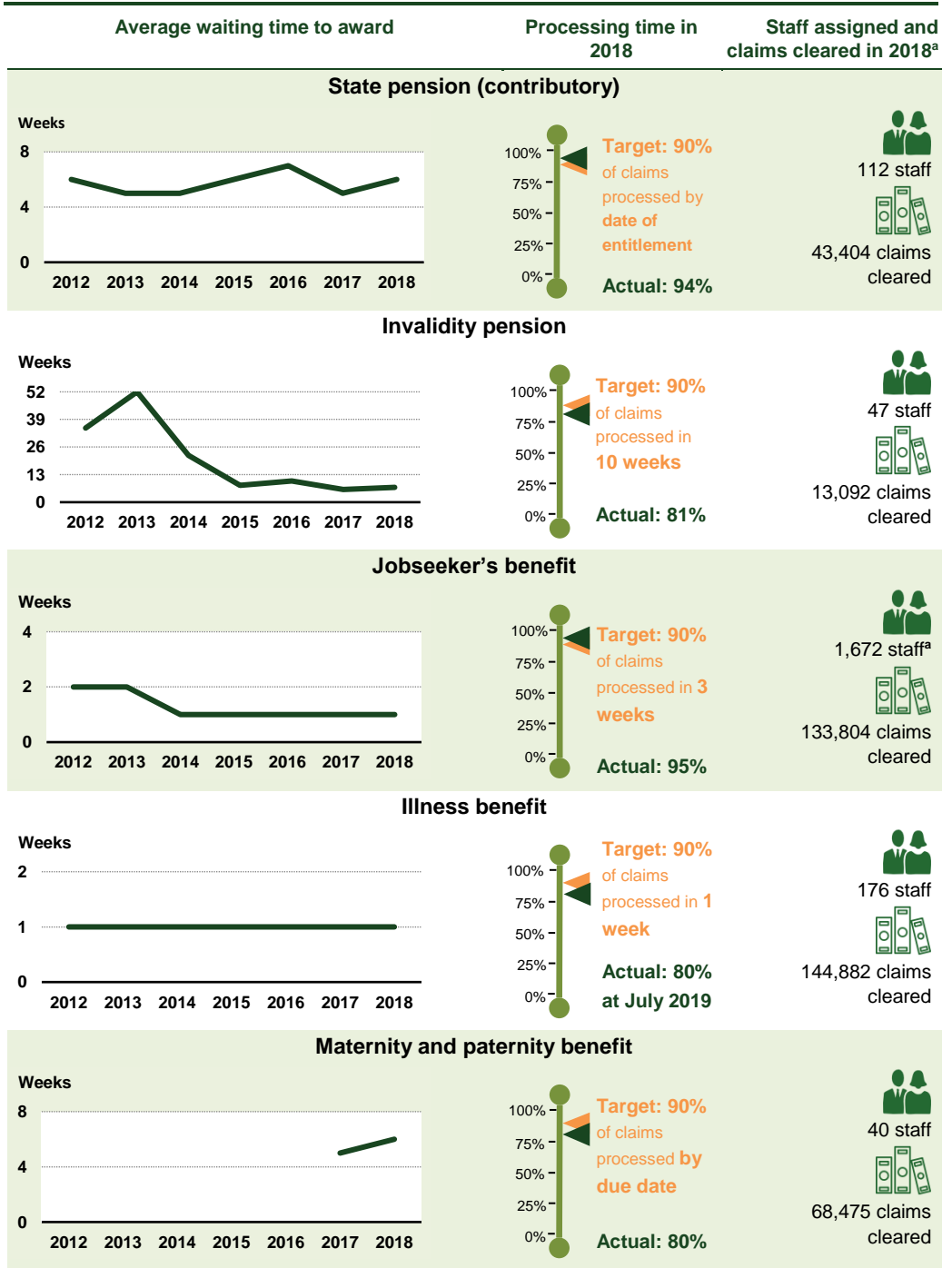
Figure 13.3 Performance measurement of Vote funded schemes, trend and 2018 data



Source: Department of Employment Affairs and Social Protection. Analysis by the Office of the Comptroller and Auditor General.

Note: a Intreo centre and branch office staff resources cannot be disaggregated by scheme — 1,672 staff are assigned to these offices, process jobseeker's allowance and benefit claims, the one-parent family payment and the supplementary welfare allowance.

Figure 13.4 Performance measurement of Social Insurance Fund schemes, trend and 2018 data



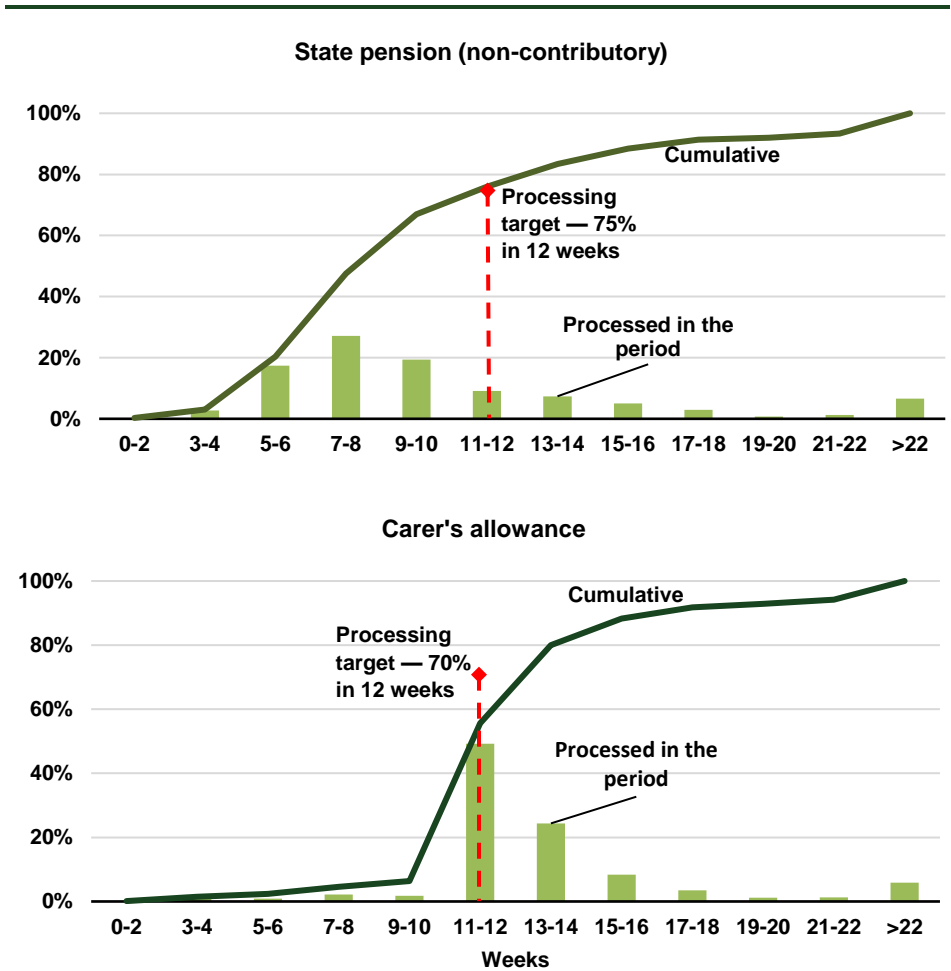
Source: Department of Employment Affairs and Social Protection. Analysis by the Office of the Comptroller and Auditor General.

Note: a Intreo centre and branch office staff resources cannot be disaggregated by scheme — 1,672 staff are assigned to these offices, processing jobseeker's allowance and benefit claims, the one-parent family payment and the supplementary welfare allowance.

Distribution of claims by waiting time

13.17 The average number of weeks to award a claim and the time taken to award a set percentage of claims can mask significant variances in processing time. For example, Figure 13.5 indicates that awards of State pension (non-contributory) were significantly speedier than awards for carer's allowance, even allowing for different target percentages (75% and 70% respectively). Both schemes had a target 12-week processing period, but very few carer's allowances were awarded before 11/12 weeks.

Figure 13.5 Processing time for State pension (non-contributory) and carer's allowance claims awarded in May 2019



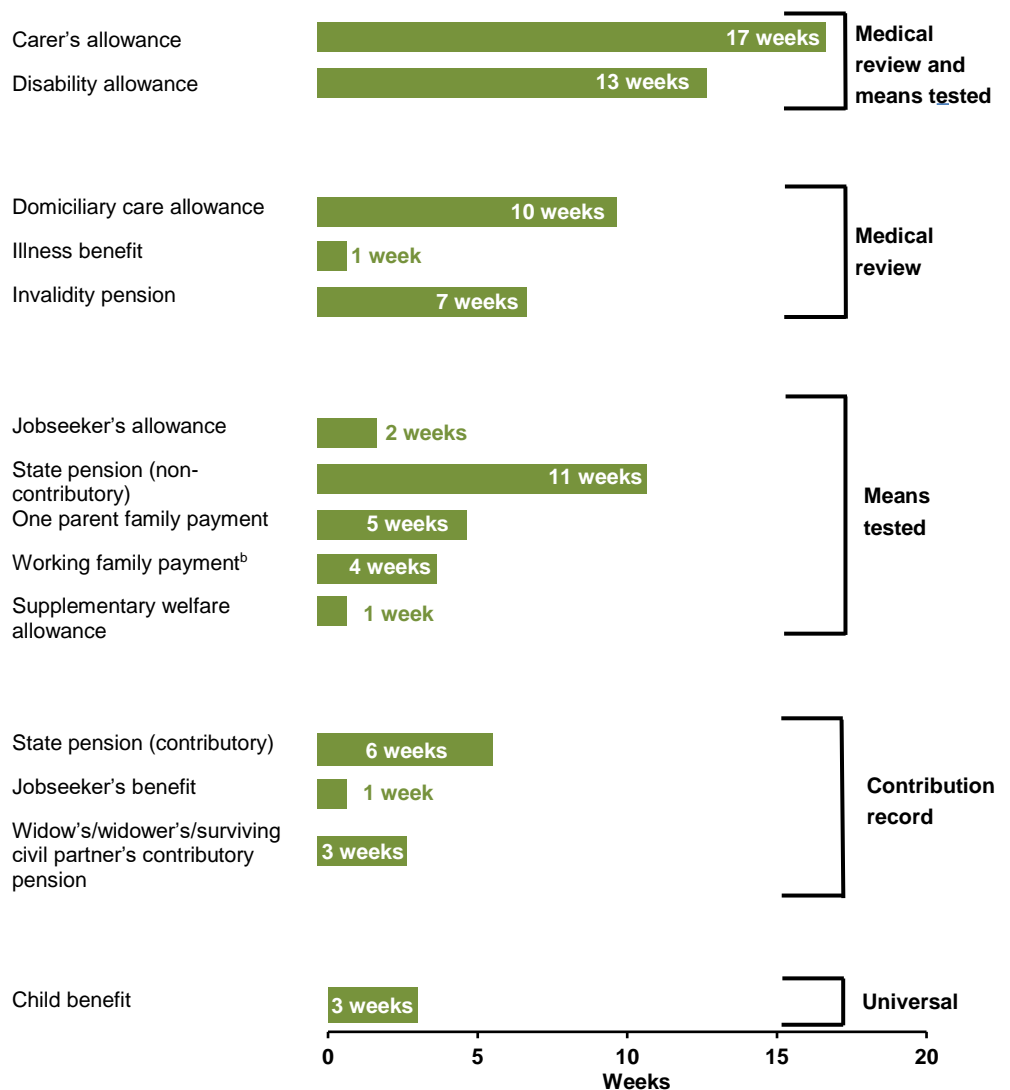
Source: Department of Employment Affairs and Social Protection

Impact of qualifying conditions on scheme processing time

13.18 Figure 13.6 shows the qualifying conditions and average number of weeks taken to award a claim in 2018 for the main schemes.

13.19 Schemes where a means test and/or medical review is required generally take longer to process — for example, carer’s allowance, disability allowance, domiciliary care allowance and state pension (non-contributory) took an average of between 10 and 17 weeks in 2018 to award a claim. The medical review may be based on information provided by the applicant’s doctor and/or an assessment by the Department’s medical assessors.

Figure 13.6 Average number of weeks to award, by qualification criteria^a



Source: Department of Employment Affairs and Social Protection. Analysis by the Office of the Comptroller and Auditor General.

Notes: a Schemes may also include additional criteria to be examined to determine eligibility — for example, habitual residence.
 b This scheme was previously known as the family income supplement.

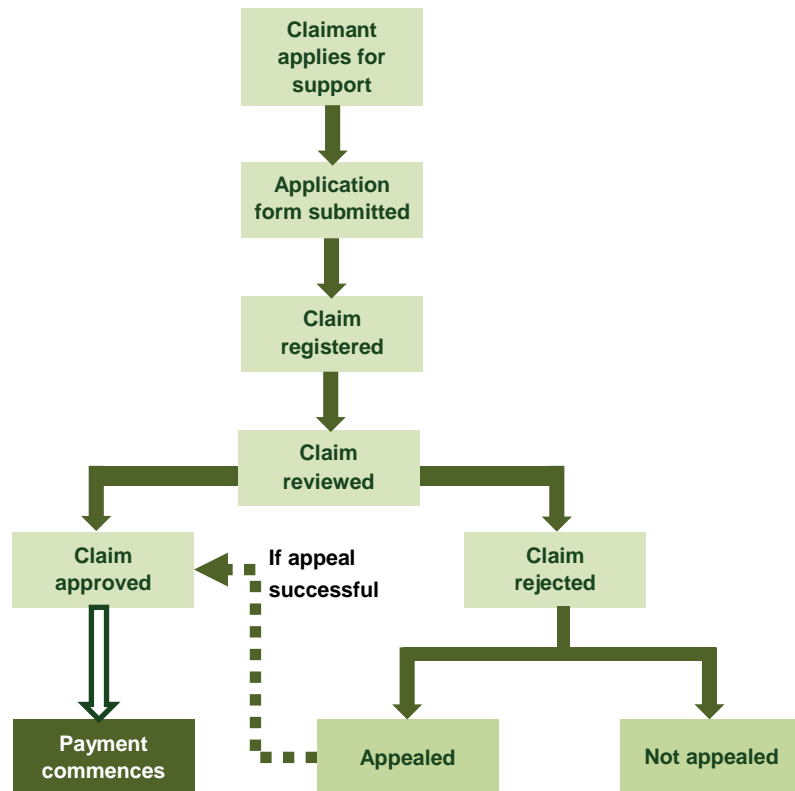
Reliability of certain KPI

Measurement of claim processing time

13.20 Figure 13.7 shows the steps involved in processing a claim.

13.21 Most of the Department's schemes are centrally operated and managed — for example, carer's allowance, disability allowance and State pension. For these schemes, the Department is made aware that a claimant is applying under that scheme when the application form is received — so the date the claimant applies for support and the date documentation is received is the same day (or next day if submitted by post). The registration date may also be the same where forms are promptly processed — for example, under the illness benefit scheme and for all online applications.

Figure 13.7 Claim processing lifecycle



Source: Department of Employment Affairs and Social Protection

13.22 For schemes managed in Intreo and branch offices — jobseeker’s allowance, jobseeker’s benefit, one-parent family payment and basic supplementary welfare allowance — the date of claim registration is the date when a claimant’s application form is first submitted to an Intreo or branch office staff member.¹ Because many Intreo offices operate on an appointment basis, if an individual presents at an Intreo Office on a Monday and is given an appointment on the following Thursday, the processing time commences on that Thursday. To that extent, the processing time measured by the Department is shorter than the period of waiting time experienced by the claimant for these locally-managed schemes.

13.23 The Department has stated that

- In all offices, claims for the basic supplementary welfare allowance are generally dealt with, and registered, immediately without an appointment.
- This issue will not arise under a new ‘front office/back office’ processing system, where claims are received and registered immediately in the ‘front office’ and then subsequently processed in the ‘back office’ — the system is currently in place in eight (of 62) Intreo centres and 55 (of 58) branch offices, and the Department plans to extend the process to all offices within 15 months.

13.24 Claim payments are back-dated to the first day of entitlement — the payment commencement date. For Intreo and branch office schemes, the Department monitors the length of time between the claims registration date and the commencement date in a weekly report. For example, in August 2019, the gap averaged 1.2 weeks for jobseeker’s allowance and 1.7 weeks for jobseeker’s benefit — this gap comprises both any delay in the claimant seeking an appointment after becoming entitled to the support and the waiting time for an appointment.

Claims pending data

13.25 Claims pending data reported by the Department relates to claims that have been registered but are still awaiting a decision. Claims pending data for locally-managed schemes does not include claims where an appointment has been given but not yet held.²

Claim rejection rate

13.26 The Department reports timeliness on the basis of the average number of weeks to award claims. The Department stated that including rejected claims in the measure would tend to reduce the reported waiting time as many rejected claims are processed more quickly, where it is evident that scheme qualification criteria have not been met.

13.27 In 2018, 17% of claims processed by the Department were refused. The Department commenced publication of claim rejection statistics in its annual statistics report for 2018. Figure 13.8 shows schemes where the rejection rate exceeds 20%.

¹ The application registration date is generated by the system and cannot be changed.

² The claim is not pending until an application form is submitted.

Figure 13.8 Claim rejection rate by scheme, in 2018

Scheme	Claims cleared^a	Claims rejected^b	Claim rejection rate
Working family payment (new claims)	25,500	8,274	32%
Illness benefit	144,882	29,109	20%
Carer's allowance	27,240	9,291	34%
State pension (contributory)	43,404	10,304	24%
State pension (non-contributory)	11,505	2,253	20%
Invalidity pension	13,092	4,601	35%
Disability allowance	31,017	12,682	41%

Source: Department of Employment Affairs and Social Protection management information report

Notes: a Claims cleared comprises claims awarded, claims rejected and claims withdrawn. The range of withdrawal rates varied from 0% (working family payment) to 11% (State pension, contributory and non-contributory).

b The number of claims rejected relates to the initial decision only.

Conclusions and recommendations

- 13.28** The Department has included claim processing indicators in the annual vote estimates and other published reports for a number of years. These indicators are good measures of the Department's timeliness in claims processing (see Figure 13.9).

Figure 13.9 Rating of performance measures for claims processing used in estimates

Characteristic	Rating	Reason
Relevant	●	The measure addresses a core performance objective included in the Strategy so is very relevant.
Attributable	●	While the Department cannot control demand, it can reduce or increase allocated resources to reach a target — performance can be attributed to the Department.
Does not create perverse incentives	●	Distortions are unlikely to arise, unless resources are diverted to achieve these targets from an area in similar or greater need of resources where there is no target.
Well-defined	●	The measure is clear and easily understood (albeit that the measured processing time of locally-managed schemes commences when the form is submitted, rather than the claimant's perspective of when the Department is notified).
Comparable	●	Comparable to prior periods — less comparable between schemes as different targets are used.
Reliable	●	Data collection processes could be more consistent in relation to measurement of the duration of waiting time for locally managed schemes.
Timely	●	Results are available on a weekly basis, providing timely performance feedback to scheme management.
Verifiable	●	The underlying evidence can be reviewed and validated, so is verifiable.

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

Key: ● Measure used displays the required characteristic.
● Opportunity for improvement.

- 13.29** The Department does not currently monitor the cost of claim processing by type of activity. This information could highlight variances between schemes/offices and may help to identify opportunities for efficiency improvements.

Recommendation 13.1

The Department should develop systems to monitor the cost of each claim processing stage, to identify opportunities for efficiency improvement.

Accounting Officer's response

Agreed.

The Department accepts that unit cost information would enhance its ability to manage its business operations and, for this reason, specifically set out its intentions to develop a management/cost accounting system in its *Statement of Strategy (SoS)*. The development of this capability will be linked to the migration of its financial accounting systems to the shared financial management system being developed across the Civil Service.

In order to plan for and design a management accounting capability, the Department tendered for external advisory support and has recently selected a preferred bidder. A contract is to be finalised imminently and it is expected that a design and implementation plan will be completed by Q4 2019/Q1 2020.

- 13.30** In recent years, the Department has reported significant progress in reducing the time to award applications for schemes with the longest waiting time for a decision. In 2018, the Department exceeded, or was close to reaching, the target volume of claims to be processed within specified processing time standards for most schemes. However, the average waiting time to award a claim can obscure significantly greater waiting times experienced by a minority of claims where eligibility is more difficult to conclude upon.

Recommendation 13.2

The Department should develop a process to identify the reasons for delays in deciding a claim where time taken materially exceeded the average time for that scheme.

Accounting Officer's response

Agreed.

Processing performance is already reviewed on a regular basis at all levels in the management chain and variances in performance within and between schemes is noted and questioned. In addition, scheme areas within the Department further monitor the performance of individual steps in the decision making process.

In order to further enhance visibility of claim processing in a timely manner across all schemes, a web-based performance reporting system is currently in development and will be rolled out across all scheme areas by the end of Q2 2020.

- 13.31** Most claim processing time standards have not changed since 2009.

Recommendation 13.3

The Department should establish a formal process for the periodic review of current processing time standards for each scheme.

Accounting Officer's response

Agreed.

Processing times across schemes are kept under ongoing review by scheme owners in the first instance and, secondly, by the Management Board in the Department which reviews performance on a monthly basis.

While performance standards are regularly reviewed based on actual performance, it is accepted that it would be beneficial to institute a formal review of targets as part of the annual Business Planning and Risk Management process and this will be instituted in 2020.

It should be noted that, in this context, a range of variables are kept under review which could lead to increases or decreases in targets. These take account of variations in scheme claim numbers, available resources and the complexity of conditionality.

- 13.32** The claim rejection rate exceeded 20% on a number of schemes in 2018, and was over 40% of disability allowance claims. This may indicate a need to provide better information to claimants on scheme qualification criteria.

Recommendation 13.4

The Department should establish a process of reviewing schemes where the claim rejection rate is high to identify common reasons for rejection.

Accounting Officer's response

Agreed.

The Department is committed, as far as practicable, to ensuring the highest possible quality of its decisions and minimising the level of unnecessary/incorrect rejections of client claims. Towards this end, it has established a Decisions Advisory Office, headed at Principal level. The Decisions Advisory Office supports line sections in seeking to ensure that decisions made on social welfare claims are consistent and of good quality and that customers are notified of decisions in a form which is clear and understandable. This Division also undertakes a liaison function with the Ombudsman's Office and has a liaison role with the Chief Appeals Office.

Reasons for rejection of claims are recorded and relate, in the main, to failure of the claimant to prove eligibility based on means, social insurance contributions, residency etc. Other reasons include Departmental error or incomplete/insufficient information being submitted by the claimant.

The extent of and causes of Departmental error are evaluated in the control surveys conducted annually and published by the Department.¹ Incorrect decisions are also subject to review by the Chief Appeals Officer and her annual report contains case studies that illustrate both common and unusual situations giving rise to appeals.

¹ Chapter 12 of this report provides information on the findings of recent control surveys.

Annex 13A Characteristics of good performance indicators

Effective performance management requires three key aspects

- a framework of performance measures (indicators) that link inputs, outputs and outcomes
- reporting of accurate, valid¹ and complete performance information that provides context, sound analysis and insight
- using performance information to base decisions on the best available evidence.

In an optimised system, the performance management framework produces leading (as opposed to lagging) indicators, reports give insight into what has influenced performance as well as describing performance against targets, and there is a feedback mechanism to alter the framework to reflect changing business needs. The cost of developing and maintaining a performance measure should be justified by the benefits of reporting it. Characteristics of good performance indicators are shown in Figure 13A.1.

Figure 13A.1 Characteristics of good performance indicators

Characteristic	Description
Relevant	Measure addresses achievement of a core performance objective
Attributable	Department has the ability to influence results of activity
Avoids perverse incentives	Use of the measure is unlikely to lead to a perverse outcome
Well defined	Measure is easily understood and consistent, and measures what is intended
Comparable	Measure should be capable of being compared e.g. to past periods or between similar departments
Reliable	There are stable and consistent data collection processes across collection points and over time
Timely	Measure is produced frequently and quickly enough to track progress and for it to be useful
Verifiable	The process by which recorded activity can be validated

¹ Information validity refers to the information being recorded and used in compliance with rules and definitions.

Source: Office of the Comptroller and Auditor General

14 Customer service — development of income support application forms

- 14.1** Minimising the difficulty of the application process is key to the delivery of good customer service to applicants for income support, and to ensure the correct outcome for each application. An application form should request the information that is necessary to process the claim without reverting to the applicant — this should reduce the time and cost required, both for the processor and for the applicant.
- 14.2** The Department of Employment Affairs and Social Protection (the Department) is responsible for managing income support schemes and the application process for each scheme. This chapter examines how the Department develops application forms for schemes, in paper-based and online format.

Overview of customer service provision

- 14.3** The role of the Department's Communications and Customer Service Unit (CCSU) is to improve service for claimants and staff, including the provision of general information to claimants and management of the Department's website, coordinating the Department's customer charter and action plan, developing customer service policy and managing the Department's comments and complaints system.¹ It also includes the development and revision of paper-based application forms.

The development of scheme application forms

- 14.4** The development of application forms for schemes presents many opportunities and challenges including
- keeping up with changes to legislation (for example the General Data Protection Regulation (GDPR)) and scheme conditions
 - increasing opportunities and demands for online application for social protection schemes, as is being achieved in other jurisdictions
 - increasing diversity in the first language of applicants
 - supporting applicants who have special needs, including being deaf, visually impaired or having literacy and numeracy difficulties.
- 14.5** Responsibility for the development of forms lies with
- the CCSU for the development of paper-based application forms — three staff have responsibility for form development
 - the Digital Services Division for the development of online services and application forms, in addition to responsibility for the MyWelfare.ie website and other roles — twelve staff work in this Division.

¹ The 2016 – 2018 customer charter and action plan was adopted in October 2016. An interim plan is in place for 2019, pending the adoption of a revised customer contact strategy.

14.6 Currently, forms are available only in Irish and English. The provision of interpretation services is managed by the Department’s Translations and Interpretive Services Unit, including the provision of information in alternative formats such as braille.¹ The Department is working to increase the number of languages in which it provides customer information, and work is underway to translate three customer booklets which are already available in Irish and English² (Families and Children; Illness, Disability and Caring; and Older People) into six other languages (Polish, Lithuanian, Romanian, Latvian, Portuguese and Spanish) selected on the basis of 2016 census of population results.

Application process

14.7 The Department provides 86 main scheme and service application forms in both Irish and English. A person may apply for an income-support scheme by

- completing a paper-based form available in or from any office of the Department,
- printing a form available on the Department’s website and submitting the completed form, or
- (where the option is available) applying online on the Department’s website.

14.8 In the first two cases, the form is submitted by post or in person to an office of the Department, forwarded to the relevant scheme administration and processed when it is received — form details are uploaded (using optical character recognition (OCR) software) or transcribed.³

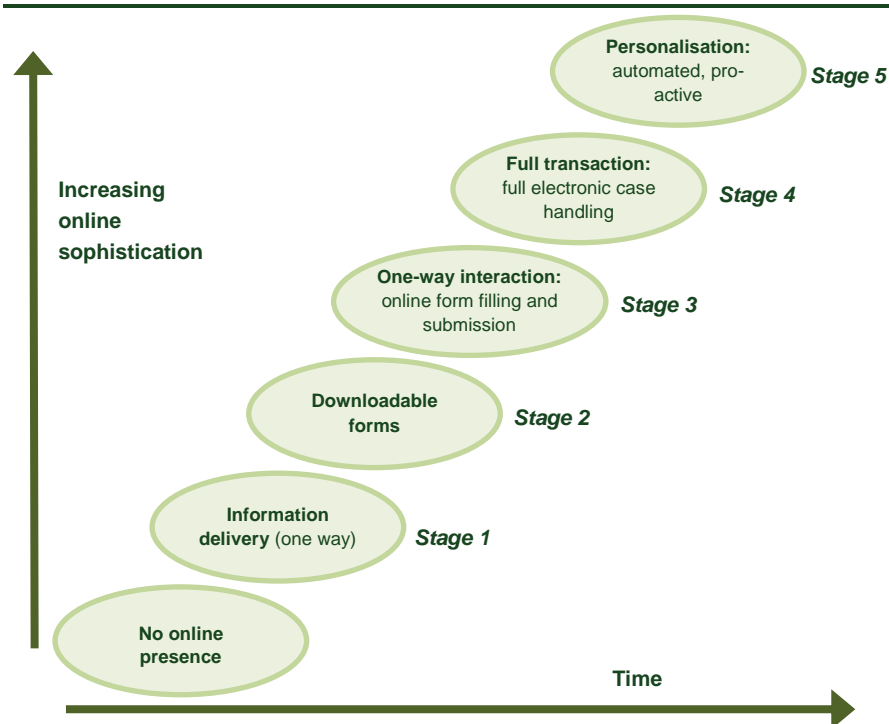
14.9 Figure 14.1 shows a model of levels of sophistication of online service delivery. Stages 1 and 2 focus on providing information and making forms available — stages 3, 4 and 5 allow online interaction or transactions.

1 The Department provides a multilingual translation service (including sign language, interpreters and the production of alternative formats) for customers who require assistance in accessing important information and in making applications to the Department.

2 The English language booklets have been prepared in plain English as approved by the National Adult Literacy Agency (NALA).

3 When a paper-based application is received, the contents of the form may be processed using OCR software to transfer those details to the Department’s system. Schemes managed on the Department’s BOMI system can accept OCR-enabled forms — manual intervention (by an operator reviewing the form) is required where the details are not clear. Schemes managed on the ISTS system cannot accept OCR forms, so the forms are read, with details transcribed onto the system by an operator.

Figure 14.1 Levels of sophistication of online service delivery



Source: Office of the Comptroller and Auditor General

- 14.10** The Department's MyWelfare.ie website provides a facility for a claimant to make an online application, with details entered electronically. The data entered is automatically transferred to the relevant scheme administration. However, only a limited number of schemes may currently be applied for online (see Figure 14.2).

Figure 14.2 Application methods for main schemes

Scheme	Paper-based application	Forms using OCR software	Online application
Vote funded schemes			
Jobseeker's allowance	●		●
Back to work enterprise allowance	●		
Carer's allowance	●	●	
Child benefit	●		●
Disability allowance	●	●	
State pension (non-contributory)	●	●	
One-parent family payment	●		
Working family payment	●	●	
Rent supplement	●		
Supplementary welfare allowance	●		
Farm assist	●		
Back to school clothing and footwear allowance scheme	●		●
Social Insurance funded schemes			
State pension (contributory)	●	●	
Survivor's contributory pension	●	●	
Invalidity pension	●	●	
Illness benefit	●	●	
Jobseeker's benefit (same form as allowance)	●		●
Household benefits package	●	●	
Maternity/paternity benefit	●		●

Source: Department of Employment Affairs and Social Protection. Analysis by the Office of the Comptroller and Auditor General.

Key: ● Indicates the application method is available.

Form design good practice

- 14.11** Figure 14.3 sets out good practice principles for the design of application forms in public sector entities, compiled based on a review of how UK government agencies interact with citizens.
- 14.12** The Department of Public Expenditure and Reform has published guidance for the public service on the use of plain language, for more effective communication.¹ This examination reviewed five key paper-based application forms to assess their compliance with the guidance issued by the Department of Public Expenditure and Reform — findings are shown in Figure 14.4 (overleaf).

Figure 14.3 Good practice principles for the design of application forms

Overall approach	<ul style="list-style-type: none"> ▪ agencies should aim to minimise the compliance burden which their forms impose on citizens ▪ accessibility and ease-of-use of major forms should be revised at least once every three to five years ▪ forms should be re-engineered where there are persistent indications of citizens having difficulty completing them, or complaining that they are too long, complex or onerous ▪ agencies should aim to reduce the time taken to deliver major improvement — focus groups may be more effective than lengthy pilot testing of forms ▪ citizens should not have to re-communicate information about themselves that was previously supplied ▪ administrative practices should be simplified where possible
Detailed form design	<ul style="list-style-type: none"> ▪ assess the degree of difficulty involved in completing each form ▪ keep forms as short as possible, in terms of the number of pages and number of questions ▪ tailor forms for large groups of users — question sequences should put issues relevant for the largest number of people first, rather than scattering them throughout the form amongst questions relevant for very few users ▪ different groups of forms users should never be in any doubt about which sections they need to fill in, with sections relevant for different groups well signposted ▪ it is counter-productive to start forms with long preamble texts or to include questions which can only be understood by referring to a guidance booklet ▪ technical or unusual vocabulary should be avoided ▪ forms should always end with clear 'What to do now' sections including checklists of other elements, such as photos, documents or fees, that must be sent in

¹ The guidance was developed with the assistance of the National Adult Literacy Agency (NALA).

Figure 14.4 Compliance of social protection paper-based application forms with good design guidance

Good design criteria		Jobseeker's allowance or benefit	Disability allowance	Child benefit	Carer's allowance	State pension (non-contributory)
Last update		November 2018	May 2018	May 2018	June 2018	March 2019
Size	Number of pages	8	36	16	36	20
Language, punctuation and grammar	Does the form use 'you' and 'we', where possible?	●	●	●	●	●
	Are most questions in the active voice?	●	●	●	●	●
	Are questions written clearly and unambiguously?	●	●	●	●	●
	Does the form define any specialised terms or abbreviations clearly?	●	●	●	●	●
	Does the form avoid Latin and French phrases and Latin abbreviations?	●	●	●	●	●
	Are questions punctuated correctly?	●	●	●	●	●
	Do similar questions use similar words and punctuation?	●	●	●	●	●
	Do questions use the simplest verb tense possible?	●	●	●	●	●
Structure	Does the form include clear instructions ideally at the start?	●	●	●	●	●
	Are 'official use only' sections, if any, near the end of the form?	●	●	No such section	No such section	No such section
	Does the form ask questions in a logical order?	●	●	●	●	●
	Does it avoid unnecessary or repeated questions?	●	●	●	●	●
	Does it group similar questions together under useful headings?	●	●	●	●	●
	Does it keep numbering as simple as possible?	●	●	●	●	●
Page design	Does it avoid underlining, groups of italics and unnecessary capital letters?	●	●	●	●	●
	Does the form use a typeface (font) that is easy to read?	●	●	●	●	●
	Is it clear where to give answers?	●	●	●	●	●
	Is there enough space for answers?	●	●	●	●	●
	Does the form use tick-the-box questions where possible?	●	●	●	●	●

Source: Good design criteria: Department of Public Expenditure and Reform. Analysis by the Office of the Comptroller and Auditor General.

Key: ● Criteria met.
● Criteria not met.

14.13 In general, the forms complied with the Department of Public Expenditure and Reform's guidance. A number of points may be noted arising from this review of the forms.

- The forms are generally quite lengthy, with 36 pages each in the forms for disability allowance and carer's allowance. However, the information sought was necessary to complete an assessment for the claim. Some claimants may be able to skip sections of application forms — for example, if the applicant does not have a spouse, civil partner or cohabitant, they can skip more than six pages (sections 7 and 8) of the disability allowance form. Skipping unnecessary sections is potentially easier in interactive online forms.
- The language, punctuation and grammar used in all the forms conformed to the guidance. The only exception noted was on the disability allowance form, where it was not clear what 'weekly amount' was to be stated (see Exhibit A in Figure 14.5).
- Good page design makes forms easier to read and understand — the forms reviewed generally conformed to the guidance. Potential barriers to easy reading noted included text being predominantly bold font on sections of the carer's allowance and disability allowance forms (Exhibit B in Figure 14.5).
- An area of difficulty on some forms is in the form structure, where issues noted include
 - on the Disability Allowance form, numbering/sequencing of sections requires claimants to go back and forth through the form to complete it (see Exhibit C Figure 14.5).
 - on the Jobseekers form, details relating to the Ireland/UK common travel area are required to satisfy the habitual residence condition — question 1 looks for current address details and the length of time living there, question 7 looks for details on locations lived in over the last two years that are outside the common travel area and question 11 requires details (tick box) on countries lived in that are inside the common travel area.

Figure 14.5 Extracts from application forms

Exhibit A — it is unclear what weekly amount is referred to

Fuel Allowance

This allowance is subject to your household composition. Only one person in a household can get this allowance.

35. Do you wish to apply for a Fuel Allowance?

Yes No

If 'No', please go to Part 7.
 If 'Yes', please complete fully the remainder of this section. Do not leave any question blank. If no income, please enter 0 in each box.

36. The following people live with me:

Person 1

Surname:

First name(s):

PPS No.:

Are they: Employed Self-employed (including farming)

If so, state weekly amount: € , , a week

Are they: In receipt of a social welfare payment Other

If in receipt of a social welfare payment or other, please give details in the space provided:

Weekly amount: € , , a week

Page 11

Exhibit B — page design — hard to read

Part 9
Checklist

Have you enclosed the following?

Tick (✓)	Checklist
	Have you signed the Declaration in Part 1?
	If you were born, married or entered a civil partnership or union outside the Republic of Ireland, have you enclosed your birth certificate, your marriage certificate or civil partnership or union registration certificate, the birth certificate of a spouse, civil partner or cohabitant (if any) and your children's (if any) birth certificate(s) if you are not getting Child Benefit for them?
	If the cared for person stays overnight in a Care Facility/Centre, have you enclosed a letter of confirmation from the Care Facility/Centre?
	If you or a spouse, civil partner or cohabitant are working, have you enclosed your latest payslip(s)?
	If you intend to be working outside your home while getting the allowance, have you enclosed a letter from your employer showing the number of hours you will be working and the date the hours were or will be reduced to 15 or less a week?
	If you are engaged on an Education or Training course, have you enclosed a letter from the Training Provider showing that the number of hours you will be engaged on the course outside your home is or will be 15 hours a week or less?

Exhibit C — structure of form could be improved

If you have a spouse, civil partner or cohabitant:

Fill in Part 1 to 8 and 10. You should sign Part 11 confirming that you allow your doctor to give us the medical information needed to decide if you qualify for Disability Allowance. When form is completed, read Part 9 and sign declaration in Part 1.

CCSU procedures for form development and review

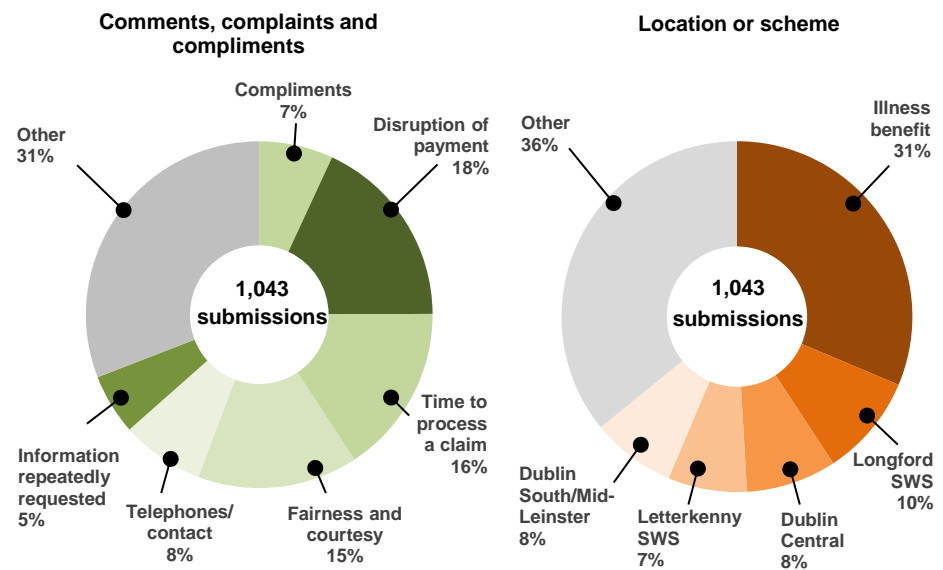
Consultation with stakeholders

- 14.14** The CCSU manage a customer representative group established to engage with stakeholders, to advise on issues arising and to inform it of developments.¹
- 14.15** There are 53 invited representation bodies, with 80 individuals (some bodies have more than one person invited). The group meets quarterly.² In 2018, between 5 and 12 bodies were represented at each meeting.
- 14.16** The issues addressed in meetings of the representation group during 2018 included
 - MyWelfare.ie website (March 2018)
 - Pensions — Total Contribution Approach (June 2018)
 - Medical Review and Assessment Service (June 2018)
 - Illness Benefit — new certificates and procedures (September and December 2018) following scheme launch in August 2018
 - Impact of Budget 2019 (December 2018).

Monitoring service provision

- 14.17** To monitor the provision of customer service, a monthly report is produced for management, detailing
 - telephone enquiries and response statistics
 - website and social media engagement
 - customer feedback (see Figure 14.6).

Figure 14.6 Customer feedback for January to July 2019



1 The Department also engages with a range of other stakeholder groups including with the community and voluntary pillar (meeting twice per year), an annual Social Inclusion Forum, an annual Pre-Budget Forum and on issues of concern to other stakeholder groups on an ad-hoc basis.

2 Less formal arrangements existed prior to 2018.

- 14.18** The Department stated that it uses a range of best practice guidance for customer communications and form design, including Department of Public Expenditure and Reform Universal Design Toolkit and NALA guidelines, and that it works with NALA on an ongoing basis to ensure that customer communications are developed in line with NALA plain English standards, and that they are awarded the NALA plain English mark where possible.
- 14.19** The CCSU has developed standards for form design, establishing principles for paper-based application form design
- clear layout and simple language
 - forms will not request information already held by the Department
 - forms should not be designed to cater for every likely event
 - forms will facilitate automated processing.
- 14.20** The guidance also proposes standard page elements to provide a consistent look and feel for customers. The Department stated that it is continuing its work to ensure greater consistency across all forms — with standardisation of questions and sections, and with standard checklists and information provided across all forms.
- 14.21** Certain correspondence with claimants is also pre-populated (such as continuing entitlement to child benefit and pension benefits).
- 14.22** The CCSU also publishes a guide for internal business units on the language to be used on forms — to make the layout and use of language (and terms) as consistent as possible, in line with NALA recommendations. The CCSU has also produced five NALA-approved guides for claimants.¹
- 14.23** The CCSU has also engaged with representative bodies during the development of some application forms. For example, in July 2018, the Department published a redesigned Carer's Allowance form, developed in consultation with a representative group (Family Carers Ireland). The Department stated that the form had been designed in a more user-friendly way for carers and also to contribute to reduced claim processing times.

Online scheme application

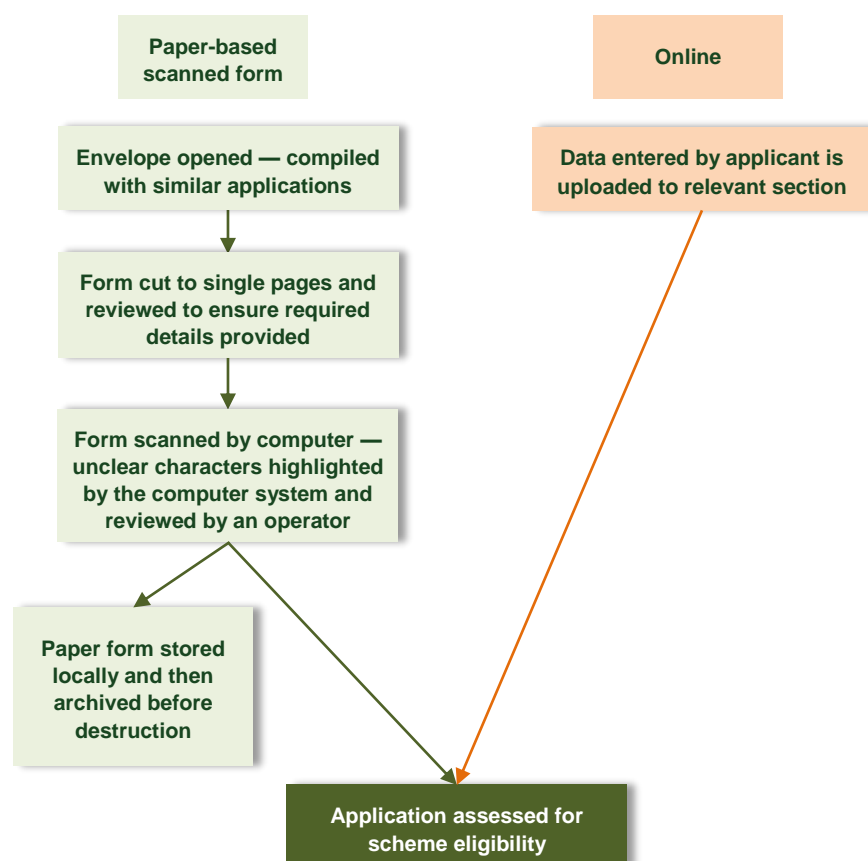
- 14.24** The Department's Digital Services Channel Strategy, published in 2018, sets out the objectives and the principles for the development of online services in the Department — a key tenet of the strategy is to encourage the take-up of online services by customers on a 'digital by desire' basis. Online applications for a small number of schemes are one of the services currently available on MyWelfare.ie. While not suitable for all claimants, an online facility for scheme applications has many benefits for applicants and the Department including
- potential for improved customer service, 24 hours a day, 7 days a week
 - meet customer demand for intuitive online services
 - ability to cater for an increasing number of customers
 - efficiency improvement.

¹ The guides are *A Plain English Guide to Our Schemes and Services for Families and Children* (April 2018), *A Plain English Guide to Our Schemes and Services for Illness and Disability* (September 2018), *A Plain English Guide to Our Schemes and Services for Older and Retired Persons* (October 2018), *A Plain English Mark Employers Guide* (August 2019) and *A Plain English Mark Jobseekers Guide* (September 2019).

14.25 Figure 14.7 compares, from the Department’s perspective, the processing of paper-based applications (for example illness benefit¹) and online applications. Key points to note are

- The illness benefit section also process applications for injury benefit, partial capacity and back to education schemes² — several thousand forms may be received each day.
- Some paper forms have missing details (including instances of names and addresses missing) — the online process guides an applicant to provide all required information, before an application can be submitted.
- Where handwriting on paper forms is illegible, it may be necessary to revert to the applicant to confirm details.

Figure 14.7 Comparison of online and paper-based application processes



1 Illness benefit is currently a paper-based application only.

2 Back to education scheme applications are processed for claimants already on an illness benefit or related scheme.

Source: Department of Employment Affairs and Social Protection

- 14.26** An online application may be submitted through the MyWelfare.ie website, requiring a verified MyGovID account which in turn requires the applicant to have a Public Services Card. The MyWelfare.ie website also allows applications for
- creating and amending appointments for a Public Services Card or a Personal Public Service Number (nearly 300,000 requests in 2018)
 - a review of contributory State pension entitlements (see case study below)
 - a payments or contributions statement (over 52,000 requests in 2018)
 - to close a jobseeker's benefit claim or request payment continuation during a holiday period (up to two weeks each year)
 - a pension recalculation for pensions awarded after September 2012 (launched in January 2019).

Figure 14.8 Case study — Review of contributory State pensions

A 2018 Government decision required a review of contributory State pensions awarded on or after September 2012. The Department developed an online facility to allow claimants to apply for a review via MyWelfare.ie and to provide information to the Department. The service was launched in January 2019. Almost 8,500 customers had submitted online applications by the end of August 2019. A further 10,400 applications did not use the online facility.

When developing the online facility, the Department met a sample of customers and conducted four days of online service development. Changes implemented included

- to allow claimants use miles or kilometres where distance information was requested
- providing claimants with an electronic copy of information submitted.

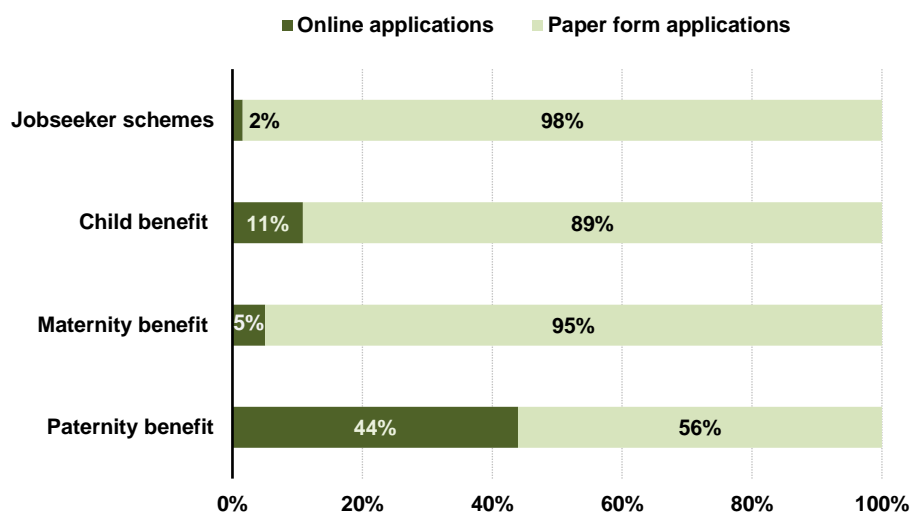
The Department stated that by speaking with customers and working collaboratively with them in the development of services, it is placing itself in the best position possible to deliver quality services which will benefit the customer and the organisation.

Source: Department of Employment Affairs and Social Protection

Utilisation of online facilities by applicants

- 14.27** The Department currently has a limited number of schemes with an online application option. Figure 14.9 shows details of online and paper-form submission rates for the four schemes with an online application facility in 2018.

Figure 14.9 Rate of online applications in 2018



Source: Department of Employment Affairs and Social Protection

- 14.28** International comparisons show significantly higher rates of online application. In some cases, application online is mandatory. For example, all scheme applications for universal credit in the UK must be made online.¹

Conclusion

- 14.29** Accurate and timely collection of relevant information is required to ensure speedy determination of claims for income support and minimisation of associated administration costs.
- 14.30** Good practice principles exist to guide public bodies in the design of forms. These principles apply equally to paper-based or hard-copy forms and to the design of online interactive forms. The Department of Public Expenditure and Reform has developed a practical checklist to assist public bodies to self-audit the forms they rely on.
- 14.31** The Department of Employment Affairs and Social Protection relies on an extensive suite of hard-copy information gathering forms. Based on examination of a sample, the forms it relies on conform well with the Department of Public Expenditure and Reform design checklist requirements. The Department makes extensive use of scanning technology to 'read' certain paper forms but this continues to require extensive manual intervention.

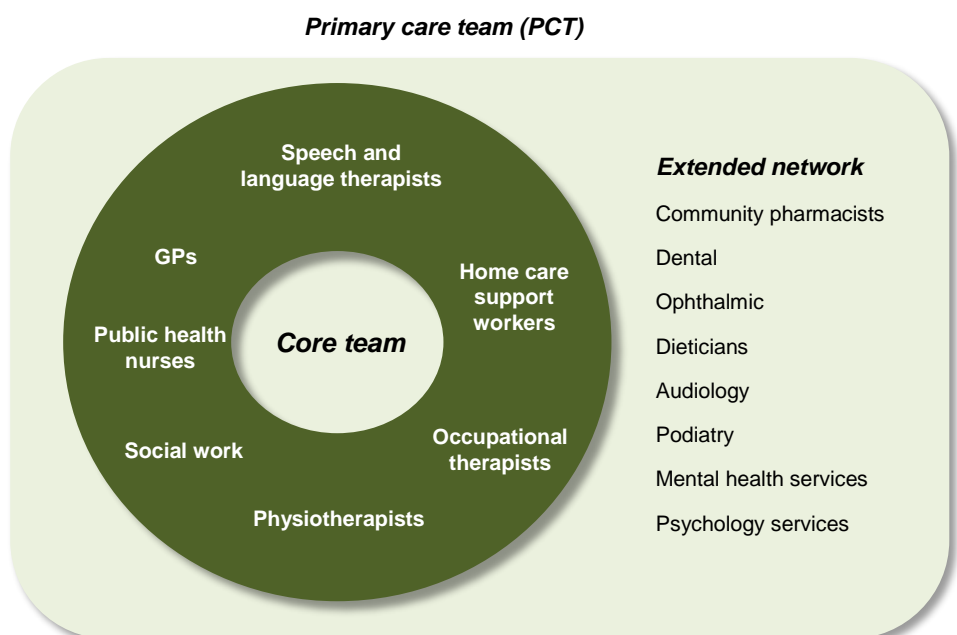
¹ The universal credit replaced a range of benefits — income-based jobseeker's allowance, income-related employment and support allowance, income support, working tax credit, child tax credit and housing benefit.

- 14.32** Online submission and collection of relevant information has the potential to increase accuracy and improve administrative efficiency. However, very few of the Department's schemes are set up for online application and/or automated checking and processing. Where this is available, the Department applies a 'digital by desire' approach i.e. online application is a choice for claimants, and not mandatory as in other jurisdictions. There is widely variable take-up of the online application options.
- 14.33** Overall, there appears to be significant scope for further development and roll out of online claim application options.

15 Development of primary care centres

- 15.1** Primary care involves the promotion of healthy lifestyles and keeping people well, delivering health care at the lowest level of complexity and as close as possible to where people live, and providing person-centred care based on assessed need and through multidisciplinary working. The primary care setting is considered the appropriate setting to meet the majority of health and social services needs with the potential to prevent development of conditions that might later require hospitalisation, and facilitation of earlier discharge from hospital.
- 15.2** Since 2001, a key strategic priority of the Department of Health (the Department) has been the strengthening of the primary care system in Ireland in order to provide
- a system that is the first and ongoing point of contact for people within the health care system
 - integrated, inter-disciplinary, high quality, team-based and user-friendly services
 - enhanced capacity in the areas of disease prevention, rehabilitation and personal social services.¹
- 15.3** The model of primary care envisaged in the strategy included provision of a national network of primary care centres (PCCs) each accommodating one or more core primary care teams (PCTs) supported by a wider network of health and social care professionals, collectively providing services to meet the needs of the local population (see Figure 15.1). Services provided include health promotion, screening for disease, assessment, diagnosis, treatment and rehabilitation, and personal and social services. Primary care services available within PCCs are provided in the main by both contracted providers, such as GPs, and by employees of the Health Service Executive (HSE).

Figure 15.1 Primary care model



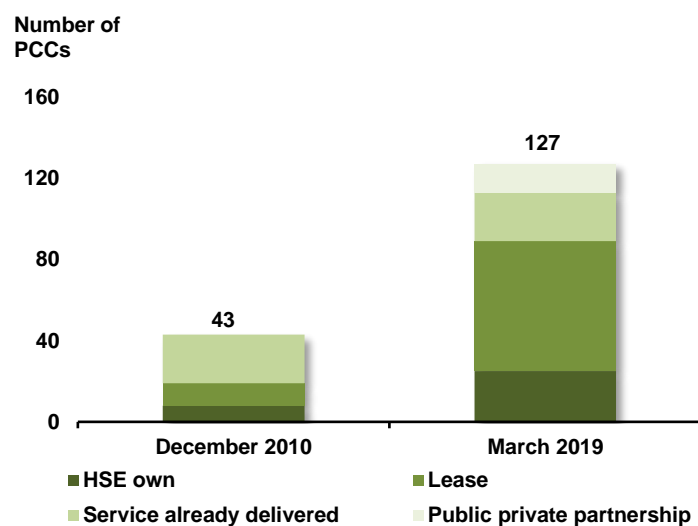
¹ *Primary Care: A New Direction*, Department of Health, 2001.

- 15.4** The 2001 strategy noted that modern, well equipped, accessible premises would be central to the effective functioning of the PCT and extended primary care network. While it was accepted that for practical purposes, PCTs would likely operate out of more than one premises in the short term, a key longer term objective was the development of locally accessible PCCs that would allow the services to be delivered from a single site in a community, providing a single point of access for users and facilitating closer co-ordination between health care professionals. The existing network of community health centres was not considered adequate to serve this purpose.
- 15.5** The development of PCCs and PCTs was previously reported on in 2010 (the 2010 report).¹ This examination has been carried out to assess and report on the progress made by the Department and the HSE since 2010.

Data collection

- 15.6** The examination team sought information on the number of operational PCCs along with the cost, the size, the number of staff and the services provided in each one. This information was not readily available and had to be collated by the Department and by a number of areas within the HSE — HSE estates, HSE primary care operations team and each of the HSE's nine community healthcare organisations (CHOs).²
- 15.7** Information on the PCCs operational as at the end of March 2019 was initially provided by HSE estates in May 2019. Over the course of the examination, the HSE provided revised data on three separate occasions. The examination team noted that in some cases, data such as the size of the facility, the delivery mechanism, the annual rental charge, the term of lease agreements, and the name of the facility were amended in the revisions provided.
- 15.8** The listing provided by HSE estates stated that there were 127 operational PCCs as at March 2019. This listing included 43 PCCs considered operational at the end of December 2010. This did not agree to the information previously provided by the HSE for the 2010 report, which states that just 24 PCCs were in operation at end December 2010 (see Figure 15.2).

Figure 15.2 Operational PCCs, December 2010 and March 2019



Source: HSE estates

¹ Chapter 43 Primary Care Teams and Chapter 44 Development of Primary Care Centres, *Report on the Accounts of the Public Services 2010*.

² Each CHO covers a geographical region as set out in Annex 15A.

- 15.9** The HSE has stated that, subsequent to the 2010 report, it identified a number of locations where PCCs were already effectively in existence, or where the provision of primary care services was considered adequate and did not need to be altered.¹ This resulted in the re-classification of some existing HSE facilities as 'service already delivered' PCCs with operational commencement dates ranging from 1998 to 2010.
- 15.10** The examination team noted that the 127 operational PCCs recorded by the HSE in 2019 include
- stand-alone purpose built facilities
 - former health centres from which primary care services are provided
 - PCCs co-located on integrated healthcare campuses such as community hospitals, and
 - leased accommodation in a variety of buildings such as office blocks or retail spaces.
- 15.11** There is currently no definition of a PCC. The HSE stated that they now consider a PCC to be *'any premises in which multi-disciplinary primary care service providers deliver integrated services from a single site and provide a single point of access for an individual to locally available primary care services'*.
- 15.12** The Department has stated that the categorisation of an individual facility as a PCC is a matter for the HSE, and accepts the HSE definition. However, the Department considers such a facility need not be used exclusively for such purposes and it could be on a stand-alone site or co-located with other health or public service facilities. As a result, there can be variation in the nature of PCCs and the range of services that may be delivered from a particular site.
- 15.13** The Department also stated that PCCs have evolved over time and are continuing to evolve. In particular, there is now more focus on the potential for PCCs to go beyond delivering core primary care services to support a wider range of community services such as mental health services, services for older people or disability services.
- 15.14** In addition, the Department noted that under the Sláintecare action plan a review of PCCs is underway.² This will help gain a better understanding of the current utilisation of PCCs at a service level, but it should also serve as an opportunity to review the characteristics of these facilities to identify the most effective service models and associated facility characteristics.

¹ These locations were identified during a needs assessment of accommodation for PCTs carried out by the HSE in 2011. This process is examined in more detail later in the chapter.

² *Sláintecare Action Plan 2019*, Department of Health.

Prioritisation of PCCs for development

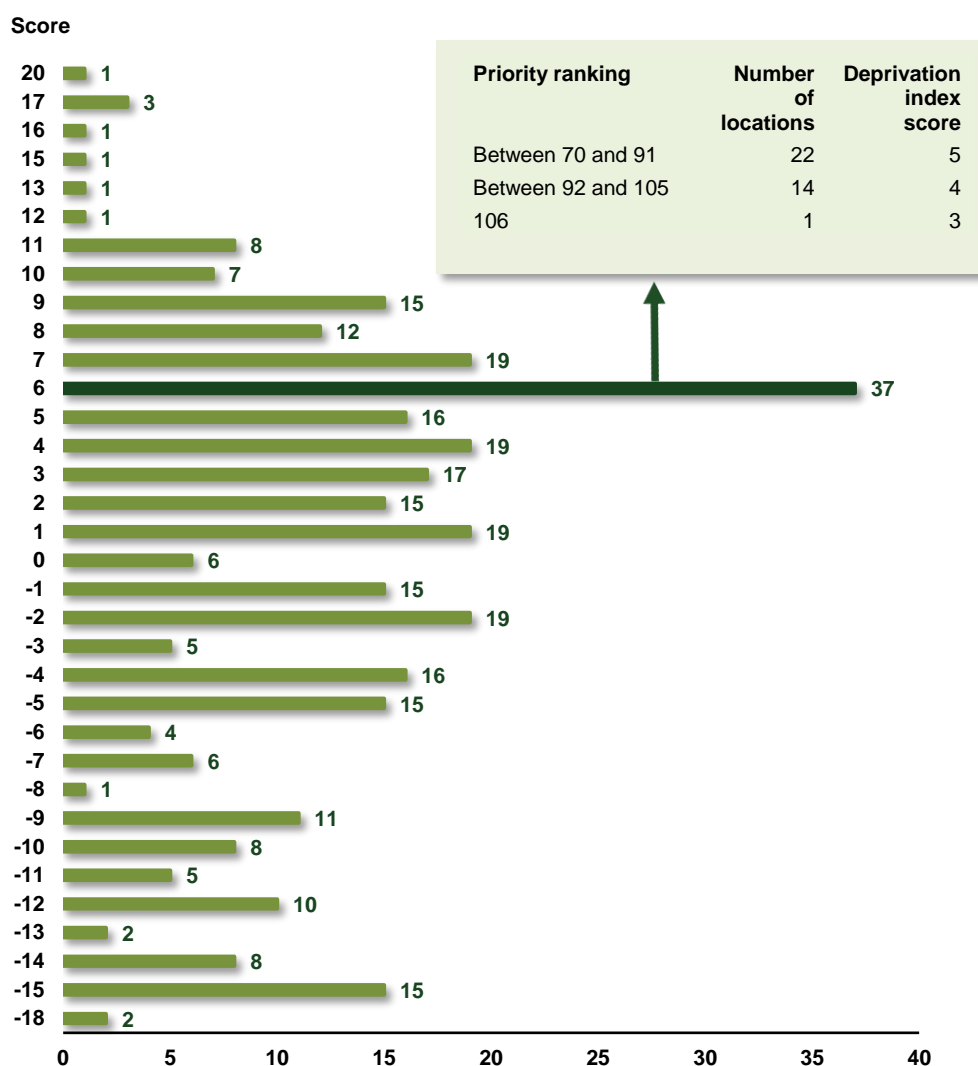
- 15.15** In late 2011, the HSE undertook an assessment of the current and future primary care accommodation needs. The assessment report noted that the primary care accommodation portfolio was aged and not designed for a multi-disciplinary ‘one-stop shop’ approach to primary care, and that investment would be required across the country to develop the infrastructure to support PCTs. It also noted that the absence of appropriate accommodation was a significant impediment to progressing PCTs in many locations with PCTs being accommodated in several different locations in a community and often in substandard accommodation.
- 15.16** The assessment involved the completion of a national accommodation schedule by each HSE integrated service area/local health office in conjunction with local HSE estate offices. Each local office was tasked with considering
- the appropriateness of existing accommodation and reasons if current accommodation is not appropriate
 - the availability of HSE lands for development of PCCs
 - current plans for procuring PCCs where they are at a very advanced stage
 - the future needs such as projected population growth and GP numbers to ensure the PCCs would be fit for purpose for the foreseeable future.
- 15.17** The assessment identified a total of 499 core PCTs and 336 PCC areas and concluded that
- 415 PCTs were in need of accommodation within 297 PCCs.
 - 55 PCTs were already accommodated in 39 new PCCs.
 - 29 PCTs were not in need of accommodation as it was determined that the procurement of a separate centre was not justifiable. For example, locations that were considered either too rural or too close to another main centre to justify a new centre.
- 15.18** The report estimated the approximate cost of delivering the 297 centres to be in the region of €1.3 billion (2011 prices). On foot of the assessment, a national prioritisation of PCC locations was carried out in 2012, by the HSE in consultation with the Department, based on
- **service need** — each area manager was requested to rate the requirement to develop a PCC against competing priorities in their area
 - **infrastructural need** — HSE estates provided a rating based on the space allocated to the PCT in their current location, the co-location of services, and the age and quality of the existing building
 - **deprivation** — based on regional deprivation indices using the Haase and Pratschke model.¹
- 15.19** The methodology used by the HSE in scoring the PCC locations is outlined in Annex 15B. The scores assigned to the locations ranged from 20 to minus 18. From this, the HSE compiled a ranked listing in order of prioritisation of 340 PCC locations, that included both locations already operational at the time the ranking exercise was carried out and future planned locations. The complete ranked listing is attached at Annex 15C.

¹ Irish Deprivation Measures, (HP Index), developed by Trutz Haase and Jonathan Pratschke, is funded by Pobal and published at <https://maps.pobal.ie>.

15.20 As a result of the way in which the assessment scores worked, multiple PCC locations achieved the same scores (see Figure 15.3). The HSE stated that where locations had equal scores, their rankings were then based on the deprivation index score. However, a number of locations that achieved the same overall score also had the same deprivation index score. It is not clear how the final rankings for these locations were ultimately determined by the HSE.

15.21 There has been no further strategic review of PCT accommodation requirements since 2012. The HSE stated that any reconfigurations, amalgamations and new locations identified since the rankings were produced have been done locally, and that the needs of the local communities are also considered and taken into account in each PCC development delivered.

Figure 15.3 Number of PCC locations by score



Source: Analysis by Office of the Comptroller and Auditor General of the HSE's 2012 national ranking

Status of delivery of PCCs

- 15.22** Information on the delivery of PCCs is provided by the HSE to the Department on a quarterly basis. The examination noted that the costs associated with each potential PCC, capital or revenue, are not included in these reports.
- 15.23** Using the March 2019 update to the Department (the March 2019 report), the examination team sought to establish what progress has been made in delivering the ranked PCCs. The March 2019 report sets out information for 351 PCCs — 340 from the 2012 ranked listing, plus a further 11 PCCs that were not included on the initial listing. Further details of these PCCs are set out in Annex 15C.
- 15.24** In comparing the March 2019 report to the information obtained from HSE estates, the examination team noted the following discrepancies
- the March report included Rathfarnham PCC as an operational PCC although it had been disposed of in August 2018
 - the March report included a single operational PCC servicing the Ballyshannon/Bundoran area, whereas information from HSE estates had included two separate operational PCCs — one in Ballyshannon and another in Bundoran
 - the ranking priority for those PCCs ranked 172 and below has changed since the 2012 ranking exercise, but it was unclear as to what had given rise to the re-prioritisation.
- 15.25** Around 64% or 223 of the PCCs listed in the March report are not yet operational.¹ Further details of the classifications assigned to the non-operational PCCs are set out in Figure 15.4.

Figure 15.4 Department of Health status classification of non-operational PCCs at March 2019

Status classification	Description	Number of PCCs
No classification	No classification assigned to the PCC	142
Early planning	Sites where the HSE has signed/issued a letter of intent for the project. This means that the HSE has selected a preferred developer based on submissions received following a call for expressions of interest for particular locations.	45
Advanced planning	Sites where the HSE has signed a lease agreement with the relevant developer.	8
In construction	Developer led lease agreement in place and the developer has commenced construction.	16
Underway	Sites that are HSE own build projects through the capital development programme.	9
Equipping	The final stage prior to becoming operational. A certificate of practical completion must have been issued by the architect for the new development.	3

¹ 224 PCCs are not classified as operational in the March 2019 report. However, the examination team has excluded the Coolock North location from this analysis, as it has been merged with Coolock South and developed as a single facility which became operational in 2018.

Source: Department of Health Report, March 2019 report

15.26 The examination team noted other information contained within the report suggested that the classifications applied to the PCCs may not in all cases accurately describe their current status.

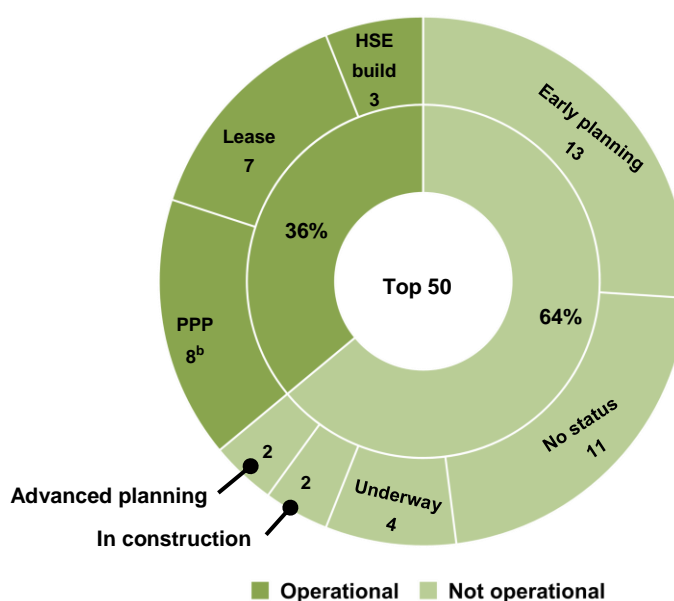
- Early planning — three PCCs were described as ‘to be re-advertised’; four PCCs where it was noted that the HSE are considering alternatives; and one PCC had progressed to construction.
- Advanced planning — one PCC where the other information suggests that the current developer is seeking to sell the project to another developer as a ‘going concern’.
- Underway — appears to cover a broad range of stages from initial discussions on the suitability and/or identification of a site to those sites that had progressed through planning to completion of design and tendering for construction works.

Top 50 ranked PCCs

15.27 From the top 50 ranked locations for development, 32 locations (64%) did not have an operational PCC as at March 2019, and 11 of these locations had no status classification assigned to them (see Figure 15.5).

15.28 The examination team found that development of PCCs in those locations did not appear to be progressing, and some were flagged as being ‘no longer a service priority’. The HSE stated that HSE estates and CHO areas work closely to support the delivery of PCCs and other healthcare infrastructure, and that local factors either impede or support the delivery of key projects at individual locations.

Figure 15.5 Status of PCCs within top 50 ranking, at March 2019^a



Source: Department of Health and HSE estates

Notes: a Based on 2012 national ranking and status tracker provided to Department of Health dated March 2019.

b Two of these ranked locations, Coolock North and Coolock South, have been merged and progressed as one facility, which was delivered by public private partnership (PPP) and became operational in 2018.

PCCs delivered since completion of the needs assessment

- 15.29** Since the national ranking list was devised, 57 PCCs have been delivered over the period 2013 to March 2019. The PCCs developed in that period did not follow the national ranking order with two thirds of the new PCCs being developed in locations at the top part of the ranking list (see Figure 15.6).
- 15.30** A PCC in the location which scored the least on the national ranking list was developed by lease agreement in 2013. The HSE stated that this location would have been ranked much higher had the facility not been on the brink of delivery when the needs assessment was being completed in 2011. The HSE also advised that, at that time, a number of other PCC locations within the bottom half of the ranking were already delivered, or were about to be delivered, and as a result were given a low priority ranking.

Figure 15.6 Prioritisation of 57 PCCs delivered, 2013 to March 2019^a

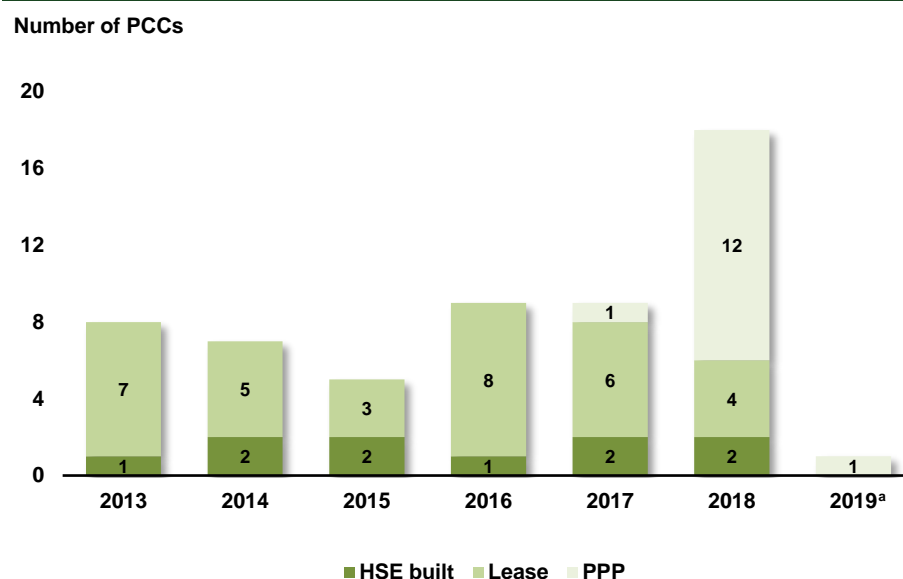
Ranking	Number of PCCs delivered
1 to 50	17 ^b
51 to 100	13
101 to 150	8
151 to 200	10
201 to 250	3
251 to 300	4
301 to 340	2
Total	57

Source: Analysis by Office of the Comptroller and Auditor General

- Notes:
- a Based on a comparison of the national ranked listing and the information provided by HSE estates on the operational PCCs as at March 2019.
 - b 17 of the top 50 ranked locations were developed through the delivery of 16 primary care centres due to the merging of Coolock North and Coolock South.

Delivery methods

- 15.31** The HSE has availed of a range of methods for the delivery of primary care centres.
- **Lease agreement** — the HSE enters into fixed term leases with developers for locations selected for the provision of PCCs. The developer provides the completed facility and has responsibility for maintaining it. The HSE pays annual rent and service charges and operates the facility.
 - **Public Private Partnership (PPP)** — this is an agreement between the public and private sectors for the provision of infrastructure and/or services. A private sector company funds the construction, fit-out and equipping of the PCC with the exception of some specialist equipment. The HSE remunerates the PPP company in the form of periodic unitary payments.
 - **HSE direct build** — PCCs built and owned by the HSE and funded from the HSE's annual capital allocation.

Figure 15.7 Number of primary care centres opened, 2013 to March 2019

Source: Department of Health

Note a Up to end March 2019.

15.32 According to the HSE, determination of the delivery method in a particular area is driven in part by market interest. The lease agreement option is pursued primarily and where there is no market interest for this method, other options — HSE direct build or PPP — are considered. Around 58% of PCCs developed over the period 2013 to March 2019 were delivered by way of lease agreement (see Figure 15.7).

Lease agreements

15.33 As of March 2019, there were 64 PCCs operating under lease agreements with just over half of these delivered since 2013. Leased PCCs range from purpose built facilities on sites owned by a developer, to units in retail or business parks or office space within pre-existing buildings. Figure 15.8 shows details of the PCCs delivered by lease in 2017 and 2018. HSE estates has pointed out that PCCs delivered through lease agreement are subject to market interest, and consequently the locations served may be more opportunistic than planned or prioritised.

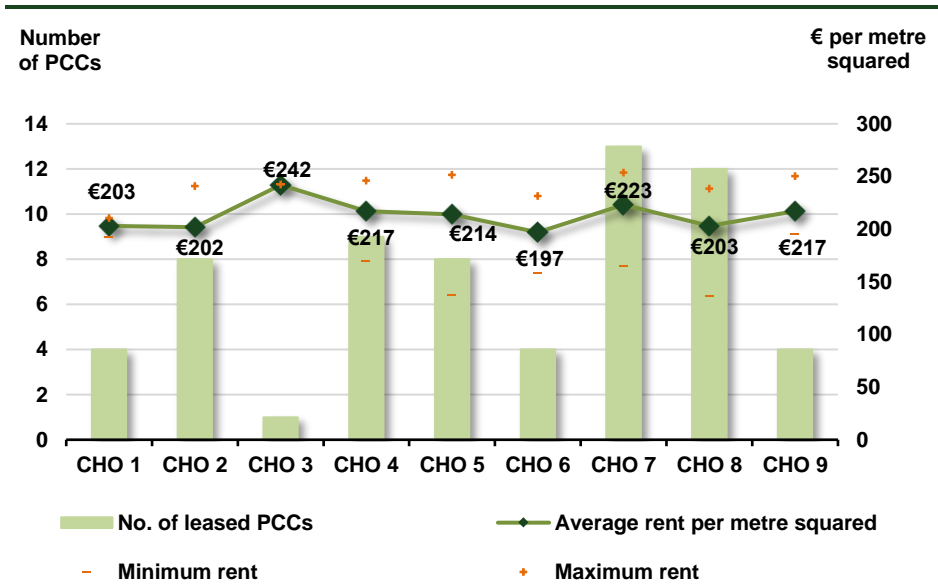
Figure 15.8 PCCs delivered by lease in 2017 and 2018

CHO	Priority ranking	Name of primary care centre	Size m ²	Year of first operation
CHO 4	109	Carrigaline, Co. Cork	2,289	2017
	7	Kilnamanagh/Tymon, Dublin 24	5,079	2018
CHO 7	69	Crumlin, Dublin 12	1,842	2018
	132	Blessington, Co. Wicklow	1,188	2017
	257	Celbridge, Co. Kildare	2,283	2017
CHO 8	86	Mullingar, Co. Westmeath	3,348	2017
	94	Drogheda North, Co. Louth	2,031	2018
CHO 9	194	Tullamore, Co. Offaly	3,326	2018
	43	Balbriggan, Co. Dublin	2,521	2017
	159	Portmarnock, Co. Dublin	831	2017

Source: HSE estates

15.34 The average rental cost across the 64 leased primary care centres was €211 per m². The examination team noted that the highest rent contracted for was €254 per m² for a PCC located in Dublin city centre and the lowest was €136 per m² for a PCC located in Westmeath (see Figure 15.9). The term for the majority of the leased PCCs is 25 years, with one lease having a term of 24 years and two leases having terms of 30 years.

Figure 15.9 Average rent per square metre by CHO^a



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

Note: a Figures are stated inclusive of VAT.

Public private partnership

- 15.35** In July 2012, the Government announced that a number of primary care facilities would be developed using public private partnership (PPP). The HSE selected 14 locations suitable for PPP on the basis of site availability, service need, GP interest and whether it was a clean site from the point of view of title and separation from other services (see Figure 15.10).
- 15.36** Following a competitive procurement process, a consortium was selected as the preferred tenderer and a final contract was agreed on 25 May 2016. The PPP contract model used in this instance is one where the PPP company design, build, finance and maintain the PCCs over the term of the contract — 25 years.¹ The HSE provided the necessary sites, and operate the facilities.
- 15.37** The PPP company provide the upfront financing for the project. In return, the HSE pays for the provision of the PCCs and for maintenance of the centres over the contract term. This payment is in the form of regular unitary payments over the life of the contract. At the end of the contract term, ownership of the PCCs will transfer to the HSE.²
- 15.38** By the end of 2018, total expenditure incurred by the HSE under this contract is just over €28 million with future commitments of around €433 million (see Figure 15.11). The estimated unitary charge for all 14 sites in 2019 is €15.3 million.³

Figure 15.10 PCCs delivered by PPP

CHO	Priority ranking	Name of primary care centre	Size m ²	Year of first operation
CHO 1	17	Ballymote, Co. Sligo	2,506	2018
	29	Ballinrobe, Co. Mayo	2,059	2018
	39	Westport, Co. Mayo	2,434	2018
CHO 2	77	Claremorris, Co. Mayo	2,166	2018
	97	Tuam, Co. Galway	2,590	2017
	243	Boyle, Co. Roscommon	1,590	2018
CHO 3	47	Limerick City, Co. Limerick	1,760	2018
	25	Wexford Town	3,625	2018
CHO 5	52	Carrick on Suir, Co. Tipperary	2,558	2018
	72	Dungarvan, Co. Waterford	3,803	2018
	93	Waterford City	4,645	2018
CHO 7	112	Kilcock, Co. Kildare	2,344	2018
CHO 9	16	Coolock, Dublin 5	4,461	2018
	31	Summerhill, Dublin 1	4,259	2019

Source: HSE estates

1 The term of the contract runs from the date of service commencement of the first PCC in November 2017, for 25 years, until November 2042.

2 The key characteristics of the primary care centre PPP contract are summarised in Annex 15D.

3 Deductions to the unitary charge may be made under the contract mechanism if the PPP company fail to meet the required performance and/or availability standards set out in the contract.

Figure 15.11 Expenditure under PPP contract as at 31 December 2018

	€000
Payments	
Upfront construction VAT (one-off payment)	18,801
PPP unitary charge	9,597
	28,398
Future commitments^a	
Facilities management services, operational lifecycle costs	201,551
Construction and financing ^b	231,368
	432,919

Source: HSE annual financial statements for year end 31 December 2018

Notes: a Future commitments are shown at the current contract price and have not been discounted.

b Calculated on an assumed annual inflation of 2% per annum.

Direct build by the HSE

15.39 Since 2013, ten PCCs have been delivered by way of direct build (See Figure 15.12).

Figure 15.12 HSE direct build PCCs, 2013 to March 2019

CHO	Priority ranking	Name of primary care centre	Size m ²	Year of first operation	Cost €m
CHO1	56	Ballyshannon PCC, Co. Donegal ^a	1,540	2015	4.92
	92	Ballinamore PCC, Co. Leitrim ^b	600	2014	1.30
	168	Manorhamilton Primary and Mental Health Centre, Co. Leitrim	1,800	2014	0.78
CHO 2	186	Loughrea, Co. Galway	1,062	2014	1.50
CHO 3	285	Borrisokane PCC, Co. Tipperary	1,408	2017	0.75
CHO 4	1	St. Mary's PCC, Co. Cork	6,218	2018	19.50
	276	Ballyheighue Health Centre, Co. Kerry	144	2017	0.25
CHO 8	187	Enfield Health Centre, Co. Meath	250	2013	0.40
CHO 9	12	Grangegorman PCC, Dublin 7 ^c	3,704	2018	14.04
	14	Corduff PCC, Dublin 15	2,321	2016	6.80

Source: HSE estates

Notes: a This PCC is co-located with other healthcare facilities. The total cost of the complex was €7.8 million. The HSE estimates that the cost attributable to the PCC is €4.92 million. (Notice of correction: When this report was originally published, the construction cost shown in the table was €7.8 million. The correction was requested by the HSE subsequent to publication).

b This PCC is co-located with a healthcare facility that includes a 20 bed residential care unit. The total cost of the facility was €6 million. The HSE estimates that the cost attributable to the PCC is €1.3 million.

c This PCC is co-located with other healthcare facilities, including an acute mental health residential unit. The total cost of HSE facilities at Grangegorman, at end Dec 2018, is €34 million. The HSE estimates that the cost attributable to the PCC is €14.04 million.

15.40 The PCC at Grangegorman was funded by the HSE and developed under licence by the Grangegorman Development Agency (GDA). GDA was established by legislation to promote the development of a 73-acre site at Grangegorman as a location for education, health and other facilities.¹ The HSE retains ownership of the PCC and other health facilities located at Grangegorman.

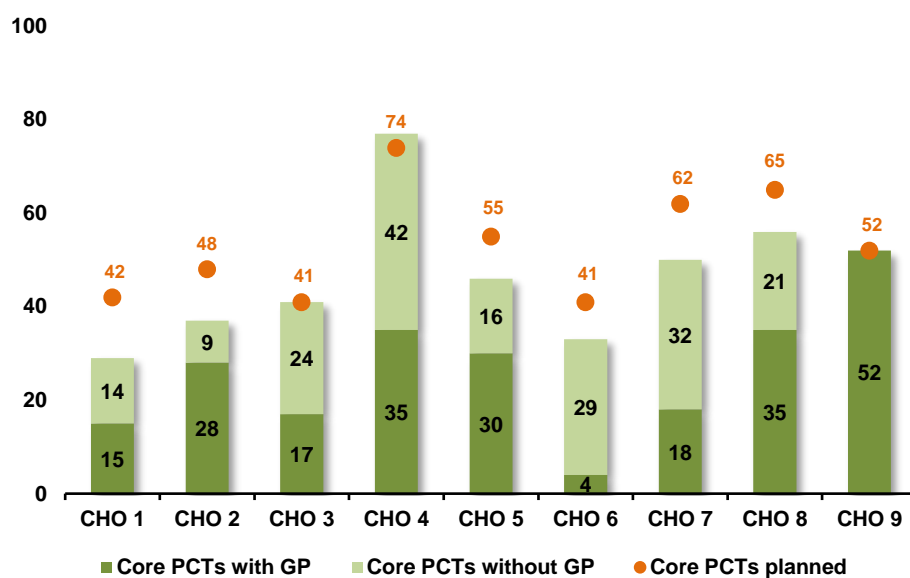
Accommodation of PCTs

15.41 The HSE advised that it has undertaken a mapping process to identify appropriate catchments to be serviced by PCTs. This process took into consideration population and other factors, including transport and access routes, GP affiliations, census information, deprivation and natural community catchments.

15.42 As a result of this process the HSE has determined that 480 PCTs are required to provide primary care services across the nine CHOs (See Figure 15.13). The HSE also advised that 96 'community healthcare networks', each consisting of four to six PCTs, will be established. It is envisaged that each network will be responsible for delivering primary care services across an average population of 50,000.

15.43 Information provided by the HSE primary care operations, indicates that, as of July 2019, there are 421 PCTs in place, of which 234 have GP involvement with a further 21 PCTs planned to become operational in 2019. For those PCTs operating without direct GP involvement, the HSE advised that staff in all PCTs work closely with GPs to ensure the delivery of co-ordinated primary care services for people in that local area.

Figure 15.13 Core PCTs in place and planned per CHO, September 2019



¹ Grangegorman Development Agency Act 2005.

Source: HSE primary care operations

- 15.44** The examination team sought information from the HSE on the resourcing of PCCs such as
- the number of PCTs based in each operational PCC
 - the number of filled and vacant staff posts associated with each PCC
 - the number of clinical, support and contract staff assigned to each PCC
 - the type of services provided by each PCC.
- 15.45** The HSE advised that primary care services are being delivered from all of the 127 operational PCCs. However, in the case of smaller PCCs, services may be provided by PCTs that are based in larger PCCs.
- 15.46** The HSE stated that while information on staffing levels in primary care is gathered in the HSE census by group, discipline and geographic area, it does not provide information to the level of building location. Such information at present can only be collated by manually counting the staff numbers at each PCC. However, the HSE acknowledges the requirement to develop integrated reporting systems that would enable timely reporting of staffing by service area and location.

Conclusions and recommendations

- 15.47** The Department's stated strategic objective is to develop a national network of PCCs in around 350 locations, to accommodate just under 500 PCTs and extended primary care networks. 57 new PCCs have become operational since 2013, bringing the total number of operating PCCs to 127 as of March 2019 — around 36% of the targeted network.
- 15.48** Although modern, well equipped, accessible premises are considered essential to the establishment and effective functioning of PCTs and the extended primary care network, there currently exists no quantified definition of what a PCC should comprise. What are currently categorised as operational PCCs range from stand-alone purpose built PCCs to health centres and centres co-located within community hospitals. Furthermore, some existing PCCs are operating without direct GP involvement.

Recommendation 15.1

In order to allow for effective monitoring and reporting of progress in delivering PCTs and PCCs, the Department should define the minimum scope of services and accommodation that constitutes a PCC.

Response of the Accounting Officer, Department of Health

Agreed.

However, this will require consultation with the HSE and will need to recognise that variation in the design or utilisation of PCCs is a function of local circumstances, population need and available resources.

- 15.49** The Department has not put a timescale on the achievement of the target number of PCCs. At the rate of progress since 2013, it will take a further 20 years or more to develop the full network of PCCs.

Recommendation 15.2

The Department should set a goal for when the full network is intended to be in place and intermediate (e.g. five yearly) targets.

Response of the Accounting Officer, Department of Health

Agreed.

I would note that the Department's Statement of Strategy 2016 – 2019 simply commits, in conjunction with the HSE, to delivering new PCCs as part of the objective of modernising health facilities.

This Department would have no objection in principle to the recommendation to set an indicative timeline for the delivery of the PCC network. However, such a goal could only be set following consultation with the HSE and the Department of Public Expenditure and Reform and in full recognition of the fact that market factors exist that are beyond the control of the Department and may impact on anticipated delivery schedules.

Furthermore, it is important that any commitment in this regard reflects the wider move to a population-based planning approach and the development of regional health bodies and community healthcare networks as envisaged under Sláintecare rather than being based on the current ranking of prospective sites derived in 2012. The Government's recent decision on regional health areas is being taken forward through, inter alia, a process of co-design of integrated health and social services with the citizens and staff of the six regions and this will provide an opportunity to review PCC priorities as part of the overall implementation of Sláintecare.

- 15.50** The target locations for development of PCCs were identified and ranked in 2012, using data then available. This ranking exercise has not been updated, despite significant growth in population and other relevant developments.

Recommendation 15.3

The HSE should update the rankings of the target locations and determine how future delivery is to be prioritised.

Response of the Chief Executive Officer, HSE

Agreed.

The HSE will complete an overarching review relating to PCCs that will encompass an update of the rankings of the target locations, and a determination of how further delivery is to be prioritised.

It is agreed that there should be an integrated system among key HSE stakeholders and that there should be a method to determine how future delivery is to be prioritised. Service re-design and supporting infrastructure is a key action of Sláintecare. There is a commitment to support an integrated planning process for future PCCs as part of the capital planning implementation programme of the Sláintecare action plan 2019. This includes the need to complete a review of the utilisation of PCCs, to establish more PCCs and scope community based diagnostics.

It is acknowledged that this is a longer term strategy and while progress is being made will require further planning and engagement before delivery is completed. Additionally, there are quarterly reports prepared which provide an update on status of delivery, and there is engagement between the various HSE stakeholders at local level in terms of delivery of PCTs and PCCs. However, a significant level of planning is required in order to deliver on this.

- 15.51** The HSE provide quarterly reports to the Department on the progress of the development of PCCs that shows information on both operational and non-operational PCCs. However, the examination found that this report did not in all cases represent accurately the current status of PCCs, in particular the 223 PCCs that are not operational.
- 15.52** The PCCs developed in the past five years do not closely reflect the ranking order. The HSE has attributed this in part to the interest expressed by developers or lessors in some locations and not in others. The HSE has relied heavily on the lease and PPP models in delivering PCCs, and to a much lesser extent on direct HSE development of facilities. Because the models of provision have different cost structures, it is difficult to compare the costs and benefits of each.
- 15.53** Given the experience of delivery of over 57 PCCs in the past five years, it would be opportune and timely for the HSE to undertake a formal cost effectiveness comparison of the different delivery models for PCCs.

Recommendation 15.4

The HSE should undertake a cost effectiveness review of the different delivery methods used to develop PCCs to date, with a view to informing future decisions on delivery methods.

Response of the Chief Executive Officer, HSE

Agreed.

It is agreed that it is now timely to undertake a cost effectiveness review of the delivery methods utilised to date. A formal evaluation process is currently undertaken before a PCC is progressed. The HSE currently undertake a cost effectiveness review on each individual project which are evaluated by the capital steering committee.

Due to the different models of delivery, as outlined in the report, the HSE will need to consider how best to perform an appropriate review and comparison of the best model of delivery of PCCs.

This recommendation will also be progressed within the context of the Sláintecare action plan and under the governance of same, to ensure that learning from a cost effectiveness review will be used to inform future planning.

Annex 15A Community healthcare organisation (CHO) areas

Figure 15A.1 Geographical coverage of community healthcare organisations

Community Healthcare Organisation	Area
CHO 1 Community healthcare Donegal, Sligo, Leitrim, Cavan, Monaghan	Cavan, Donegal, Leitrim, Monaghan, Sligo
CHO 2 Community healthcare West	Galway, Mayo, Roscommon
CHO 3 Mid West community healthcare	Clare, Limerick, North Tipperary
CHO 4 Cork Kerry community healthcare	Cork and Kerry
CHO 5 South East community healthcare	Carlow, Kilkenny, South Tipperary, Waterford, Wexford
CHO 6 Community healthcare East	Dublin South East, Dun Laoghaire, Wicklow
CHO 7 Community healthcare Dublin South, Kildare & West Wicklow	Dublin South City, Dublin South West, Kildare, West Wicklow
CHO 8 Midlands Louth Meath community healthcare	Laois, Offaly, Longford, Westmeath, Louth, Meath
CHO 9 Community healthcare organisation Dublin North city & county	Dublin North, Dublin North Central, Dublin North West

Source: Health Service Executive

Annex 15B Methodology for prioritisation of locations for PCCs

In 2012 the HSE completed an exercise in prioritisation of locations for primary care centres based on needs analysis. The infrastructural requirements for each PCT area were assessed under three headings, accommodation needs, service priority and deprivation level (see Figure 15B.1). Each PCT area was scored using the formula below.

$$\text{Score} = [\text{accommodation needs score} + \text{service priority score}] - [\text{deprivation score} \times 3]$$

Figure 15B.1 PCT location scoring criteria

Criteria	Score
<p>Accommodation needs</p> <ul style="list-style-type: none"> ▪ Space available in each location. <ul style="list-style-type: none"> • Sufficient/insufficient space for PCT operation. • No suitable infrastructure in PCT catchment area. ▪ Number of buildings from which PCT currently provide services. <ul style="list-style-type: none"> • The greater the number of buildings from which a PCT delivers care, the greater the potential for inefficiency. • The highest score is where individuals have to leave the catchment area to access PCT services. ▪ Quality of the buildings from which PCT services provided — the age and standard of the building only. 	<p>Max is 15 — indicates no building available in catchment area to deliver primary care services and individuals have to access PCT services outside catchment area.</p> <p>Min is 0 — indicates a PCC is in operation providing services for area.</p>
<p>Service Priority</p> <ul style="list-style-type: none"> ▪ Level of referral — how busy the PCT is. ▪ Service need. ▪ PCTs in place and operating. ▪ GP involvement with the PCT and service need. 	<p>Max is 10 — indicates the greatest service need.</p> <p>Min is 0 — indicates that PCC has already been delivered.</p>
<p>Deprivation</p> <ul style="list-style-type: none"> ▪ The Haase & Pratschke (H&P) Deprivation Indices were used to score each PCT area. These indices were developed specifically for Ireland (funded through Pobal). The index was based on the 2006 census. ▪ The index takes into account the following <ul style="list-style-type: none"> • Proportion of population aged under 15 and over 64. • Percentage change in population profile over the previous five years. • Education, percentage with primary education only, with 3rd level education etc. • Social class (professional, managerial, unskilled, manual etc.). • Single parents. • Numbers per household, per room. • Male and female unemployment. 	<p>Each electoral district is scored on the H&P Index and the score was built up for each PCT based on the scores of the electoral districts within their boundaries.</p> <p>Max is 7 — indicates the least deprived areas.</p> <p>Min is 1 — indicates the most deprived areas. Weighted x 3 in formula.</p>

Source: HSE estates — accommodation needs assessment report

Figure 15B.2 Examples of PCT location scores

Priority ranking	PCC	Status at March 2019	Assessment Scores			Total score (A+B)-(Cx3)
			Accommodation needs (A)	Service priority (B)	Deprivation (C)	
1	Knocknaheeny Fairhill Gurranebraher City Centre, Cork	Operational	13	10	1	20
80	Killarney, Kerry	Not operational	11	10	5	6
170	Kilmacthomas/Portlaw, Waterford	Not operational	8	6	4	2
245	Athenry, Galway	Operational	11	0	5	-4
340	Ashbourne, Meath	Operational	0	0	6	-18

Source: HSE estates — 2012 national ranking

Annex 15C Ranked listing of primary care centres

Figure 15C.1 Prioritised 2012 list of primary care centres, with current status at March 2019

Priority ranking	CHO	County	PCT location or name(s)	Delivery method	Status as at March 2019
1	CHO 4	Cork	Knocknaheeny Fairhill Gurranebraher City centre	HSE own	● Operational
2	CHO 9	Dublin	Finglas South & West	HSE own	Underway
3	CHO 7	Dublin	Rowlagh	HSE own	Underway
4	CHO 7	Dublin	Clondalkin Village/Moorefield/Monastery	Lease	Advanced planning
5	CHO 7	Dublin	Rialto/The Coombe	Lease	In construction
6	CHO 1	Donegal	Dungloe	Lease	Early planning
7	CHO 7	Dublin	Kilnamanagh/Tymon	Lease	● Operational
8	CHO 7	Dublin	Citywest/Rathcoole/Saggart	Lease	
9	CHO 7	Dublin	Springfield (Tallaght)	Lease	● Operational
10	CHO 1	Cavan	Ballyjamesduff		
11	CHO 6	Wicklow	Rathdrum	Lease	Advanced planning
12	CHO 9	Dublin	Grangegorman	HSE own	● Operational
13	CHO 8	Offaly	Edenderry	Lease	Early planning
14	CHO 9	Dublin	Corduff	HSE own	● Operational
15	CHO 7	Dublin	Cashel Road/Walkinstown	Lease	● Operational
16	CHO 9	Dublin	Coolock South Artane	PPP	● Operational ^a
17	CHO 1	Sligo	East Sligo (Ballymote)	PPP	● Operational
18	CHO 1	Donegal	Lifford	Lease	
19	CHO 7	Dublin	Curlew Road	HSE own	
20	CHO 1	Donegal	Newtoncunningham	HSE own	Underway
21	CHO 1	Donegal	Derrybeg/Bunbeg	Lease	Early planning
22	CHO 2	Mayo	Erris		
23	CHO 9	Dublin	Coolock North Darndale	PPP	● Operational ^a
24	CHO 5	Tipperary	Tipperary Town	Lease	● Operational
25	CHO 5	Wexford	Wexford Town	PPP	● Operational
26	CHO 8	Longford	Ballymahon	Lease	Early planning
27	CHO 1	Donegal	Buncrana	Lease	Early planning
28	CHO 1	Monaghan	Monaghan	HSE own	Underway
29	CHO 2	Mayo	Ballinrobe	PPP	● Operational
30	CHO 8	Louth	Dundalk No 2	Lease	Early planning
31	CHO 9	Dublin	Summerhill	PPP	● Operational
32	CHO 1	Cavan	Killeshandra	Lease	Early planning
33	CHO 4	Cork	Ballyphehane/Togher/Greenmount/The Lough	Lease	Early planning
34	CHO 6	Wicklow	South Wicklow/Carnev	Lease	● Operational
35	CHO 7	Kildare	Monasterevin/Rathangan	Lease	● Operational
36	CHO 8	Longford	Edgeworthstown	Lease	
37	CHO 3	Limerick	Garryowen		
38	CHO 4	Kerry	North Kerry/Listowel	Lease	In construction
39	CHO 2	Mayo	Westport	PPP	● Operational
40	CHO 6	Dublin	Glathule/Sallynoggin	Lease	Early planning

Priority ranking	CHO	County	PCT location or name(s)	Delivery method	Status as at March 2019
41	CHO 8	Meath	Laytown/Bettystown	Lease	Early planning
42	CHO 2	Galway	Gort	Lease	
43	CHO 9	Dublin	Balbriggan	Lease	● Operational
44	CHO 8	Louth	Drogheda South	Lease	
45	CHO 1	Monaghan	Carrickmacross	Lease	Early planning
46	CHO 6	Wicklow	Arklow	Lease	Early planning
47	CHO 3	Limerick	Ballinacurra, Weston	PPP	● Operational
48	CHO 1	Donegal	Carndonagh	HSE own	
49	CHO 2	Galway	South Connemara	HSE own	
50	CHO 1	Donegal	Dunfanaghy/Falcarragh	Lease	Early planning
51	CHO 5	Wexford	Enniscorthy	Lease	Early planning
52	CHO 5	Tipperary	Carrick on Suir	PPP	● Operational
53	CHO 9	Dublin	Edenmore (East of Coolock)	Lease	In construction
54	CHO 2	Galway	Portumna	Lease	Early planning
55	CHO 3	Clare	Kilkee		
56	CHO 1	Donegal	Ballyshannon / Bundoran	HSE own	● Operational
57	CHO 8	Westmeath	Delvin		
58	CHO 2	Mayo	Ballyhaunis	Lease	Advanced planning
59	CHO 2	Mayo	Crossmolina	HSE own	
60	CHO 8	Laois	Borris/Rathdowney	Lease	
61	CHO 8	Offaly	Birr	Lease	Early planning
62	CHO 4	Kerry	Iveragh (Cahirciveen)	Lease	Early planning
63	CHO 5	Tipperary	Slieve Ardagh	HSE own	
64	CHO 5	Kilkenny	Gowran/Graigue/amanagh/Borris/Courtneil	Lease	
65	CHO 4	Cork	Beara	Lease	In construction
66	CHO 8	Laois	Mountrath		
67	CHO 2	Mayo	Kiltimagh	Lease	
68	CHO 5	Wexford	New Ross	Lease	Early planning
69	CHO 7	Dublin	Old County Road/Parnell Road Crumlin	HSE own	
70	CHO 5	Tipperary	Clonmel	Lease	
71	CHO 5	Carlow	Tullow Rathvilly Hacketstown	HSE own	Underway
72	CHO 5	Waterford	Dungarvan	PPP	● Operational
73	CHO 3	Clare	Sixmilebridge, County Clare	Lease	Early planning
74	CHO 3	Clare	Ballina/Killaloe/Newport, County Clare	Lease	Advanced planning
75	CHO 1	Sligo	Drumcliffe	HSE own	Underway
76	CHO 2	Mayo	Castlebar	Lease	● Operational
77	CHO 2	Mayo	Claremorris	PPP	● Operational
78	CHO 3	Clare	Ennis	Lease	Early planning
79	CHO 6	Wicklow	Wicklow	Lease	● Operational
80	CHO 4	Kerry	Killarney	Lease	
81	CHO 5	Wexford	Gorey	Lease	Early planning
82	CHO 5	Kilkenny	Thomastown/Ballyhale	Lease	In construction
83	CHO 4	Cork	Clonakilty	Lease	In construction
84	CHO 4	Cork	Fermoy	Lease	Early planning
85	CHO 4	Cork	Cobh	Lease	Advanced planning

Priority ranking	CHO	County	PCT location or name(s)	Delivery method	Status as at March 2019
86	CHO 8	Westmeath	Mullingar	Lease	● Operational
87	CHO 6	Dublin	Glenageary/Dun Laoghaire	Lease	
88	CHO 9	Dublin	Whitehall/Santry	Lease	
89	CHO 7	Kildare	Kilcullen		
90	CHO 7	Kildare	Kildare Town	Lease	● Operational
91	CHO 4	Cork	Ballineen	Merge	
92	CHO 1	Leitrim	Ballinamore	HSE own	● Operational
93	CHO 5	Waterford	Waterford City (East)	PPP	● Operational
94	CHO 8	Louth	Drogheda North	Lease	● Operational
95	CHO 4	Cork	Newmarket	Lease	In construction
96	CHO 1	Sligo	Tobercurrey	HSE own	
97	CHO 2	Galway	Tuam	PPP	● Operational
98	CHO 9	Dublin	Blanchardstown - Blakestown/Mountview	Lease	● Operational
99	CHO 1	Cavan	Ballyconnell	HSE own	Underway
100	CHO 7	Kildare	Athy/Castledermot	Lease	In construction
101	CHO 5	Waterford	Lismore	Lease	
102	CHO 5	Waterford	Waterford City/South Kilkenny	Lease	Advanced planning
103	CHO 7	Dublin	James Street (Pimlico,Liberties)	Lease	● Operational
104	CHO 1	Donegal	Moville		
105	CHO 5	Carlow	Graigcullen	Lease	
106	CHO 9	Dublin	East Wall Village	HSE own	
107	CHO 6	Dublin	Baggot Street/Sandymount	Lease	Early planning
108	CHO 6	Dublin	Shankill	Lease	In construction
109	CHO 4	Cork	Carrigaline/Passage West	Lease	● Operational
110	CHO 2	Galway	Oranmore	Lease	Early planning
111	CHO 4	Cork	Bishopstown	Lease	
112	CHO 7	Kildare	Kilcock	PPP	● Operational
113	CHO 8	Westmeath	Moate	Lease	Early planning
114	CHO 1	Leitrim	Carrick-on-Shannon/Drumshanbo	Lease	In construction
115	CHO 7	Dublin	Churchtown	Lease	● Operational
116	CHO 9	Dublin	Ashtown/Navan Road & Cabra West	Lease	● Operational
117	CHO 5	Wexford	Taghmon/Ballycullane	HSE own	
118	CHO 4	Kerry	Kilorglin		
119	CHO 4	Kerry	Castleisland	Lease	In construction
120	CHO 5	Wexford	Rosslare	Lease	
121	CHO 5	Kilkenny	Castlecomer		
122	CHO 9	Dublin	Dublin North City — Inns Quay (Smithfield)	Merge	
123	CHO 7	Dublin	Knocklyon/Rathfarnham	HSE own	
124	CHO 4	Cork	Mayfield/Montenotte/Dillons Cross	Lease	
125	CHO 4	Kerry	Tralee	Lease	Equipping
126	CHO 1	Sligo	Sligo Town 2	HSE own	Underway
127	CHO 8	Meath	Navan, Johnstown	Merge	
128	CHO 8	Meath	Navan Town	Lease	
129	CHO 8	Meath	Kells	Lease	● Operational
130	CHO 3	Tipperary	Thurles	Lease	Advanced planning

Priority ranking	CHO	County	PCT location or name(s)	Delivery method	Status as at March 2019
131	CHO 7	Wicklow	Baltinglass/Dunlavin	Lease	In construction
132	CHO 7	Wicklow	Blessington	Lease	● Operational
133	CHO 9	Dublin	Killester (Howth Rd)	Lease	
134	CHO 8	Laois	Abbeyleix/Durrow	Lease	
135	CHO 9	Dublin	Swords South	Lease	
136	CHO 1	Monaghan	Castleblayney	Lease	
137	CHO 5	Wexford	Buncloody	HSE own	
138	CHO 1	Donegal	Donegal Town	Lease	Early planning
139	CHO 9	Dublin	Cabra East	Merge	
140	CHO 9	Dublin	Millmount/Glasnevin	Lease	
141	CHO 7	Dublin	Brookfield/Fettercairn, Tallaght	HSE own	
142	CHO 3	Limerick	Castletroy	Lease	Equipping
143	CHO 4	Cork	Ballincollig	Lease	Early planning
144	CHO 7	Dublin	Rathmines/Rathgar	Lease	
145	CHO 7	Kildare	Leixlip	Lease	
146	CHO 6	Wicklow	Greystones	Lease	
147	CHO 8	Westmeath	Athlone	Lease	● Operational
148	CHO 4	Cork	Charleville	Lease	● Operational
149	CHO 3	Limerick	Newcastlewest	Lease	Early planning
150	CHO 7	Kildare	Newbridge	Lease	● Operational
151	CHO 4	Cork	Bandon	Lease	Early planning
152	CHO 9	Dublin	Ongar, Blanchardstown		
153	CHO 5	Kilkenny	Kilkenny City (newpark merritt)	Lease	In construction
154	CHO 4	Cork	Blackpool/The Glen/Carrignavar		
155	CHO 4	Cork	Youghal	Lease	
156	CHO 2	Galway	Glenamaddy	HSE own	
157	CHO 9	Dublin	Dublin North City — North Strand/East Wall	HSE own	
158	CHO 7	Dublin	Killinarden/Oldbawn, Tallaght	HSE own	
159	CHO 9	Dublin	Portmarnock	Lease	● Operational
160	CHO 5	Tipperary	Cahir	Lease	Early planning
161	CHO 4	Cork	Midleton	Lease	
162	CHO 8	Louth	Dunleer/Clogheer Head	HSE own	
163	CHO 8	Laois	Ballickmoyler		
164	CHO 9	Dublin	Finglas North & Ballygall	HSE own	
165	CHO 2	Galway	Headford	Lease	
166	CHO 8	Laois	Portlaoise		
167	CHO 4	Cork	Kinsale	Lease	● Operational
168	CHO 1	Leitrim	Manorhamilton	HSE own	● Operational
169	CHO 5	Kilkenny	Freshford/Johnstown	HSE own	
170	CHO 5	Waterford	Kilmacthomas/Portlaw	HSE own	
171	CHO 3	Clare	Ennistymon	Lease	Advanced planning
172	CHO 1	Donegal	Killybegs		
173	CHO 7	Dublin	Jobstown, Tallaght	HSE own	
174	CHO 4	Cork	Douglas/Frankfield/Grange	Merge	
175	CHO 7	Dublin	Terenure Village/Harolds Cross	Lease	

Priority ranking	CHO	County	PCT location or name(s)	Delivery method	Status as at March 2019
176	CHO 4	Cork	Glanmire/Riverstown	Lease	
177	CHO 7	Dublin	Lucan St. Helen's	Lease	
178	CHO 7	Dublin	Lucan Heights/Lucan Esker	Merge	
179	CHO 4	Cork	Bantry	Lease	In construction
180	CHO 7	Kildare	Clane/Kilmeague	Lease	● Operational
181	CHO 7	Dublin	Bride Street/Liberties (Meath Hospital)	Lease	● Operational
182	CHO 4	Cork	Kanturk	Lease	Early planning
183	CHO 3	Limerick	Croom	Lease	Early planning
184	CHO 3	Limerick	Cappamore	Lease	Early planning
185	CHO 3	Clare	East Clare		
186	CHO 2	Galway	Loughrea	HSE own	● Operational
187	CHO 8	Meath	Enfield	HSE own	● Operational
188	CHO 9	Dublin	Donaghmede	Merge	
189	CHO 1	Monaghan	Ballybay	Lease	
190	CHO 2	Galway	Mountbellew	Lease	● Operational
191	CHO 1	Donegal	Finn Valley		
192	CHO 3	Limerick	Galvone (South hill)	HSE own	
193	CHO 6	Dublin	Donnybrook/Ranelagh	Lease	Early planning
194	CHO 8	Offaly	Tullamore	Lease	● Operational
195	CHO 9	Dublin	Marino (Fairview)	Lease	
196	CHO 8	Meath	Summerhill	Lease	● Operational
197	CHO 7	Dublin	Dunawley/Deansrath		
198	CHO 3	Limerick	Glin		
199	CHO 7	Kildare	Maynooth	Lease	
200	CHO 8	Meath	Ratoath		
201	CHO 2	Galway	Knocknacarragh/Salthill		Early planning
202	CHO 8	Laois	Stradbally		
203	CHO 4	Cork	Millstreet	Lease	
204	CHO 3	Clare	Shannon		
205	CHO 8	Meath	Athboy	Lease	
206	CHO 2	Galway	Oughterard		
207	CHO 2	Galway	Castlegar/Bailefoile		
208	CHO 2	Galway	Shantalla/City Centre	HSE own	
209	CHO 7	Dublin	Millbrook, Tallaght	HSE own	
210	CHO 2	Roscommon	Castlereagh	Lease	● Operational
211	CHO 8	Longford	Longford	Lease	● Operational
212	CHO 2	Mayo	Achill	Service already delivered	● Operational
213	CHO 2	Galway	Aran Islands	Service already delivered	● Operational
214	CHO 7	Dublin	St.Endas/Rathfarnham	Merge	
215	CHO 4	Cork	Carrigtowhill	Lease	Equipping
216	CHO 9	Dublin	Sutton	Lease	
217	CHO 9	Dublin	Kinsealy		
218	CHO 9	Dublin	Castleknock	HSE own	
219	CHO 6	Dublin	Ballybrack/Loughlinstown		Early planning
220	CHO 1	Sligo	Central Sligo		

Priority ranking	CHO	County	PCT location or name(s)	Delivery method	Status as at March 2019
221	CHO 4	Cork	Buttevant	Merge	
222	CHO 9	Dublin	Baldoye/Clongriffin	Lease	
223	CHO 8	Westmeath	Kilbeggan	Lease	Early planning
224	CHO 7	Dublin	Limekiln/Temploeogue/Terenure West	Merge	
225	CHO 7	Dublin	Firhouse, Tallaght		
226	CHO 1	Monaghan	Clones	Lease	Early planning
227	CHO 3	Limerick	Kilmallock	Lease	In construction
228	CHO 3	Limerick	Rathkeale		
229	CHO 2	Roscommon	Ballaghaderreen	Lease	Early planning
230	CHO 2	Galway	Spiddal		
231	CHO 2	Galway	Eyrecourt		
232	CHO 3	Limerick	Ballynanty	Service already delivered	● Operational
233	CHO 9	Dublin	The Ward		
234	CHO 6	Wicklow	Bray	Lease	In construction
235	CHO 8	Louth	Castlebelingham	HSE own	
236	CHO 1	Cavan	Bailieborough	HSE own	● Operational
237	CHO 9	Dublin	Kilbarrack	HSE own	
238	CHO 3	Limerick	Ballycummin (Raheen)	Lease	Early planning
239	CHO 9	Dublin	Skerries	HSE own	
240	CHO 5	Cork	Cloheen		
241	CHO 9	Dublin	Swords North	Merge	
242	CHO 2	Roscommon	Boyle	PPP	● Operational
243	CHO 3	Tipperary	Templemore		
244	CHO 2	Galway	Claregalway		
245	CHO 2	Galway	Athenry	Lease	● Operational
246	CHO 8	Offaly	Banagher/Kilcormac	Lease	Early planning
247	CHO 8	Offaly	Moneygall/Shinrone	Service already delivered	● Operational
248	CHO 1	Donegal	Fanad/Rosguill	Service already delivered	● Operational
249	CHO 8	Louth	Dundalk No 1	Merge	
250	CHO 3	Limerick	Abbeyfeale	Lease	
251	CHO 2	Mayo	Swinford	HSE own	
252	CHO 1	Cavan	Cavan Town No 2	Lease	● Operational
253	CHO 2	Galway	Clifden		
254	CHO 9	Dublin	Malahide	Merge	
255	CHO 6	Dublin	Stillorgan/Foxrock	Lease	
256	CHO 3	Limerick	Limerick City (Castle — Thomond; Ennis Road)	Lease	Early planning
257	CHO 7	Kildare	Celbridge	Lease	● Operational
258	CHO 6	Dublin	Ballinteer	HSE own	
259	CHO 4	Cork	Blarney	Lease	Early planning
260	CHO 4	Cork	Castlelyons	Merge	
261	CHO 8	Meath	Duleek	HSE own	
262	CHO 9	Dublin	Oldtown	Service already delivered	● Operational
263	CHO 2	Galway	Abbeyknockmoy		
264	CHO 3	Tipperary	Roscrea	Lease	Early planning
265	CHO 3	Clare	Kilrush		

Priority ranking	CHO	County	PCT location or name(s)	Delivery method	Status as at March 2019
266	CHO 8	Offaly	Ferbane		
267	CHO 3	Limerick	Dromcollogher		
268	CHO 7	Dublin	Ballyfermot/Cherry Orchard	HSE own	● Operational
269	CHO 9	Dublin	Clontarf		
270	CHO 9	Dublin	Roselawn, Blanchardstown	HSE own	
271	CHO 9	Dublin	Mulhuddart	Merge	
272	CHO 9	Dublin	Ballymun	Finance Lease	● Operational
273	CHO 6	Dublin	Blackrock/Monkstown/Frascati/Carysfort		
274	CHO 3	Limerick	Ballylanders	Service already delivered	● Operational
275	CHO 2	Mayo	Charlestown	Service already delivered	● Operational
276	CHO 4	Kerry	Ballyheigue	HSE own	● Operational
277	CHO 8	Louth	Ardee	HSE own	● Operational
278	CHO 1	Donegal	Glenties	HSE own	● Operational
279	CHO 1	Cavan	Virginia	Service already delivered	● Operational
280	CHO 6	Dublin	Killiney	Merge	
281	CHO 6	Dublin	Cabinteely/Deansgrange/Cornelscourt	Lease	
282	CHO 9	Dublin	Lusk	HSE own	
283	CHO 9	Dublin	Donabate		
284	CHO 9	Dublin	Rush	HSE own	● Operational
285	CHO 3	Tipperary	Borrisokane	HSE own	● Operational
286	CHO 3	Clare	Ballyvaughan		
287	CHO 9	Dublin	Hartstown/Huntstown		
288	CHO 2	Mayo	Ballina	Lease	● Operational
289	CHO 1	Sligo	West Sligo	Service already delivered	● Operational
290	CHO 2	Roscommon	Strokestown	Service already delivered	● Operational
291	CHO 7	Dublin	Marks Lane/Pearse Street	HSE own	● Operational
292	CHO 3	Tipperary	Nenagh	Service already delivered	● Operational
293	CHO 3	Limerick	Hospital	Service already delivered	● Operational
294	CHO 3	Limerick	Limerick City (Abbey St Mary's - King's Island)	Lease	● Operational
295	CHO 5	Waterford	Waterford City 1 (West)	Lease	● Operational
296	CHO 7	Kildare	Derrinturkin	Merge	
297	CHO 8	Offaly	Clara	Service already delivered	● Operational
298	CHO 2	Galway	Ballinasloe	Service already delivered	● Operational
299	CHO 4	Cork	Rosscarbery	Service already delivered	● Operational
300	CHO 5	Wexford	Gorey (Avenue)	Lease	● Operational
301	CHO 5	Wexford	Gorey (Conal House)	Lease	● Operational
302	CHO 1	Sligo	Sligo Town	Service already delivered	● Operational
303	CHO 4	Cork	Mitchelstown	Lease	● Operational
304	CHO 4	Kerry	West Kerry	Service already delivered	● Operational
305	CHO 4	Cork	Dunmanway Drimoleague	Service already delivered	● Operational
306	CHO 5	Carlow	Bagenalstown/Loughlinbridge/Myshall	Lease	● Operational
307	CHO 1	Cavan	Cootehill	HSE own	● Operational
308	CHO 1	Donegal	Letterkenny	Lease	● Operational
309	CHO 8	Laois	Mountmellick/Clonaslee	Lease	● Operational
310	CHO 7	Dublin	Inchicore	HSE own	● Operational

Priority ranking	CHO	County	PCT location or name(s)	Delivery method	Status as at March 2019
311	CHO 1	Cavan	Kingscourt	Lease	● Operational
312	CHO 1	Cavan	Cavan Town	Lease	● Operational
313	CHO 8	Westmeath	Kinnegad	Lease	● Operational
314	CHO 5	Tipperary	Cashel	Service already delivered	● Operational
315	CHO 8	Offaly	Daingean	Service already delivered	● Operational
316	CHO 3	Limerick	Limerick City (Westbury Co Clare)	Service already delivered	● Operational
317	CHO 8	Meath	Dunboyne	Service already delivered	● Operational
318	CHO 2	Galway	Moycullen	Service already delivered	● Operational ^b
319	CHO 4	Cork	Skibbereen	Service already delivered	● Operational
320	CHO 4	Cork	Mizen/Schull	Lease	● Operational
321	CHO 4	Cork	Macroom	Lease	● Operational
322	CHO 4	Kerry	Kenmare/Sneem	Lease	● Operational
323	CHO 2	Roscommon	Monksland/South Roscommon	Lease	● Operational
324	CHO 4	Cork	Blackrock/Mahon	Lease	● Operational
325	CHO 2	Galway	Galway City East/Ballybann	Lease	● Operational
326	CHO 7	Dublin	Irishtown	HSE own	● Operational
327	CHO 5	Kilkenny	Ayrfield	Lease	● Operational
328	CHO 4	Cork	Mallow	Lease	● Operational
329	CHO 5	Kilkenny	Callan	Lease	● Operational
330	CHO 5	Waterford	Tramore	Lease	● Operational
331	CHO 8	Louth	Carlingford	HSE own	● Operational
332	CHO 6	Wicklow	Newtownmountkennedy	Lease	● Operational
333	CHO 8	Laois	Portarlinton	Lease	● Operational
334	CHO 2	Roscommon	Roscommon	Lease	● Operational
335	CHO 8	Meath	Trim	Lease	● Operational
336	CHO 6	Dublin	Balally/Milltown	Service already delivered	● Operational
337	CHO 6	Dublin	Ballyogan/Leopardstown	Lease	● Operational
338	CHO 7	Kildare	Naas	Lease	● Operational
339	CHO 8	Meath	Dunshaughlin	Lease	● Operational
340	CHO 8	Meath	Ashbourne	Lease	● Operational
	CHO 1	Leitrim	Mohill		
	CHO 3	Limerick	Limerick — Hospital		
	CHO 8	Longford	Granard	Lease	
	CHO 1	Sligo	Collooney		
	CHO 3	Tipperary	Nenagh		
	CHO 2	Galway	Inisbofin	HSE own	Underway
	CHO 2	Galway	Inis Oirr	HSE own	● Operational
	CHO 5	Wexford	Ferns	Lease	
	CHO 6	Dublin	Cherrywood	Lease	
	CHO 2	Galway	Moycullen	Lease	Early planning ^b
	CHO 7	Dublin	Rathfarnham	Short term lease	Disposed of ^c

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

- Notes:
- a Proposed developments at Coolock North and Coolock South were merged and progressed as a single facility.
 - b Moycullen was ranked twice on the Q1 2019 status report — an interim centre is operational, and a new centre is currently being developed by lease agreement and is at the early planning stage.
 - c Rathfarnham is included as operational on the Q1 2019 status report however it was disposed of in August 2018.

Annex 15D PPP primary care centre contract

Figure 15D.1 PPP primary care centre contract — key characteristics

Parties to agreement — Health Service Executive, National Development Finance Agency and the private sector company (PPP company).

Provision of a bundle of 14 new primary care centres on fourteen sites.

PPP company design, build, finance and maintain the primary care centres.

Scope of facilities management services — contract management, helpdesk, building management and maintenance, pest control, cleaning, grounds management and maintenance, security, and portorage (building related).

Term of agreement — 25 years from the service commencement date of the first primary care centre — November 2017 to November 2042.

Payment of a monthly unitary charge to PPP company over the term of the agreement.

All income received directly or indirectly in connection with making the PCC available for third party use must be divided 50:50 between the HSE and PPP company.

PPP company granted a licence in respect of each PCC site for the term of the agreement.

Hand-back of the assets to the HSE upon expiry of the agreement in the same condition when service commenced.

PPP company will undertake market testing/benchmarking at agreed stages during the agreement to ascertain the quality, cost and competitiveness of 'testable services' against comparable market costs.^a This may result in adjustments to the unitary charge.

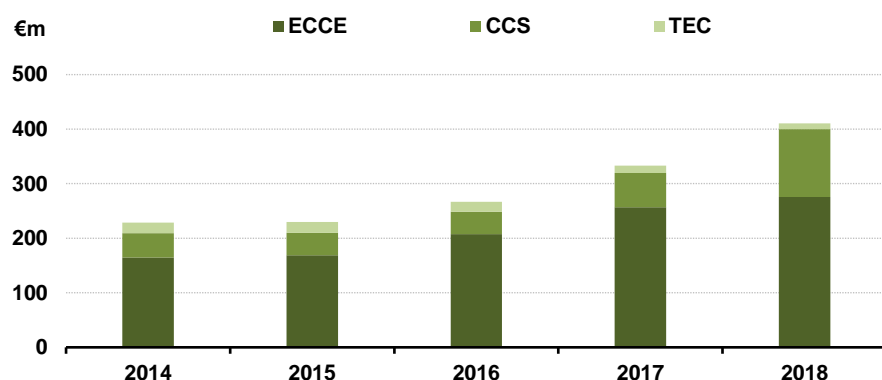
Source: Health Service Executive

Note: a Testable services are defined in the contract as grounds maintenance, portorage, cleaning and environmental decontamination, security provision, and pest control.

16 Delivery of early learning and childcare programmes

- 16.1** The Department of Children and Youth Affairs (the Department) manages a number of funding programmes aimed at, *inter alia*, providing financial support towards the cost of early learning and childcare, ensuring that access to affordable early learning and childcare services is not a barrier to labour market participation, promoting positive child outcomes, narrowing the gap in attainment between more and less advantaged children, driving quality across the early learning and childcare sector, and contributing to poverty reduction.
- 16.2** The Department's principal early learning and childcare¹ funding programmes² are
- **Early Childhood Care and Education (ECCE)** — a universal programme, introduced in 2010, which aims to provide children with their first formal experience of early learning prior to commencing primary school.
 - **Community Childcare Subvention (CCS), and Community Childcare Subvention universal (CCSU)** — the targeted CCS and universal CCSU support parents by reducing the effective cost of early learning and childcare services. The CCS and CCSU were introduced in 2010 and 2017 respectively.
 - **Training and Employment Childcare (TEC)** — supports parents on eligible training and education courses or in eligible employment through a subsidy to offset fees charged by early learning and childcare services. The programme includes three strands that were introduced at various stages from 2010 to 2014.
- 16.3** Expenditure paid out by the Department on these programmes increased from €228 million in 2014 to €410 million in 2018 (see Figure 16.1).
- 16.4** The National Childcare Scheme, formally referred to as the Affordable Childcare Scheme, is due to launch in October 2019. With the exception of the ECCE programme, all other early learning and childcare funding programmes will be replaced by the new scheme.³

Figure 16.1 Early years programme expenditure, 2014 to 2018



Source: Department of Children and Youth Affairs

Note: a For ECCE, figures exclude administration costs, programme support payments and expenditure under the Access and Inclusion Model (beneficiary and administrative costs). Expenditure figures for CCS and TEC include all strands of those programmes, but exclude administration costs, project development costs and quality expenditure costs.

1 In this report, the term early learning and childcare refers to ECCE, CCS and TEC.

2 A fuller description of the various schemes is provided in Figure 16.2 (over).

3 Some elements of CCS will cease for the 2019/2020 programme year. Other elements of CCS (e.g. CCSU, CCSRT) and TEC will continue until at least the end of the 2019/2020 programme year.

Figure 16.2 Principal early learning and childcare programmes managed by the Department

Early Childhood Care and Education (ECCE)

- ECCE is the largest of the early learning and childcare funding programmes. It aims to provide children with their first formal experience of early learning prior to commencing primary school. It is a universal programme, available free of charge to all children from the age of two years and eight months. The programme is delivered for three hours per day, five days per week, and runs over 38 weeks from September to June. Since September 2018, children are eligible for two years of the programme.
- Around three quarters of service providers contracted to provide the ECCE programme are private providers, with the remainder being community-based, not-for-profit providers. Providers on contract to deliver the ECCE programme must provide an appropriate pre-school educational programme which adheres to the national practice frameworks (Síolta and Aistear). Adherence to the national practice frameworks is a contractual requirement of all early learning and childcare programmes.
- The Access and Inclusion Model (AIM) is a child-centred model of progressive supports designed to ensure children with a disability can access the ECCE programme. The main goal of AIM is to empower providers to deliver an inclusive pre-school experience, ensuring all eligible children can participate in the ECCE programme.

Community Childcare Subvention (CCS)

- The targeted CCS programme and its universal variant (CCSU) provide weekly subsidies to offset fees charged by early learning and childcare services.
- CCSU is open to children aged 6 months to the first eligible point of entry to the ECCE programme. Under CCSU, the maximum subsidy provided per child is €20 per week.
- CCS is open to children under 15 years of age and is available to families who hold a medical card or are in receipt of social welfare benefits. Under CCS, a maximum subsidy of €145 per week is provided. An extension of the main programme — Community Childcare Subvention Plus (CCSplus) — was created in February 2016 to include private childcare providers.^a
- To avail of the CCSU or CCS schemes, children cannot be simultaneously enrolled on any of the Department's other early learning and childcare funding programmes and schemes.
- There are variants of the CCS scheme targeted at children in specific categories e.g. refugees (CCSR) and homeless children (CCSRT).^b

Training and Employment Childcare (TEC)

- The TEC programme provides funding for early learning and childcare to support parents on eligible training courses and certain categories of parents returning to work. There are a number of strands to the TEC programme.
- Under the Childcare Education and Training Support (CETS) scheme, services are contracted to provide early learning and childcare places to qualifying Solas or education and training board trainees or students, for the duration of their course.
- The After-School Child Care (ASCC) scheme is designed to support low-income and unemployed people to take up a job, increase their days of employment or take up a place on a Department of Employment Affairs and Social Protection employment programme (excluding community employment). The Community Employment Childcare (CEC) scheme subsidises the cost of early learning and childcare for children whose parents are participating in a community employment scheme.^c

Source: Department of Children and Youth Affairs

Notes: a Prior to February 2016, CCS was only available through community childcare services.

b Refugees can claim a subvention to enable them to avail of childcare while they attend a language or orientation course. Homeless families can access free childcare for children aged five and under and for children aged between six and twelve, for the school holidays only.

c CEC(PS) refers to preschool care and CEC(AS) refers to after school care.

- 16.5** The Department manages an annual capital programme for early learning and childcare, which is administered by Pobal. The Department has stated that it uses an evidence-based process to inform annual funding priorities under the programme. In recent years, the focus has been on increasing the number of early learning and childcare places, essential maintenance and upgrading, and improving outdoor play areas.
- 16.6** Between 2014 and 2018, the Department provided capital funding of between €3.3 million and €11.2 million per annum to early learning and childcare providers.
- 16.7** The Department has delegated responsibility for the administration of programmes, including compliance, to Pobal. In 2018, the Department paid €7.9 million to Pobal for that service.
- 16.8** In 2014, Pobal introduced the Programmes Implementation Platform,¹ an online ICT system which facilitates management and administration of the programmes. Its functionality includes enabling service providers to update information in relation to children in their services, across the various funded programmes.
- 16.9** The Department has appointed Pobal as scheme administrator for the National Childcare Scheme, due to commence in October 2019, as provided for under the Childcare Support Act 2018.

Examination objectives

- 16.10** This examination reviews
- the Department's oversight of Pobal's administration of early learning and childcare funding programmes from 2015 to 2018
 - the controls in place to ensure that payments are appropriate and that the quality of learning and care, childcare staff and facilities is of an acceptable standard
 - the Department's evaluation of the effectiveness of early learning and childcare funding programmes.

The Department's oversight of Pobal

- 16.11** Pobal is a not-for-profit company limited by guarantee, without share capital. It was established in 1992 as Area Development Management Ltd, an intermediary company to work on behalf of the Irish government and the EU to support social and economic development within Ireland. In 2005, the company name changed to Pobal.
- 16.12** Pobal operates under the aegis of the Department of Rural and Community Development, and that Department has the key oversight role in regard to the organisation. Board members are appointed by the Minister for Rural and Community Development. Pobal's financial statements are subject to audit by the Comptroller and Auditor General.
- 16.13** Pobal's role has evolved over the years and it now provides management and support services in respect of 25 programmes. It administers programmes on behalf of the Department of Children and Youth Affairs, the Department of Rural and Community Development, the Department of Employment Affairs and Social Protection, the Department of Health/HSE and a number of EU bodies. In 2018, Pobal incurred total expenditure of €730 million, including payments to third parties totalling €700 million.

¹ The Programme Implementation Platform's functions include registrations, payments and communication between Pobal and service providers. The replacement of the platform with a new system is due to begin later this year. The new system will initially be used for the National Childcare Scheme with all other programmes and schemes either ceasing or transitioning across at a later stage.

16.14 With direction and oversight from the Department, Pobal administers the Department's early learning and childcare funding programmes. The level of responsibility delegated to Pobal has increased over the years.

- The Department delegated responsibility for the compliance function in respect of its early learning and childcare funding programmes to Pobal in 2010.
- In 2014, with the introduction of the Programme Implementation Platform, the Department delegated responsibility for ECCE, CCS and TEC registrations to Pobal.
- In 2016, the Department delegated responsibility for the administrative functions for all early learning and childcare funding programmes to Pobal.
- In 2018, the Department delegated the management of higher capitation applications¹ under the ECCE programme to Pobal.

16.15 The administrative and compliance functions are separated within Pobal and operate independently of each other. As a result of a recommendation from the Department's internal audit unit that the staffing of the compliance function should be independent, a new Compliance Audit and Risk section was established within Pobal in 2015 to take over the compliance function. Pobal has stated that relevant information is shared as necessary between its Compliance Audit and Risk section and its Early Years Operations section on relevant non-compliance issues affecting services.

16.16 Pobal currently has a range of responsibilities including administering the contracting of approved service providers on behalf of the Department, administering child registrations, processing capitation payments and conducting onsite compliance checks.

16.17 The Department of Children and Youth Affairs has stated that there has been a continued strengthening of oversight, governance and reporting frameworks between it and Pobal, in line with the increased delegation of responsibility to Pobal and the increasing level of State investment in the sector. The Department has stated that the current governance framework primarily comprises







- a service level agreement to establish the terms of the overall relationship between the two organisations
- programmes of work, which specify the annual outputs and milestones that Pobal is to deliver
- service offers and performance delivery agreements in respect of individual programmes
- operational meetings between the two organisations
- an agreed reporting framework, and a suite of key performance indicators, which are to be developed over the course of 2019
- quarterly performance reports.

¹ Higher capitation rates are available to providers under the ECCE programme, where a room leader has attained a prescribed level of relevant qualification.

Service level agreement

- 16.18** The relationship between the Department and Pobal is governed by an overarching service level agreement (SLA) which is updated periodically. The SLA includes a number of appendices, three of which are agreed annually (programme of work, service costs offer, compliance service offer). The key elements of the current SLA and the annual agreements for 2018 are set out in Annex 16A.
- 16.19** The oversight arrangements in recent years can be summarised as follows
- Between 2011 and 2013, there was a basic SLA in place.
 - There was no signed SLA in place from 2013 to 2015. However, the Department informed the examination team that Pobal continued to deliver services during that period, according to the requirements and specifications of the Department.
 - There was a one-year SLA in place over the course of 2016.
 - The current SLA was originally developed to cover the period from 2017 to 2020 but it has recently been extended until 2022. The Department has stated that the extension of the SLA was in line with the decision to appoint Pobal as the scheme administrator for the National Childcare Scheme and the associated performance delivery agreement, which runs to the end of 2022.
- 16.20** Adequate oversight and accountability arrangements are essential in circumstances where a department delegates responsibility for programme delivery to an external entity. The 2016 *Code of Practice for the Governance of State Bodies* sets out the key elements of an effective performance delivery agreement.¹
- 16.21** Figure 16.3 assesses the SLA between the Department and Pobal against the good practice requirements for performance delivery agreements set out in the Code.

Figure 16.3 Assessment of service level agreement and supporting appendices

Key elements	Assessment
High level goals and objectives	
Key programmes of activity for each individual expenditure programme	
Key outputs specified in quantitative, measurable terms	
Include annual and multi-annual targets for those outputs with clear milestones for delivery	
Cost of delivery of each programme — financial and human resources	
Process for the formal review of the performance agreement	

Source: Code of Practice for the Governance of State Bodies 2016. Analysis by the Office of the Comptroller and Auditor General.

Key:

-  In place
-  Partly in place
-  Not currently in place

¹ The elements set out in the Code prescribe arrangements between departments and State bodies under their aegis. The key principles serve as a useful benchmark of good practice in the development and operation of such arrangements.

16.22 The current SLA between the Department and Pobal is lacking in a number of areas.

- The SLA does not specify quantified or quantifiable objectives or adequate measures that would facilitate assessment of the extent to which the high level objective has been achieved.¹
- The programme of work specifies high level processes and tasks to be delivered by Pobal but, in most cases, quantified output targets are not set. The Department has stated that it is currently working with Pobal to develop a suite of key performance indicators to further support the ongoing monitoring of key Pobal outputs.
- The *Code of Practice* states there should be periodic critical reviews of performance delivery agreements. While the 2018 programme of work indicated that a review of the SLA would take place during the final quarter of the year, no review took place in 2018. The Department has stated that a comprehensive review is scheduled to occur in 2019/2020.

16.23 In addition, certain documents associated with the SLA are not finalised on a timely basis. For example, the 2018 programme of work was signed on 14 June 2018 and the associated service costs were not signed off until October 2018. The 2019 programme of work was signed off in June 2019. The Department has stated that it plans to have a programme of work for 2020 signed off before the end of 2019.

Monitoring meetings

16.24 The SLA envisages meetings between different levels of staff as follows

- Quarterly oversight meetings between the Department and Pobal, chaired by the Department's Secretary General and attended by senior officials from both organisations. The focus of the meetings is on high level governance and performance issues. In 2018, the prescribed four meetings were held.
- Strategic management meetings are to be held between the Department and Pobal every six weeks. Minutes for strategic management meetings from June 2018 to February 2019 were provided to the examination team. From review of the minutes during this period, the meetings did not take place at the frequency envisaged in the SLA — for example, a gap of 16 weeks occurred between two of the meetings. In response, the Department has stated that while the SLA provides for meetings to take place every six weeks, it subsequently agreed with Pobal to meet on a quarterly basis. It stated that meetings are now occurring in line with that timeline.

16.25 In addition to the governance meetings outlined above, the Department has stated that it conducts further meetings and conference calls with Pobal. Issues discussed at those other meetings include finance, strategic compliance, compliance outcomes, capital expenditure, project management, operational delivery and matters relating to the Access and Inclusion Model programme.

16.26 In March 2019, the Department stated that Pobal performance will be a standard agenda item for both the quarterly and strategic management meetings, which will facilitate a continuous review of critical outputs and requirements over the year.

¹ The SLA refers to the Department's role in leading the effort to improve outcomes for children and young people in Ireland and it identifies the Department's related responsibilities. It states that "Pobal aims to support the Department to meet its high level objective of harmonising policy issues that affect children in areas such as early childhood care and education, children and young peoples' participation, youth work and cross-cutting initiatives for children through the management and delivery of a wide range of services and supports."

Reporting

- 16.27** Figure 16.4 sets out the extent of compliance in 2018 with the principal reporting requirements specified in the SLA.
- 16.28** The Department has stated that during the period under review, it worked with Pobal to develop a suite of performance reports. It stated that Pobal now submits progress reports on a quarterly basis that meet the level of detail specified in the SLA.

Figure 16.4 Compliance with specified reporting requirements, 2018

Requirement	Compliance in 2018
A detailed annual report profiling the early years sector (jointly published by the Department and Pobal).	The early years sector profile report for the 2017/2018 ^a programme year was published by the Department and Pobal in November 2018.
A bi-annual progress report, representing a high level update and analysis of programmatic outputs, trends and operational issues arising.	In 2018, the progress report for the first half of the year was submitted to the Department in September 2018. The September 2018 progress report did not include the level of detail specified in the SLA. The progress report for July to December 2018 was produced in March 2019, this report included information for the full calendar year January to December 2018.
Compliance reports detailing outcomes, trends and weaknesses identified, provided on a monthly and quarterly basis.	The required quarterly compliance reports for 2018 were provided to the Department. However two of the reports were received over two months after the end of the quarter in question.

Source: Department of Children and Youth Affairs

Note: a The programme year runs from 1 September to 31 August.

Regulation and compliance

- 16.29** A multi-agency compliance and inspection regime seeks to address various categories of risk associated with the operation of the early learning and childcare programmes (see Figure 16.5).

Figure 16.5 Compliance and inspection regime for early learning and childcare programmes

Key risks	Mitigating activity
<p>Financial and operational — A service provider may claim in respect of children who do not attend or for hours that are not provided; or may otherwise fail to comply with the rules of the programmes.</p>	<p>Pobal's Compliance Audit and Risk section carries out unannounced compliance visits to check adherence by service providers to programme rules.</p>
<p>Child health, safety, welfare and development — A service provider may fail to provide a service that adequately secures the health, safety, welfare or development of the children participating in the early learning and childcare programme.</p>	<p>Tusla's Early Years Inspectorate has the role of registering and inspecting early learning and childcare services against regulations that relate to the health, safety, welfare and development of children. It carries out inspections ('fit-for-purpose' inspections) before agreeing to register a service, and unannounced inspections of registered services. It can impose conditions for registration or deregister services as a result of inspection findings. It also prosecutes services, for example, those that operate without registration.</p>
<p>Education quality — A service provider may fail to provide an early learning and childcare service that adequately supports the education of children attending the service.</p>	<p>The Department of Education and Skills' Inspectorate has responsibility for evaluating the educational aspect of service provision in the ECCE programme. This is complemented by the Tusla Inspectorate's role in inspecting against certain regulations relating to child development.</p>

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

Pobal compliance activity

16.30 Since 2010, Pobal has had responsibility for the compliance function in relation to the early learning and childcare programmes it administers. The majority of Pobal's compliance programme consist of compliance visits to and audits of early learning and childcare providers.¹ Annex 16B sets out the main elements of compliance visits and audits.

- **Compliance visits** are unannounced site visits which focus on the key contractual conditions of the programmes. Pobal staff will generally examine all early learning and childcare programmes offered by the service provider.² While the visits do not specifically concentrate on financial records, a sample of fee income records is reviewed. Child attendance is compared with registration levels on the Programme Implementation Platform, which is the primary driver of Exchequer-funded payments to service providers. Visits typically last from between 1.5 hours and one day, with a small number extending beyond that.
- An **audit** includes a greater level of detail and additional checks in accordance with the level of identified risk e.g. risk of misappropriation, or serious deficiencies in financial management or corporate governance. Pobal typically conducts audits as a result of inadequacies discovered during compliance visits or as a result of information received from third party disclosures or complaints. However, Pobal has stated that because the contracts between the Department and service providers do not require the ring-fencing of funding or the reporting of expenditure, its ability to conduct typical audit tasks (e.g. vouching of expenditure) is restricted.

16.31 In addition to compliance visits and audits, Pobal conducts verification checks on capital grants, and grants to national voluntary childcare organisations and city/county childcare committees. These grants are underpinned by grant agreements between Pobal (as distinct from the Department) and the relevant grantees. Verification checks aim to obtain assurance that grant monies are spent for the purposes intended and that public accountability requirements are adhered to.

Pobal compliance visit targets

16.32 Pobal and the Department agree an overall budget and annual service offer for Pobal's compliance activity for early learning and childcare programmes. The agreement includes an annual target in relation to the number of contracts to be reviewed by way of compliance visits for early learning and childcare programmes. Since 2015/2016, the target has been to review 2,750 contracts annually. The actual number of visits annually varies in light of emerging risks and priorities, for example repeat visits. No targets are set in relation to the number of audits to be conducted as these are information driven.

16.33 Individual service providers tend to have more than one contract with the Department as they are often receiving payments under more than one funding programme. When Pobal conducts compliance visits, it usually examines all contracts. The numbers of compliance visits and audits conducted over the last three years are set out in Figure 16.6. Given the small number of audits, the total compliance cost has been applied to compliance visits to establish the trend in costs. Pobal has stated that the increased average cost per visit is related to the increasing complexity of ECCE visits in particular, and the increasing number of revisits required.

¹ Pobal has stated that compliance visits are undertaken in accordance with its remit, as agreed with the Department of Children and Youth Affairs.

² Some visits may focus on particular programmes only.

Figure 16.6 Pobal compliance activity, 2016 to 2018

Compliance activity^a	2015/2016	2016/2017	2017/2018
Compliance visits ^b	2,164	1,745	1,711
Audits	6	8	7
Contracts reviewed ^c	3,009	2,862	3,733
Compliance activity costs	2016	2017	2018
Total cost (€ million)	1.2	1.4	2.3
Cost per visit (€)	570	827	1,316
Cost per contract (€)	410	504	603

Source: Pobal Compliance Audit and Risk section

Notes: a Compliance activity is reported by programme year (September to August) whereas costs are reported by calendar year.

b The number of compliance visits excludes any revisits that occurred in the period.

c Excludes grants reviewed through verification visits governed by contracts issued directly by Pobal e.g. capital programmes.

16.34 Over the last three years, Pobal has initiated 21 audits. These are currently at various stages of progress

- Thirteen cases are the subject of legal advice from the Chief State Solicitors Office and are being followed up and/or closed off accordingly.
- The remaining cases are either concluded from an audit perspective or are being followed up by Pobal or the Department.

Risk-based compliance activity

16.35 Figure 16.7 (over) shows the proportion of contracts of early learning and childcare services that were reviewed in compliance visits over the last three years.

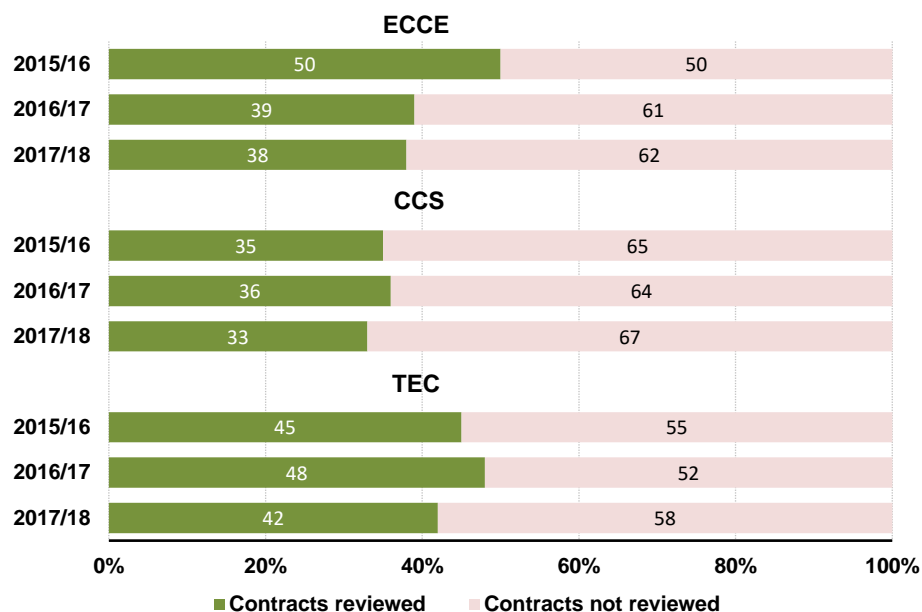
16.36 While risk is considered in the context of selecting early learning and childcare services for compliance activity, Pobal does not have a structured system for risk rating either the programmes or service providers. Pobal has stated that it has consistently highlighted to the Department the programmes with the most significant risk and that compliance visits are routinely scheduled to the services with historic compliance issues.

Categorisation of compliance outcomes

16.37 Compliance visit outcomes are reported by Pobal as part of the monthly and quarterly reports to the Department. The Department noted that it regularly reviews the compliance reports provided by Pobal and the findings of the reports are considered in determining future changes to the rules, communications and compliance approach.

16.38 At the request of the Department, Pobal has amended the categories used to capture the results of compliance visits in each of the last four programme cycles. The Department has stated that this was in response to deficiencies identified in the categorisations and to give a better understanding of those areas of highest risk to Exchequer funding. The changes to the definition of categories used for compliance outcomes reduces the transparency of the system as it is difficult to compare results over time.

Figure 16.7 Proportion of total contracts reviewed, 2015/2016 to 2017/2018



Source: Pobal Compliance Audit and Risk section

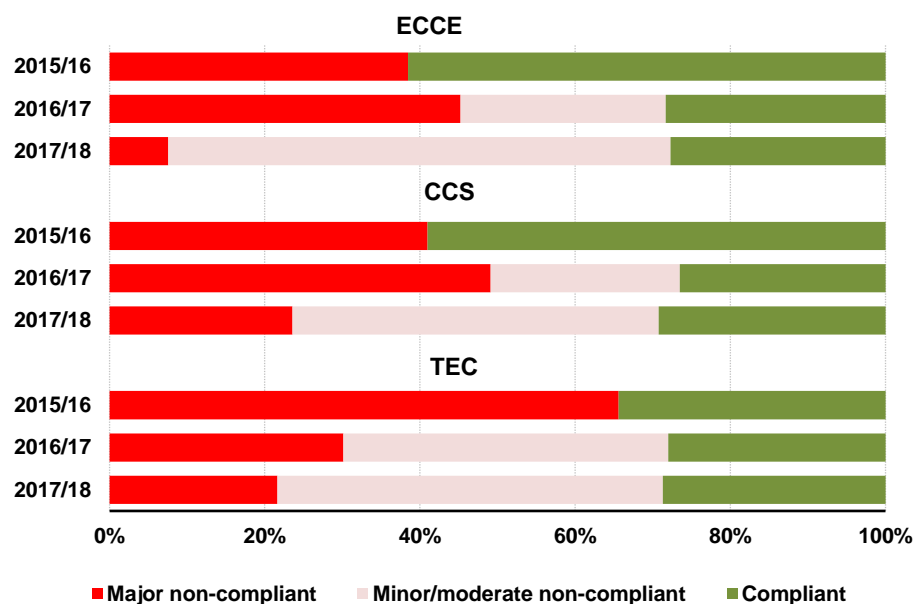
16.39 For the purpose of this examination, the outcomes for the last three programme years have been categorised under three headings (see Figure 16.8 (over))

- **compliant**
- **minor non-compliant** — includes outcomes that have been categorised as minor non-compliant, compliant with special advisory and moderate non-compliant
- **major non-compliant** — previously, an assessment of major non-compliance resulted from any identified risk to Exchequer finances. From 2017/2018 onwards, this category only applies where there is a significant risk to Exchequer finances.¹

16.40 During the 2017/2018 cycle, a number of service providers were deemed majorly non-compliant for (one or more of) the following reasons

- admittance not gained during compliance visit or no records available for review
- absent or inadequate attendance records on site
- service provider not delivering sufficient hours/days/weeks
- Programme Implementation Platform system requires updating
- in the case of the ECCE programme, a number of service providers in receipt of higher capitation funding (for staff with higher qualification levels) were deemed majorly non-compliant where it was found that either staff employed did not have the minimum qualification requirements or the relevant children were not being taught by staff members with those qualifications.

¹ The Department has stated that this change was partially to allow the compliance framework to address significant risks meaningfully. An example of a significant risk to Exchequer finances is where attendance records are either inadequate or missing, resulting in an inability to vouch the vast majority of Programme Implementation Platform registrations chosen for review.

Figure 16.8 Compliance activity outcomes, 2015/2016 to 2017/2018^{a, b}

Source: Pobal Compliance Audit and Risk section

Notes: a All strands of CCS are grouped together.

b For the 2015/2016 cycle there were only two categories used. The compliance outcome was categorised as either green (fully compliant or minor non-compliant) or red (major non-compliant).

Follow-up action

- 16.41** Pobal stated that up to 2017/2018, the lack of effective sanctions for non-compliant service providers mitigated against effective enforcement. It stated that it was not uncommon for service providers to remain non-compliant on the second and subsequent compliance visits. In that regard, the Department has stated that a new compliance framework, introduced in 2017/2018, should assist in addressing persistent non-compliance. The new framework focuses on attendance record requirements.
- 16.42** The new compliance framework provides for progressive sanctions for repeat offenders, up to and including the exclusion of service providers from Department-funded programmes as follows
- It provides for support from the relevant city/county childcare committee following a first identified instance of major non-compliance.
 - Following a second finding of major non-compliance in the subsequent cycle, a service provider may lose eligibility for programme support payments. Programme support payments were introduced in 2017/2018 to compensate service providers for the time required to perform administrative activities outside of contact time with children. In 2018, €18 million was paid to 4,500 service providers i.e. an average payment of €4,000.
 - In the case of a third offence in subsequent cycles, the Department will consider excluding the service provider from Department-funded programmes.
- 16.43** It is too early at this stage to assess the effectiveness of the new compliance framework. The Department has stated that the new National Childcare Scheme has been designed with a more effective compliance regime from the beginning.

Over-claims

- 16.44** In cases where it is discovered — normally during a compliance visit — that a service provider has over-claimed (e.g. a child's actual attendance does not match the associated registration on the Programme Implementation Platform), the situation can often be regularised before the end of the programme year, through reducing future payments to the service provider. However, the Department has stated that this may not be possible in cases where
- the over-claim value exceeds the value of remaining payments due in the current programme year
 - reducing payments would create sustainability and/or cashflow issues for a community service.
- 16.45** In those cases, over-claims can be netted off against payments in a future programme year or a repayment plan can be agreed to spread payments across a longer period.
- 16.46** Since 2015/2016, over-claims by service providers on the ECCE, CCSplus and TEC programmes, arising from incorrect Programme Implementation Platform registrations, have been identified through compliance visits and routinely recovered by Pobal. In the 2017/2018 cycle, CCSU and CCSRT checks also commenced and a pilot programme to identify and recover CCS over-claims was established.
- 16.47** In 2018, the Department undertook a review of approximately 100 cases of potential CCS over-claims that had been identified in relation to the 2015/2016 and 2016/2017 cycles. The Department has stated that, on the basis of the review, it concluded that the CCS rules for the relevant periods were ambiguous. The Department's view is that the rules were not sufficiently clear or robust to ground a finding of an over-claim in cases of under attendance and it is not currently pursuing recovery of amounts paid in cases where the understanding between the parties was unclear.
- 16.48** Pobal maintains a debtors listing of balances being pursued. Debtor balances can arise for a number of reasons including in cases of a de-committal,¹ a compliance visit or audit, a liquidation, an over-payment or a contract closure. At the end of 2017, the amount included in Pobal's accounts that related to programmes funded by the Department of Children and Youth Affairs was €4.1 million. Of this, €1.2 million was deemed irrecoverable. The Department has stated that the vast majority of the debtor balances relate to legacy capital schemes, predating the establishment of the Department, rather than amounts relating to the current funding programmes.
- 16.49** Figure 16.9 gives a breakdown of the amounts outstanding and the amounts deemed irrecoverable. Of the €1.2 million deemed irrecoverable, €104,321 related to early learning and childcare funding programmes and early years capital programmes.

¹ A de-committal of grant funding is a formal, permanent reduction in some or all of the grant monies committed and can only take place following a previous commitment of funding. Grant de-committals relate to grant funded programmes e.g. Early Years Capital.

Figure 16.9 Debtor balances relating to capital and early learning and childcare programmes, 2017

Programme	Outstanding at year end	Deemed irrecoverable
	€000	€000
Legacy schemes ^a	3,041	1,083
CCS	650	94
Early years capital, 2012 – 2017	350	1
TEC	76	9
ECCE	20	—
Total	4,137	1,187

Source: Pobal

Note: a The legacy schemes include EOCP Capital, National Childcare Investment, EOCP Staffing, Area Based Childhood, Learner Fund, City and County Childcare Committees.

- 16.50** Child attendance is the main driver of the level of payment to early learning and childcare service providers. A key financial risk is that service providers claim in excess of what is warranted by the attendance of registered children.
- 16.51** The over-claims identified by Pobal during compliance visits in 2017/2018 indicates that the highest risk attaches to CCS/CCSplus schemes. These resulted in over-claims of over 5% for the service providers visited. The rates of over-claim identified for other schemes was significantly lower: 1.5% for TEC; under 1% for CCSRT and CCSU; and 0.2% for ECCE (which accounts for over two-thirds of total expenditure on early learning and childcare programmes). It is unclear how representative this is of service providers as a whole.
- 16.52** The Department notes that given the volume of compliance visits undertaken and the large percentage of services visited, the rates of over-claim identified on compliance visits can offer direction as to the areas of highest risk. Pobal is continuing work on its methodology for estimating over-claim rates. It has stated this is limited due to the manual process involved. A technological solution will be considered for the National Childcare Scheme platform.
- 16.53** As a result of the estimates of over-claims by scheme, compliance activity by Pobal for 2018/2019 was divided into two phases, with the initial phase focusing exclusively on large CCS contracts and the second phase focusing on large contracts and services previously deemed majorly non-compliant, across all schemes.¹
- 16.54** In December 2018, the Department's Management Board discussed issues relating to compliance on early learning and childcare programmes. The Department is developing a governance framework for the National Childcare Scheme (due to launch in October 2019). The Department noted that the development of enhanced governance requirements for the new scheme will include the development of a risk profile for service providers which will, in turn, assist in targeting compliance resources.

¹ The decision to focus on large contracts resulted in fewer contracts being reviewed, but more funding being covered by the reviews.

Tusla inspections

- 16.55** Up to 2018, all providers of early learning and childcare services to children aged six and under were required by law¹ to register with Tusla. The School-Age Childcare Regulations 2018 (implemented in February 2019) extended the requirement to register with Tusla to all providers of early learning and childcare services to children under the age of 15.² Early learning and childcare programme funding from the Department of Children and Youth Affairs is only available to service providers that are registered with Tusla.
- 16.56** Tusla's Early Years Inspectorate is responsible for assessing service providers' compliance with regulations relating to the health, safety, welfare and development of children attending early years services, and for promoting compliance with those regulations.³ In 2018, the Inspectorate developed a quality and regulatory framework to support registered service providers in complying with their regulatory obligations and to provide clarity and consistency in the standards applied during inspections. The framework covers regulations under the headings of governance, health welfare and development of the child, safety and premises and facilities.
- 16.57** The Inspectorate carries out 'fit-for-purpose' inspections before agreeing to register new service providers as well as unannounced inspections of registered services, and can impose conditions for registration, or deregister service providers, as a result of inspection findings. The Inspectorate's process to follow-up on findings operates as follows
- A draft inspection report is issued to the service provider — if there are non-compliant findings, the provider is invited to indicate corrective and preventative actions aimed at addressing the issue and ensuring it does not recur.
 - If satisfied with the response, the Inspectorate records this on the inspection report.
 - If not satisfied, the Inspectorate may propose to attach a condition⁴ to the registration of the service — the service provider is then given a further opportunity to submit information and evidence on the issue.
 - If no satisfactory response is received from the service provider, the condition is attached to the registration.
 - If the Inspectorate subsequently finds that a service provider has not adhered to a condition on its registration, enforcement actions may be taken.
 - Enforcement actions include removal from Tusla's register of early years services.
- 16.58** In certain cases, either arising from an inspection or as a result of unsolicited information received, the Inspectorate may issue an immediate action notice, instructing a service provider to take specific action to address a serious concern immediately. However, Tusla does not have the authority to instruct a registered service provider to immediately cease operations.
- 16.59** In 2018, Tusla's Early Years Inspectorate carried out 2,513 inspections. Reports in relation to each inspection are published on the Tusla website. Two service providers were deregistered in 2018 for failing to meet requirements. The Department has stated that a further three service providers have been deregistered to date in 2019.

1 Part VIIA of the Child Care Act 1991, as amended by the Child and Family Agency Act 2013 and the Childcare Support Act 2018.

2 In accordance with SI No 575 of 2018, temporary and drop-in school-age childcare services are not required to register.

3 In addition to the Child Care Act 1991, as amended by the Child and Family Agency Act 2013, the Inspectorate operates under secondary legislation (the Early Years Services Regulations 2016 and the School-Age Childcare Regulations 2018).

4 Tusla has stated that a condition is applied to a registration to assist the service provider to address the non-compliance noted. Conditions are usually specific and time limited and are followed up at the appropriate time by the Early Years Inspectorate.

16.60 The most recent comprehensive data on inspection activity and outcomes published by Tusla relates to 2017.¹ A total of 2,033 inspections were carried out in 2017. 1,563 of the inspections were of existing services² — Tusla's report analysed the outcomes of those inspections.

- Nearly two-thirds of service providers inspected were found to be either fully compliant (32%) or non-compliant in either one or two areas (32%).
- 13% were found to be non-compliant in five or more areas.
- The highest level of non-compliance noted was in respect of Regulation 23 'Safeguarding health, safety and welfare of child' — just 45% of service providers were found to be fully compliant in that area.
- In order to assess the extent of remedial action taken by service providers, the Inspectorate followed-up on a random sample of 500 non-compliant findings — it found that just 7% of the findings had not subsequently been addressed.

16.61 Tusla's policy is to pursue prosecutions, where appropriate, when a person or agency has

- operated an unregistered early years service
- failed to comply with the terms of registration for an early years service
- failed to cooperate with or impeded an inspection officer in the course of his/her duties
- failed to allow an authorised officer access to an early years service
- continued to operate an early years service having given notice of voluntary closure or having been removed from Tusla's register of services
- impeded the Inspectorate through deliberate deception or by providing false information.

16.62 On foot of its policy on prosecutions, Tusla has initiated legal proceedings in two cases since 30 June 2016.

16.63 In accordance with Part VIIA of the Child Care Act 1991 (as amended by the Child and Family Agency Act 2013), a judge of the district court may issue a warrant authorising inspection of a premises if there are reasonable grounds to believe that a prescribed early years service is being delivered by an unregistered service provider. Where a person is convicted of an offence under Part VIIA, the court may issue an order prohibiting that person from carrying on an early years service for a specified period.

16.64 In relation to Tusla's inspection regime, the Department of Children and Youth Affairs has stated that it introduced regulations in 2016 that gave powers to Tusla, including to establish a register, to deregister services in certain circumstances and to attach conditions to registration. It stated that a significant increase in its funding to Tusla's Inspectorate since 2016 has enabled more inspections to take place and the introduction of a national management structure in the Inspectorate. The number of annual inspections carried out increased by 90% between 2014 and 2018.

¹ *Tusla — Child and Family Agency's Early Years Inspectorate Annual Report 2017.*

² The remaining 470 were 'fit-for-purpose' inspections relating to new applications or cases where service providers had given notice of a change in circumstances.

Department of Education and Skills inspections

- 16.65** The Inspectorate is a division of the Department of Education and Skills (DES) and is responsible for the evaluation of primary and post primary schools and centres for education.¹ In 2016, an inspection model was developed by the inspectorate known as early years education focused inspections to evaluate the quality of educational provision in early years settings participating in the ECCE programme. Funding for the early years education focused inspections programme is provided by the Department of Children and Youth Affairs. There is a memorandum of understanding between the two departments.
- 16.66** Inspections examine the quality of services in relation to
- the context and processes to support children’s learning and development
 - children’s learning experiences and achievements
 - management and leadership for learning.
- 16.67** The results of inspections are published on the DES website. By the end of 2018, 1,889 inspections had been carried out — 491 in 2016, 707 in 2017 and 691 in 2018.
- 16.68** DES has published a report, *Insights and Future Developments: A review of Early Years Education-focused Inspection, April 2016 – June 2017*, which summarised the results of inspections conducted over the period. The overall conclusion was that the review provided assurance that good efforts are being made to provide high quality learning experiences on the ECCE programme. However, the report also noted a number of areas for improvement.
- 16.69** Figure 16.10 sets out a summary of the report findings, in terms of the strengths and challenges identified.

¹ The Department of Children and Youth Affairs has stated that education-focused inspections were introduced at the request of the Minister for Children and Youth Affairs. Under the *First 5* strategy, there is a commitment to pilot and commence education-focused inspections of early learning and care provision for all 0–6 year olds in 2020.

Figure 16.10 Results of early years education focused inspections, April 2016 to June 2017

Area	Strengths	Challenges
Context to support children's learning and development	<p>Provision of safe, warm and welcoming environments that offer a rich range of inviting learning experience for children.</p> <p>Positive relationships between staff in services and the children and their families.</p>	<p>Provision of rich learning opportunities in the outdoor environments of services.</p> <p>Support for the development of children's sense of identity and belonging could be improved through a range of strategies to ensure that all children and families are fully represented.</p>
Processes to support children's learning and development	<p>Strong coherence between curriculum development and observation and understanding of children's interests and needs.</p> <p>Strategies to regularly engage with parents and families to ensure the relevance of planning for children's learning.</p> <p>Providing rich language experiences that respect the child's mother tongue and emerging second language.</p> <p>Provision of playful, exploratory learning experiences that promote children's uses of mathematical and scientific skills.</p>	<p>Challenges identified across all domains of education practice such as</p> <ul style="list-style-type: none"> ▪ the degree to which curricula and programmes of learning are informed by Aistear (the Early Childhood Curriculum Framework); ▪ the way assessment of learning strategies and processes are used; ▪ how assessment for learning is employed to inform the next steps in children's learning; and ▪ the pedagogical strategies used by early years practitioners to support and extend children's learning.
Children's learning experiences and achievements	<p>Evidence children are enjoying early learning experiences, having formed friendships, and are being provided with the opportunity to explore and 'make meaning' of the world around them.</p>	<p>Challenges arising in relation to the quality of children's achievements and experiences are frequently related to limitations in the range of learning experiences offered and the teaching and learning strategies used by practitioners.</p>
Management and leadership for learning	<p>Strong organisational provision for the support and supervision of staff and engagement in ongoing professional activities such as self-evaluation and review.</p> <p>High levels of ongoing organisational review, professional reflection, outreach to the wider community and to other professionals, and promoting concrete, productive partnership with parents.</p>	<p>Processes to support review of practice were underdeveloped in a majority of services and did not involve all staff.</p> <p>Partnership with parents was often at a low level with little evidence of involvement beyond celebratory events.</p> <p>Relationships with primary schools had either not been established or were not working effectively to support children's transitions.</p> <p>In services that were categorised as fair in this area, some staff struggled with working conditions that prevented them from engaging in professional activities such as planning and evaluation.</p>

Source: Department of Education and Skills. *Insights and Future Developments: A review of Early Years Education-focused Inspection, April 2016 – June 2017.*

Data sharing between compliance and inspection bodies

- 16.70** As outlined above, three separate entities — Pobal, Tusla and the DES Early Years Inspectorate — have responsibility for inspecting different aspects of the early learning and childcare programmes.
- 16.71** In addition to its oversight and monitoring relationship with Pobal, the Department of Children and Youth Affairs (DCYA) has an oversight and funding role in relation to Tusla and the DES Early Years Inspectorate, comprising the following elements
- DCYA states that it now aims to conduct formal liaison meetings with Tusla every six to eight weeks. In practice, three formal liaison meetings took place during 2018.
 - Tusla provides DCYA with information on relevant legal cases it is pursuing and cases where it has removed service providers from its register.
 - Information sharing between DCYA and Tusla has generally been on an ad hoc basis. DCYA has stated that it is currently finalising a formal communications protocol with Tusla to govern information sharing, including in relation to services at different stages of the deregistration process. DCYA is also currently exploring with Tusla and Childcare Committees Ireland an appropriate mechanism for information sharing and referrals to support regulatory compliance.
 - Data sharing between the DES Inspectorate and DCYA takes place in accordance with a memorandum of understanding signed by both departments.¹ Data is shared on issues arising and the progress of inspections carried out under the DES' early years education focused inspection model. All such inspections result in the publication of a report on the DES website. Under the terms of the memorandum with DCYA and Tusla, the DES may share information arising from the inspection programme with either organisations where relevant e.g. a breach of statutory regulation or child protection concern.
 - DCYA has stated that it chairs an operations and systems alignment group, established in 2015, which includes representation from Tusla, the DES Inspectorate, Pobal and Better Start. It has stated that the group meets regularly to ensure the efficient and effective delivery of inspection, audit and mentoring functions and that issues of coordination and data sharing are addressed at meetings.
- 16.72** While there is evidence of interaction and data sharing between the three bodies, it would be desirable for them to communicate on a more regular and structured basis and, where possible, to share relevant information on service providers. In particular, it is important that information on enforcement actions (e.g. deregistration) is shared on a timely basis.
- 16.73** Data sharing on a more formal basis between DCYA, Tusla and the DES Inspectorate would maximise the efficiency and effectiveness of the overall compliance regime. In particular, it would facilitate the identification of service providers who are persistently non-compliant across the three inspection regimes — such providers should be subject to a more stringent and tailored inspection approach.

¹ There is also a memorandum of understanding in place between Better Start and Tusla. Better Start is a quality development initiative of the Department of Children and Youth Affairs, collaborating with the Department of Education and Skills.

Evaluation of effectiveness

- 16.74** Based on the numbers of children availing of each programme in 2017/2018, the estimated average cost per child was around €2,300 for the ECCE programme, and around €1,600 for the other programmes.¹
- 16.75** The Department's overall objectives in relation to early learning and childcare funding programmes are elaborated in the *First 5 strategy*² (launched in November 2018) as being to
- make high-quality early learning and childcare for babies and young children more affordable
 - maintain and extend the supply of high-quality publicly subsidised early learning and childcare to best serve the developmental needs of babies and young children, ensuring that it also reflects the needs and preferences of parents and families
 - ensure that early learning and childcare provision promotes participation, strengthens social inclusion and embraces diversity through the integration of additional supports and services for children and families with additional needs.
- 16.76** The ECCE programme aims to promote optimal development for all children, to narrow the gap in attainment between more and less advantaged children and to make early learning in a formal setting available at no cost to all children before they commence primary school. The TEC programme is to support parents on eligible education and training board training courses as well as certain categories of parents that are returning to work, by providing subsidised early learning and childcare places. The CCS programme provides supports to parents on low incomes to enable them to avail of reduced early learning and childcare costs.
- 16.77** The Department has stated that the aims of the new National Childcare Scheme will include to provide support towards the cost of early learning and childcare, to ensure that access to affordable early learning and childcare is not a barrier to labour market participation, to promote positive child outcomes and to drive quality across the sector.
- 16.78** While certain objectives for individual early learning and childcare programmes have been set out in various strategies and policies over time, there does not appear to be a clear and comprehensive performance measurement framework, including key performance indicators and targets, which would facilitate assessment of whether intended outcomes are being achieved. The Department has stated that there are a range of targets pertaining to early learning and childcare programmes, including targets in respect of core scheme objectives such as availability, accessibility and quality.

¹ Excludes capital expenditure. The programme expenditure figures applied to produce the estimates are those for the calendar year 2018. The child numbers provided by the Department relate to the 2017/2018 programme cycle. Children who had more than one approved registration in the same programme have only been counted once. Children who had approved registrations in more than one programme during the same academic year are included more than once.

² *First 5: A Whole-of-Government Strategy for Babies, Young Children and their Families* (2019 – 2028), Government of Ireland, 2018.

Availability and access

- 16.79** The ECCE programme was extended in 2016 (age bands widened) and 2018 (all children entitled to two full years of the programme). The objective of introducing a second free pre-school year is to help prepare young children further for starting school and to raise the school starting age to five years. In 2016, 61% of children starting school were under five years old and in 2018 this had reduced to 54%.
- 16.80** The Department has articulated an uptake target (i.e. 95% of eligible cohort) for the ECCE programme or other early learning and childcare programme, as well as a separate target (i.e. 33%) for children under three years old. The Department has stated that these targets are consistent with benchmarks for children's participation in early learning and childcare set by the EU and those established in other EU member states.
- 16.81** Data produced by the Department indicates that the uptake rate for the ECCE programme has been around 90% in each of the last three programme years. The Department has stated that combined data suggests that 95% of children in the ECCE eligible cohort are enrolled in either ECCE or another early learning and childcare programme funded by the Department.
- 16.82** Early Childhood Ireland, which represents many early learning and childcare programme providers, has stated that there is a shortage of ECCE places available in certain areas, particularly in parts of Dublin. The *Early Year's Sector Profile Report 2017/2018* highlights a significant unmet demand for full-time and part-time early learning and childcare and a geographical mismatch between supply and demand for other types of early learning and childcare.
- 16.83** The Department has stated it has taken and is taking steps to ensure an adequate supply of early learning and childcare places. It stated that it has undertaken significant capital investment in the provision of additional places and, since 2016, it has prioritised the funding allocations to ensure that any emerging capacity challenges can be addressed. It further stated that early learning and childcare has been identified as a national policy objective in *Project Ireland 2040*, which envisages greater capital investment over the next decade, with €250 million over ten years earmarked to develop the early learning and childcare infrastructure.
- 16.84** While information on the overall rate of uptake is important, details of the participation rates among particular groups also provides useful information on accessibility.
- 16.85** The Access and Inclusion Model, introduced in 2016, is a child-centred model of progressive supports designed to ensure children with a disability can access the ECCE programme. In 2017/2018, nearly 3,200 children benefited from the Access and Inclusion Model programme.
- 16.86** The Department acknowledges that there are lower than average participation rates for the ECCE programme among those from disadvantaged areas and minority ethnic backgrounds.

16.87 The Department has stated that it has committed to taking a number of actions with the aim of improving access to early learning and childcare funding programmes, as part of its implementation of the *First 5* strategy, including to

- undertake an evaluation of the Access and Inclusion Model programme and consider the need for any enhancements/extension
- undertake a detailed assessment of the ECCE programme to identify cohorts of children with lower than average enrolment and participation rates and take the necessary action to address the issue
- develop mechanisms to provide additional supports to early learning and childcare settings where there are high proportions of children at risk of poverty.

16.88 In addition, the Department has noted that the sponsorship agreements which will be put in place under the National Childcare Scheme are aimed at ensuring access to childcare for vulnerable children and families who have a specific need for childcare; on child development, child protection or family support grounds.

Quality

16.89 Prior to the introduction of the ECCE programme, there was no minimum required qualification for staff working in the sector. Since 2016, all staff are required to have at least a level 5 qualification (leaving certificate) and room leaders are required to hold a minimum of a level 6 qualification (advanced/higher certificate) on the national qualifications framework.¹ Higher capitation rates are available to services where the room leader has a minimum level 7 qualification (ordinary bachelor degree).

16.90 There have been significant changes in the ECCE staff qualification profile since the programme was first introduced.

- In 2010, just 11% of ECCE services under contract met the criteria for a higher capitation amount (i.e. room leader with a minimum level 7 qualification).
- In 2018, available data indicates that half of the service providers under contract to deliver the ECCE programme met the higher capitation requirement.

16.91 Implementation of the *First 5* strategy will see a move towards a graduate-led early learning and childcare workforce, with a target of at least 50% of staff (i.e. all room leaders, assistant managers and managers) working directly with children in centre-based settings to hold an appropriate degree-level qualification by 2028. The implementation plan sets an initial target of 30% to be achieved by 2021.²

16.92 The Department has stated that there is a range of mentoring, training and other supports in place for the quality of early learning and childcare programmes. The supports include on-site mentoring and training to early learning and childcare providers from the Better Start Quality Development service, assistance with the roll-out of *Síolta* and *Aistear* and support for the implementation of the Access and Inclusion Model.

¹ The *National Framework of Qualifications* is developed, promoted and maintained by Quality and Qualifications Ireland.

² *First 5 Implementation Plan (2019 – 2021)*, published May 2019.

- 16.93** Separate to the checks on education quality carried out by the DES Early Years Inspectorate, the Department of Children and Youth Affairs has committed to implementing a tool to assess the quality of early learning and childcare but this has not yet been developed and implemented.
- Periodic quality audits of early learning and childcare provision have been recommended in two reports.¹
 - Based on the report recommendations, funding was allocated for a quality audit of early learning and childcare. It was envisaged that this exercise would be repeated at agreed intervals (e.g. triennially). A tender to develop and administer the quality audit tool was published in 2017. The Department did not award a contract for this work as none of the tenders submitted met the specified requirements.
- 16.94** One of the actions included in the implementation plan for the *First 5* strategy is to develop measurement tools to assess the quality of early childhood services commencing with a tool to measure and monitor the quality of practice in early learning and childcare settings. A national baseline study, using the tool, is to be carried out by the end of 2021.

Monitoring and evaluation

- 16.95** The Department has stated that part of Pobal's function is to monitor and analyse the information collected through registrations and compile a weekly report that is submitted to the Department. The report provides updates on key figures relating to registrations, number of children, contracts, services and payments as well as fees lists, service calendars and higher capitation applications submitted under all the Department's early learning and childcare funding programmes.
- 16.96** An annual early years sector profile report is compiled by Pobal after the close of each programme year. This report represents an overview of the sector. It outlines the findings and analysis of the data captured from two sources; the early years service profile survey and the Programme Implementation Platforms ICT system. The data and findings from the annual report are used to track progress within the sector and identify emerging needs.
- 16.97** The Department has stated that there are plans to strengthen the system for monitoring and evaluation. This will include the development of a national monitoring and evaluation framework for early learning and childcare, including identification of a set of agreed indicators on the quantity, quality and targeting of provision, and regular publication of a national monitoring report. The Department has produced a monitoring and evaluation framework for the National Childcare Scheme (due to launch in October 2019) which will be used for ongoing and periodic systematic monitoring and evaluation.

¹ *Report of the Inter-Departmental Group on Future Investment (2015)* and the *Report of the Expert Group on the Early Years Strategy: Right from the Start (2013)*.

Conclusions and recommendations

- 16.98** Expenditure on early learning and childcare funding programmes has increased significantly in recent years. In 2018, a total of €410 million was provided to early learning and childcare providers.¹ Over two-thirds of the expenditure relates to ECCE, a universal programme for early learning. The estimated average recurrent cost in the 2017/2018 programme year was around €2,300 per child on the ECCE programme, and around €1,600 per child for the other programmes.

Oversight

- 16.99** The Department has a service level agreement with Pobal, which administers early learning and childcare programmes on its behalf. The 2016 *Code of Practice for the Governance of State Bodies* sets out key arrangements that should be in place when a department delegates responsibility for programme delivery to another entity. The current agreement, which includes a number of appendices, does not satisfy a number of key good practice requirements e.g. it does not specify detailed objectives, planned outputs or key performance indicators for any of the early years programmes.
- 16.100** The Department has stated that it currently has a range of oversight structures and governance tools in place with Pobal, of which the overarching service level agreement is only one. It stated the agreement is supplemented by an annual programme of work, as well as reporting frameworks and regular operational and performance monitoring interfaces with Pobal. The Department also noted that a substantial performance delivery agreement was put in place this year, for the forthcoming National Childcare Scheme, which will operate in tandem with the Scheme's monitoring and evaluation framework. This framework sets out outcome, output and process indicators aligned with the Scheme's stated policy objectives. The Department has committed to agreeing Pobal's 2020 programme of work and associated administrative funding prior to the end of 2019.

Recommendation 16.1

The Department of Children and Youth Affairs should ensure that the service level agreement with Pobal is revised to include specific objectives, planned outputs and key performance indicators for all early years funded programmes.

DCYA Accounting Officer's response

The Department accepts the finding and acknowledges that there is a requirement for continued strengthening of its oversight of Pobal which it has contracted to provide a range of administrative and operational services in respect of the early learning and childcare programmes.

The Department and its early learning and childcare programmes have undergone rapid expansion over recent years, which has been accompanied by incremental improvements in governance and oversight.

The Department will ensure existing plans to put in place a suite of performance delivery agreements occur over the course of 2019 and 2020, and that these agreements meet the requirements set out in the *Code of Practice*. It will also review the current service level agreement over this time period.

¹ This figure excludes expenditure under the Access and Inclusion Model as well as the administration and programme support costs for all of the early learning and childcare funding programmes.

Regulation and compliance

- 16.101** The level of compliance activity conducted is not derived from a systematic analysis of the risks attaching to individual schemes but is based on previous compliance outcomes and an estimate of over-claims for all programmes.
- 16.102** Pobal does not have a formal risk rating model. Such a model could risk rate the early learning and childcare funding programmes and individual providers taking account of both inherent risk and evidence in relation to the design and operation of controls over payments. Pobal could use this model to evaluate the adequacy of resources applied to compliance activity and to decide on the frequency and intensity of checks on service providers. It could also be used to assign available compliance resources on the basis of risk.
- 16.103** While Pobal undertakes a large number of compliance visits during each programme cycle, the level of audit activity undertaken (under ten audits per annum for the last three years) is very low, given annual payments of some €410 million to service providers. While the Department acknowledges that audit is available as a separate tool, it has stated that compliance visits remain the key priority in protecting public investment in early learning and childcare programmes and mitigating the risk of over-claims. The Department has stated its intention to agree additional arrangements with Pobal, aimed at checking, improving and supporting good governance in the sector.

Recommendation 16.2

In conjunction with the Department, Pobal should implement a formal risk rating model and use it to calculate the required level of compliance activity (including audits, compliance visit and verification checks) and to ensure compliance resources are deployed on the basis of risk.

Pobal Chief Executive Officer's response

Pobal agrees with this recommendation and will work towards developing this type of model in conjunction with the Department. Discussions around risk rating are underway in the context of the National Childcare Scheme and initial formal risk rating analysis will commence during the 2019/2020 cycle, once compliance visits commence under the Scheme. However, this will be an ongoing process based on information available on services availing of the National Childcare and ECCE schemes. It may not be appropriate to apply a rating based on issues which arose on legacy schemes, which may have had different rules/requirements.

DCYA Accounting Officer's response

The Department accepts this recommendation and will work with Pobal to introduce a formal risk rating model. This has been anticipated and prepared for within the new control environment and the financial governance and accountability requirements, which are nearing completion, of the National Childcare Scheme. There is an existing commitment to developing a formal risk rating mechanism for the National Childcare Scheme.

The 2019/2020 service offers will again have full regard to risk, taking account of the nature of the schemes. In effect, they represent subsidies for specified places for individual children; compliance with attendance rules will therefore remain a priority. The Department also intends to agree with Pobal the appropriate audit function for the early learning and childcare programmes.

- 16.104** It is difficult to assess the effect of the compliance regime on the underlying level of compliance with early learning and childcare scheme rules, given that the number, title and definition of categories used for compliance outcomes have changed frequently from year to year.
- 16.105** Up to 2017/2018, the absence of effective sanctions resulted in service providers that had been assessed, following unannounced compliance visits, as majorly non-compliant with the terms of the grants provided continuing to receive funding. A new framework has been implemented by the Department of Children and Youth Affairs, from 2017/2018, but it is too early to assess its effectiveness.

Recommendation 16.3

The Department of Children and Youth Affairs should schedule a review to assess the effectiveness of the new compliance framework.

DCYA Accounting Officer's response

The Department accepts this recommendation.

The present compliance framework has operated since 2017/2018 with particular focus on major non-compliance related to attendance record rules. The Department will make further improvements to the compliance framework as part of the incremental strengthening of the compliance offering for the current early learning and childcare programmes. The review and update of the compliance framework will consider how the framework has operated since 2017/2018, areas for improvement, and any changes required. These changes include, in particular, the introduction of the National Childcare Scheme on a statutory footing. This work will commence in line with the development of the compliance service offer for 2019/2020 and the National Childcare Scheme.

Under the Childcare Support Act 2018, the new Scheme builds in strong governance checks and balances from the outset.

For example, the Scheme will entail a new weekly attendance reporting return by childcare service providers, and the legislation provides that the scheme administrator may suspend payment of subsidies where the weekly return is not submitted by providers. Similarly, it provides a legal basis to suspend or withdraw subsidies where attendance records are found to be inadequate. At every stage of development of the new Scheme, officials have taken account of the learning from the weaknesses in the legacy schemes.

- 16.106** Currently, Pobal's estimates of over-claims derive from compliance activity selected on a risk basis. Therefore, the results may not provide a representative estimate of the overall level of over-claims arising on individual early learning and childcare programmes.

Recommendation 16.4

Pobal should develop a reliable methodology to enable it to estimate and monitor the underlying level of over-claims arising on individual early learning and childcare programmes. This might include compliance visits and/or audits selected on a random basis.

Pobal Chief Executive Officer's response

Pobal accepts this recommendation.

In terms of non-capital funding for early learning and childcare programmes, Pobal is committed to formulating a methodology to estimate the level of over-claims, identified through compliance checks, in consultation with the Department of Children and Youth Affairs.

With regard to future audit checks, such a methodology will need to be appropriately planned and resourced. In terms of sequencing, the success of any future audit regime must be preceded by robust contractual agreements, financial reporting mechanisms, as well as the provision of key information and other supports to childcare providers in a way that clearly outlines expectations. These steps must duly acknowledge the mix of funding to community/private childcare providers and they must also recognise the nature of non-capital funding being designated subsidies rather than grants. The distinction is important as they are not grants designated for disbursement on ring-fenced costs that are capable of being vouched against pre-defined eligibility criteria. In practical terms, this is expected to result in audit checks that focus on verifying and improving governance standards.

Subject to the Department's agreement, Pobal expects that an audit related service offer will be in place by early 2020, following a proposed initial pilot phase in late 2019.

- 16.107** Three separate entities (Pobal, Tusla and the Department of Education and Skills) have responsibility for compliance and inspection of different aspects of early learning and childcare provision. While there is evidence of regular interaction between the entities, adopting more formal protocols for communication and data sharing has the potential to improve the overall effectiveness of the compliance regime.

Recommendation 16.5

The Department of Children and Youth Affairs should agree formal protocols for data sharing with other inspection bodies.

DCYA Accounting Officer's response

This recommendation is accepted.

Coordination and data-sharing is already taking place and has been strengthened over time. However, it is agreed that formal arrangements should be made and these will be signed in the near future.

Coordination and data-sharing arrangements have been in place for some years through the Operations and Systems Alignment Group, through regular liaison meetings between this Department and each of the inspection bodies, and through effective sharing of relevant data on a bilateral basis. A memorandum of understanding is in place between this Department and the Department of Education and Skills, and a formal communications protocol between this Department and the Tusla Inspectorate is close to finalisation.

In relation to data-sharing between inspection bodies, it is important to note the very different roles and focus of the three bodies and their data protection responsibilities. Whilst it is appropriate to share some information, caution must be exercised regarding what is shared and how the information is used. The independence and particular role of each body must be considered, and caution must be exercised in drawing any conclusions from a finding of another body.

Recommendation 16.6

As the provider of significant State funding to the early learning and childcare sector, the Department of Children and Youth Affairs should, subject to compliance with GDPR¹ requirements and with due regard to the independent roles and statutory responsibilities of different entities, provide for the collation of the results of all inspection types to identify service providers who are persistently non-compliant across the three inspection regimes. Such information sharing could support more informed risk-profiling by the different bodies.

DCYA Accounting Officer's response

This recommendation is accepted.

There are some practical difficulties in relation to achieving this, but we will review how best to implement the recommendation.

The three relevant entities have different roles. Since they each conduct their activity at different frequencies, very recent information may be available from one body, whereas information from another may understandably be over two years old. There can be no presumption that weaknesses found across the inspection types will be correlated, but it would be valuable to cross-check the results. Each organisation has data protection responsibilities and a duty to afford services due process where failings are identified.

Weaknesses in management in a service provider may be reflected in findings across all three inspection/audit bodies, and there would be benefit in further strengthening appropriate data-sharing between the inspection/audit bodies, subject to due process and GDPR requirements.

Evaluation of effectiveness

16.108 The ECCE programme, introduced in 2010, accounts for over two-thirds of total expenditure on early learning and childcare programmes. The scheme was significantly expanded in 2016. While the overall participation rate is relatively high, the Department has noted lower uptake rates for ECCE among those from disadvantaged areas or minority backgrounds.

16.109 As part of implementation of the *First 5* strategy, the Department has committed to undertaking a detailed assessment of the ECCE programme to identify cohorts of children with lower than average enrolment and participation rates and to taking the necessary action to address the issue. The Department has also committed to developing mechanisms to provide additional supports to early learning and childcare services where there are high proportions of children who are at risk of poverty to mitigate the impacts of early disadvantage. This will be informed by the *Delivering Equality of Opportunity in Schools* programme in primary and post-primary schools.

¹ The General Data Protection Regulation (GDPR) came into force across the European Union in May 2018. It establishes a new European-wide framework for data protection.

- 16.110** While certain objectives for individual early learning and childcare programmes have been set out in various strategies and policies over time, there does not appear to be a clear and comprehensive performance measurement framework, including key performance indicators and targets, which would facilitate assessment of whether intended outcomes are being achieved.

Recommendation 16.7

In order to facilitate evaluation of early learning and childcare programmes, the Department of Children and Youth Affairs should develop high level goals supported by measurable objectives in the form of specific targets and key performance indicators.

DCYA Accounting Officer's response

This recommendation is accepted.

One of the major objectives of the *First 5 Strategy* is 'a strong national infrastructure for research and data that is used to inform policy and practice, alongside an ongoing programme of monitoring and evaluation'. The Department currently takes steps to monitor and evaluate individual early learning and childcare programmes, and report on performance indicators and targets, both national and international.

The new National Childcare Scheme has already put in place a substantial performance delivery agreement which operates in tandem with the Scheme's monitoring and evaluation framework. Building on this, and delivering on a *First 5* action, the Department has committed to developing a robust national monitoring and evaluation framework for early learning and childcare, including identification of a set of agreed indicators on the quantity, quality and targeting of provision, and regular publication of a national monitoring report. This will build on the *EU Quality Framework on Early Childhood Education and Care*.

- 16.111** The Department has committed to provide continued funding and support for two full years of the ECCE programme and intends to undertake a review of the programme and, subject to findings, to identify any necessary changes during the 2019 – 2021 period.
- 16.112** Under the *First 5* strategy, the Department has committed to developing a self-evaluation framework for early learning and childcare so that providers can assess their own performance along the quality spectrum, from compliance to excellence, and to developing and using appropriate methods to take account of the views of children and parents in the inspection of early learning and childcare.
- 16.113** *First 5* also re-commits the Department to developing a tool to measure and monitor the quality of practice in early learning and childcare settings. The Department has stated that such a research tool would complement other quality assessment mechanisms already in place and would provide a mechanism to assess the effectiveness of policies aimed at raising quality at a system-wide level. A national baseline study, using the tool, is to be carried out by the end of 2021.

Annex 16A

Figure 16A.1 Summary of elements in the current SLA and annual agreements

Service level agreement

- General arrangements relating to the delivery by Pobal of services to the Department.
- Purpose and objectives of the SLA.
- Agreement by the Department to certain criteria in respect of the programmes and schemes administered by Pobal.
- Agreement by Pobal to adhere to all legislative provisions, circulars, guidelines and public financial procedures issued by the Department and other departments as well as agreement to certain criteria in respect of the programmes and schemes administered.
- Oversight arrangements between the Department and Pobal.
- Corporate governance including roles and responsibilities, governance obligations, reporting, monitoring and accounting, protected disclosures, complaints process and provision of information to Department officials and members of the Oireachtas.
- Funding and fees.
- General terms and conditions.

Programme of work

- The programme of work details high level tasks, duties, processes and time lines that Pobal provides to the Department in a given year. In relation to early years funding programmes it includes general operations, individual tasks for all schemes, programme support payments, integrated case management.
- It also provides duties for other programmes e.g. early years capital, as well as including information on early years projects such as the Affordable Childcare Scheme and information on early years governance and finance including the reporting framework.

Service cost offer

Service cost offer agrees a service fee for the delivery of each programme. It includes

- overview of costs requested
- expenditure rationales
- Pobal staffing.

Compliance service offer

Compliance service offer agrees the coverage, methodology etc. of the compliance function. The service offer for the 2017/2018 cycle includes details on tasks, processes and timelines in the following areas

- coverage
- compliance process
- a number of appendices including rationale for changes, assumptions and compliance categorisations.

Source: SLA between Department and Pobal. Analysis by Office of the Comptroller and Auditor General.

Annex 16B

Figure 16B.1 Typical tasks for compliance visits and audits^a

Compliance visit	Audit
<p>General checks</p> <ul style="list-style-type: none"> ▪ service in operation ▪ access granted <p>Records</p> <ul style="list-style-type: none"> ▪ attendance records ▪ fee records <p>Fee records</p> <ul style="list-style-type: none"> ▪ check amounts billed to parents reduced to reflect fees received by the service provider from Pobal (e.g. ECCE) ▪ registered fees accurate ▪ optional extras <p>Document retention</p> <ul style="list-style-type: none"> ▪ signed Programme Implementation Platform declaration forms ▪ signed parent fees letters ▪ monthly full-time equivalent on site and up to date (CCS) ▪ parent sign-in sheets available and maintained (TEC) <p>Staff qualifications</p> <ul style="list-style-type: none"> ▪ number of children ▪ capitation levels <p>Other checks</p> <ul style="list-style-type: none"> ▪ Programme Implementation Platform reflects actual attendance (ECCE) ▪ subsidised hours correct (ECCE) ▪ higher capitation sessions maximised (ECCE) ▪ minimum enrolment (8) satisfied (ECCE) ▪ meals provided as required (CCSR/T) 	<p>Corporate governance</p> <ul style="list-style-type: none"> ▪ organisational structures ▪ company secretarial compliance ▪ Board oversight and composition ▪ internal policies and procedures ▪ audited accounts and banking arrangements <p>Records</p> <ul style="list-style-type: none"> ▪ primary accounting records ▪ returns submitted to Pobal ▪ income records and cash management procedures ▪ attendance and fee records <p>Staff-related records</p> <ul style="list-style-type: none"> ▪ payroll and employment contracts ▪ statutory deductions ▪ travel and subsistence claims <p>Other checks</p> <ul style="list-style-type: none"> ▪ general payments sample^{b, c} ▪ insurance documentation

Source: Pobal Compliance Audit and Risk Unit

- Notes:
- a A number of desk-based checks are carried out prior to site visits e.g. previous findings are reviewed prior to compliance visits and Company Registration Office records and audited financial statements are reviewed prior to audits.
 - b Under the terms of their contracts with the Department, ECCE-funded services are not required to ring-fence or report on those payments and it is not therefore possible to identify specific ECCE-funded payments. CCS providers are required to submit periodic returns in respect of CCS funding showing overall expenditure and high level audit trail checks are performed.
 - c In 2019, the Department confirmed that ECCE funding represents a subsidy rather than a grant which must be spent on predefined eligible costs.

Revenue

17 Tax compliance interventions

- 17.1** Self-assessment of tax liabilities by individuals and companies is an essential part of the operation of tax and duties administration in Ireland. Taxpayers are required to file complete and accurate returns and to make associated tax payments in accordance with statutory deadlines. Taxpayers may also claim tax repayments on a self-assessed basis.
- 17.2** A previous examination of tax settlements following compliance interventions identified some weaknesses in Revenue's procedures around recording of intervention outcomes and consistent application of interest and penalties.¹ A number of recommendations were made designed to address those findings. Revenue has provided a statement of how it has responded to the recommendations made in the 2012 report (see Annex 17A).
- 17.3** This examination was carried out to review the progress made by Revenue in tightening up its controls around compliance interventions and the agreement and collection of tax settlements.

Overview of compliance interventions






- 17.4** An effective compliance regime is essential to protect the integrity of the tax system based on the principle of 'trust but test'. For Revenue, the self-assessment compliance regime includes
- **audit interventions** — audits or investigations conducted mainly on the basis of risk and in the majority of cases, involving a full examination of an entity's books and records
 - **non-audit interventions** — less intrusive interventions mainly on the basis of risk where Revenue conduct checks, by correspondence, phone or in a short visit to the taxpayer in relation to a particular aspect of their tax and duty compliance.

The nature of each kind of intervention is summarised in Figure 17.1.

- 17.5** Interventions are carried out in accordance with the requirements of legislation, principally the Taxes Consolidation Act 1997 (TCA) and the Revenue *Code of Practice for Revenue Audit and other Compliance Interventions* (code of practice).
- 17.6** In general, cases are selected for an intervention based on the presence of various risk indicators. A small number of cases are selected randomly for audit.
- 17.7** Revenue's risk-based approach to case selection is based on cross checking and interrogation of all the data Revenue has available on individual taxpayers and businesses. This allows Revenue to rank the taxpayer population in terms of risk, automatically highlighting particular issues that need to be examined.

¹ Chapter 27, Tax Audit Settlements, *Report on the Accounts of the Public Services 2012*.

Figure 17.1 Revenue intervention types

Non-audit intervention	 Assurance check	<ul style="list-style-type: none"> ▪ Compliance interventions that may involve checks and challenges with direct contact with taxpayers to test a compliance issue and/or checks at mail centres and airports. They are frequently based on some apparent discrepancy in data held by Revenue on taxpayers' records or may be due to Revenue guidelines on checking claims for repayments or reliefs. This includes <ul style="list-style-type: none"> ○ excise checks including VRT ○ refund claims relating to stamp duty, and ○ checks on packages which originate from outside of Ireland which are examined at mail centres and goods imported from outside the EU which are inspected at airports and ports.
	 Aspect query	<ul style="list-style-type: none"> ▪ This is a short targeted intervention for the purpose of checking a specific risk, usually identified by one of Revenue's risk analysis tools. ▪ The taxpayer (and/or agent) will generally be told why the query is being made and it may include a request for supporting documentation.
	 Profile interview	<ul style="list-style-type: none"> ▪ As part of the profile interview process, Revenue will issue a letter to the taxpayer identifying the risk areas that will be discussed. Revenue may examine all documentation and records provided by the taxpayer to clarify the risk.
Audit intervention	 Audit	<ul style="list-style-type: none"> ▪ This is an examination of an individual's or a company's books, records and compliance with tax obligations in order to establish the correct level of liability.
	 Revenue investigation	<ul style="list-style-type: none"> ▪ An investigation is an examination of a taxpayer's affairs where Revenue believes, from an examination of available information, that serious tax or duty evasion may have occurred or a Revenue offence may have been committed.

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

Engagement with the taxpayer

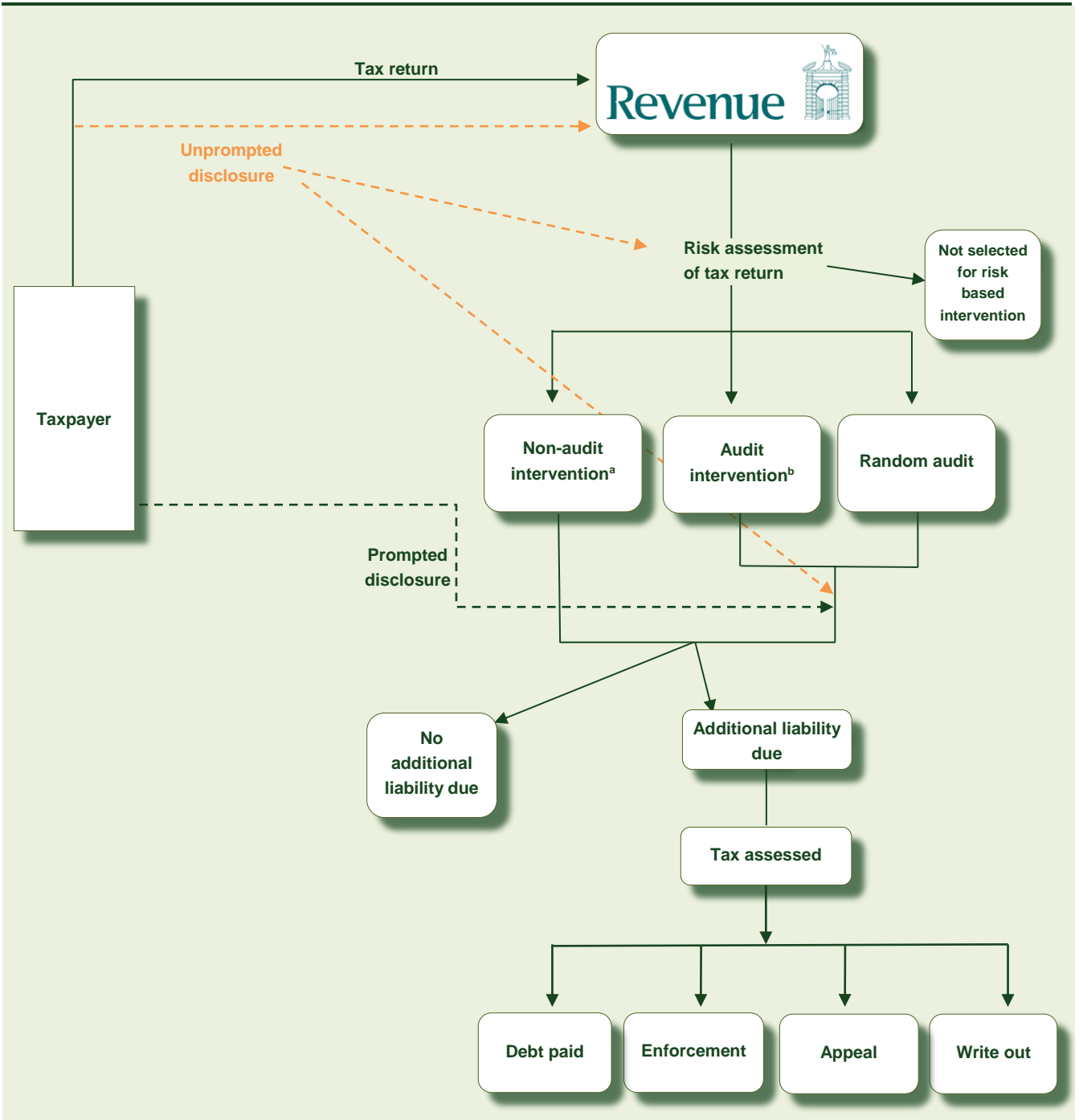
- 17.8** The potential process of engagement between taxpayers and Revenue is summarised in Figure 17.2.
- 17.9** Once a case is selected and assigned to a Revenue caseworker, it is appraised to establish if any type of intervention should occur and if so, what type of intervention is most appropriate. During 2018, caseworkers completed 220,154 appraisals, of which 123,450 (56%) were deemed to require further intervention.
- 17.10** When deciding on the type of intervention for a particular case, the Revenue caseworker assesses the risk involved and decides which intervention would be the most efficient in terms of the time and resources available, while also addressing the perceived risk.
- 17.11** In 2015, Revenue introduced a Revenue Case Management (RCM) system for the recording of all compliance interventions which allows for appropriate categorisation into different intervention types (i.e. aspect query, profile interview, audits and investigations) and projects/risks. RCM is a case working system that records compliance intervention activities. Any assessment raised during the intervention is recorded on a separate system, the Integrated Taxation Processing (ITP) system. The RCM does not interface with ITP and therefore, the assessments are entered separately on ITP.¹

Qualifying disclosures

- 17.12** At any stage before the commencement of an audit or investigation, a taxpayer may make a 'qualifying disclosure' that can mitigate penalties to which they may be liable. In such cases, the taxpayer provides details of any taxes due and interest. The qualifying disclosure must be accompanied by payment of the amounts due or an agreed payment plan. This is considered to be
- **an unprompted voluntary disclosure** — if it is made any time before notification by Revenue of an audit or the instigation of an investigation
 - **a prompted voluntary disclosure** — if it is made after receiving notification that an audit is about to commence, but before the commencement of the audit.
- 17.13** Taxpayers cannot avail of the opportunity to make a qualifying disclosure where a Revenue investigation has been initiated or where a Revenue audit has actually commenced.

¹ The Integrated Taxation Processing system is Revenue's core integrated tax and customs administration system. It maintains the case base, processes tax returns, payments, refunds, repayments and manages compliance for Revenue.

Figure 17.2 Revenue audit and compliance intervention process



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

- Notes:
- a Non-audit intervention includes assurance check, aspect query or profile interview.
 - b Audit intervention includes audit and investigation.

---> In cases not involving deliberate default, where Revenue commences an audit or investigation of a particular period or tax head, the taxpayer retains the right to make an unprompted disclosure regarding periods or tax heads not within the scope of the intervention.

Interventions completed and associated yields

- 17.14** Revenue completed 461,044 interventions in 2018. Interventions are classified as completed when
- the settlement is agreed and the liability arising has been paid or is in an agreed phased payment arrangement
 - the case is passed to the Collector General for collection or
 - it is not possible to collect the additional liabilities identified e.g. a company has gone out of business.
- 17.15** 123,919 (27%) interventions completed in 2018, yielded €572.1 million (See Figure 17.3).
- 17.16** Non-audit interventions account for yield of €316 million, over half of the total yield from compliance activity. About one in four of these interventions resulted in additional tax, interest and in some cases penalties being assessed as due. By contrast, almost two thirds of audit interventions resulted in additional liabilities, averaging €84,500 per yielding audit case.

Figure 17.3 Compliance activity and yield, 2018

Type of intervention	Number of interventions			Yield €m	Average/ yielding case €
	Completed	Additional tax arising	%		
Assurance checks	356,813	96,254	27%	7.2	75
Aspect query	94,393	23,464	25%	289.7	12,347
Profile interview	5,095	1,171	23%	19.2	16,396
Non-audit interventions	456,301	120,889		316.1	
Total audit interventions	4,743	3,030	64%	256	84,488
Total interventions	461,044	123,919		572.1	

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

Interest and penalties

- 17.17** The Taxes Consolidation Act 1997 *inter alia* provides for the application of interest on late payment of tax, and for penalties for not submitting tax returns or for the submission of incorrect returns.
- 17.18** The interest rate on overdue tax varies between two broad groups of tax headings.
- The interest rate in respect of direct taxes such as income tax, corporation tax, capital gains tax, gift and inheritance tax is currently 0.0219% per day or 8% per annum.
 - The interest rate in respect of fiduciary taxes, such as value added tax and pay as you earn is currently 0.0274% per day or 10% per annum.

There is no provision for the mitigation of interest due.

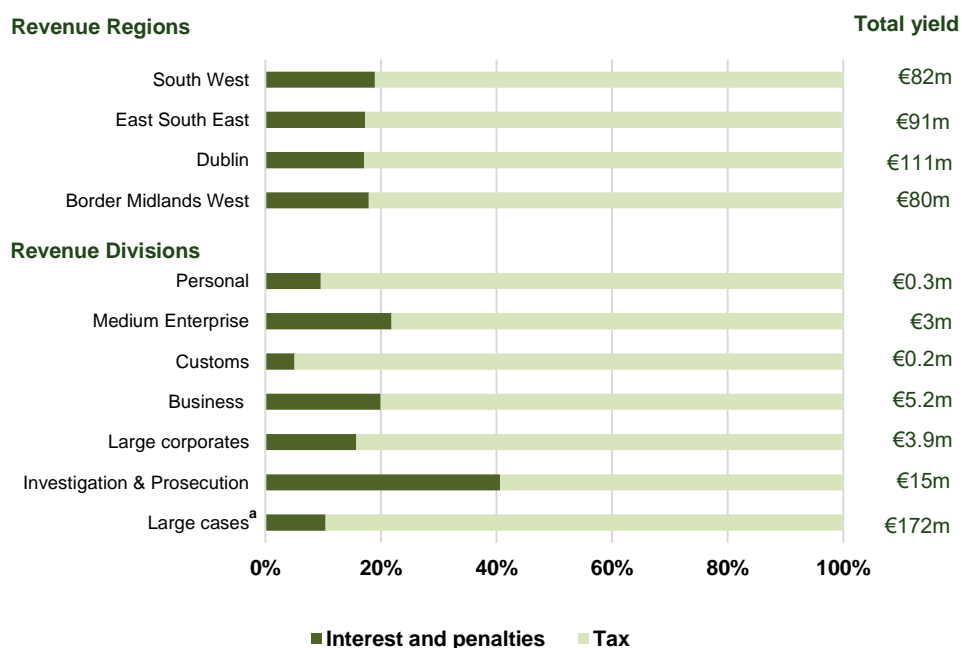
17.19 Penalties are not applied in certain circumstances.

- Where the aggregate tax due is less than €6,000 and the default did not arise because of deliberate behaviour.
- Where a taxpayer self-corrects a return and pays the tax and related interest. There is generally a 12-month time limit from the due date of filing returns in place but exceptions to this limit apply to certain types of taxes.
- Where Revenue is satisfied that the default arose due to innocent error.
- Where the additional liability arises from a technical adjustment and Revenue is satisfied that due care has been taken by the taxpayer and the treatment concerned was based on a mistaken interpretation of the law or practice, and did not involve deliberate behaviour.

17.20 The penalty rates applied for a tax default range from 3% of the tax due to 100% (see Annex 17B). In addition to the details of the taxpayer, the nature of the default and the settlement amount and details may be published by Revenue. Making a qualifying disclosure results in lower penalties being applied and details of the settlement are not published. Unprompted qualifying disclosures attract lower rates of penalty than prompted disclosures.

17.21 The examination reviewed the extent to which interest and penalties were applied in respect of all interventions finalised in 2018. The rate of application of penalties and interest (relative to tax due) as a result of intervention activity varies between Revenue divisions and regions (See Figure 17.4).

Figure 17.4 Proportion of yielding cases in 2018 where interest and penalties were applied, by unit and region



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

Note: a Revenue defines large cases as companies with Irish turnover of €190 million or more on a group basis or tax payments greater than €18 million on a group basis annually. Large Cases Division also manages individual taxpayer cases with net assets greater than €50 million (reduced to €20 million in May 2019), and non-residents with substantial interests in Ireland.

17.22 Overall, interest and penalties accounted for 16% of the compliance activity yield in 2018.

- Revenue's Investigation and Prosecution Division applied the highest rates, with interest and penalties accounting for over 40% of the yield in 2018.
- The level of interest and penalties applied to cases was significantly lower in the Personal Division than for almost all other divisions. The average yield in these cases was about €2,000. Where the aggregate amount of a taxpayer's liability is less than €6,000 and default is not deliberate, no penalty is applied.
- The level of interest and penalties applied to cases across all four Revenue regions was under 20%.

Revenue has stated that the reported yield may understate the level of interest applied as in some cases the Revenue caseworker may have only recorded a formal assessment for the tax liability and related penalties on RCM. After a case is forwarded to the Collector General for collection, any (additional) interest that may apply will then be calculated.¹

Review of sampled interventions

17.23 The examination reviewed a sample of 50 settlements in 2018 that arose on foot of compliance interventions. This includes five assurance checks and 45 other interventions including aspect queries, profile interviews, audits and investigations.

Assurance checks

¹ The data provided to the examination team is sourced solely from the RCM system and does not include Collector General data. This data is held on a different, non-integrated system, the Active Intervention Management (AIM) system. In March 2019, the Collector General introduced a new debt management system which interfaces with the RCM system.

² Declared customs value of €22 or less is exempt from payment of Value Added Tax (VAT).

³ Importation of consignments with a value of €150 or less is exempt from payment of customs duty.

⁴ Importation of a vehicle into Ireland is subject to Vehicle Registration Tax (VRT) which is payable within 30 days of entry into the State. Failure to register is subject to a penalty.

17.24 In 2018, Revenue conducted just over 356,800 assurance checks. Over one quarter of the checks resulted in the levying of additional tax and duties. The total amount levied was €7.2 million.

17.25 Assurance checks include checks on

- packages which originate from outside of Ireland (where VAT,² excise duty or customs duty³ might apply) which are examined at four mail centres in Dublin, Cork, Portlaoise and Athlone
- vehicles which are imported into Ireland from abroad which are subject to VRT⁴
- goods imported from outside the EU which are inspected at airports and ports
- refund claims relating to stamp duty.

17.26 In most cases, assurance checks are not associated with a tax number e.g. (Personal Public Service Number (PPSN) or registered employer's number). For example, parcels examined in mail centres would not include a taxpayer's reference number. As a result, in most cases information on assurance checks and the associated yield is not recorded on the RCM.

17.27 For the sample of five assurance cases examined, the basis for the tax/duty amount assessed by Revenue was clear in all cases.

Other compliance interventions

- 17.28** 45 cases were selected from the remaining intervention types from the population of cases where there was an additional yield due to the intervention. This population included aspect queries, profile interviews, audits and investigations.
- 17.29** The cases selected comprised five cases with the highest yield in 2018 and 40 cases selected at random while ensuring that all divisions and regions within Revenue were represented. The 45 cases selected had a combined yield of €92.7 million, or 16.2% of the total reported intervention yield in 2018.

Calculating the tax liability

- 17.30** During an intervention, the Revenue caseworker quantifies the liability due. In circumstances where a tax liability has been quantified by the taxpayer in a disclosure, the Revenue caseworker examines the taxpayer's calculation.
- In cases where there is agreement on the liability, the taxpayer generally submits an amended return and pays the additional tax, interest and penalties.
 - In cases where Revenue does not accept the disclosure made and the taxpayer does not agree with Revenue's assessed liability, the Revenue caseworker will raise an assessment for the tax liability through Revenue's tax collection system ITP.¹ Details of this action are recorded on the intervention report on RCM.
- 17.31** Revenue may reduce an assessment of tax liability on foot of additional information from the taxpayer or a determination by the Tax Appeals Commission. In these cases, the original assessment on ITP is amended and a revised assessment is issued.
- 17.32** In reviewing the sample cases for the examination, it was found in one case (case study A) that Revenue had made an estimate of the amount of additional tax potentially due. This estimate was calculated based on the information available to Revenue at the time. The estimated liability was notified to the taxpayer without a formal assessment of the tax due being raised. A substantially lower amount was later agreed in a settlement agreement in advance of an appeal. The Revenue report on the settlement reconciled the final settlement amount with the original Inspector's estimate and recorded reasons for the difference which appear reasonable.
- 17.33** Revenue was not obliged to publish details of the settlement for Case A (€58.5 million) as under the code of practice, publication does not apply when the penalty does not exceed 15% of the amount of the tax.

¹ This assessment does not include interest and penalties as the taxpayer has a right of appeal. It is not possible to raise a penalty charge until the penalty amount is agreed with the taxpayer or determined by a court, or finalise the interest charge until the liability has been paid.

Case study A — Reconciliation of estimated tax and settled amount

February 2009 — Revenue received a letter from a company advising them of an intention to make an unprompted voluntary disclosure related to a specific PAYE area.

April 2009 — Revenue issued a notification of a PAYE/PRSI audit to the company covering a specific two-year period. The audit commenced on 9 June 2009.

June 2009 — January 2013 — Three unprompted voluntary disclosures were made in this period accompanied by payments totalling €5.7 million, comprising €4.2 million tax due and the balance in interest and penalties.

January 2013 — The Revenue audit team focused on four particular PAYE areas. Additional amounts due of €3.8 million were subsequently assessed by Revenue in relation to three of the four areas investigated.

June 2015 — A Revenue Inspector raised and issued a *PAYE/PRSI notice of estimation of amounts due* in the amount of €205 million, based on the information available to Revenue at the time in relation to the remaining area, which was being investigated over the period 2004 – 2014.

July 2015 — The €205 million PAYE estimate was appealed to the Tax Appeals Commission.

August 2018 — A settlement offer of €29.1 million was accepted by Revenue in respect of the PAYE area appealed. The total settlement in Case A amounted to €58.5 million. This comprised

- €5.7 million on foot of voluntary disclosures (including €1.5 million in interest and penalties)
- additional assessments of tax totalling €3.8 million relating to three of the categories under investigation (PAYE/PRSI)
- €29.1 million tax in relation to the fourth area under investigation and
- interest and penalties totalling €19.9 million.

The file for the case set out the basis for the revised assessment of €29.1 million in relation to the fourth area under investigation and provides a reconciliation of this settlement to the original €205 million estimated. The reasons for the difference between the estimate and the settlement are set out and appear reasonable.

17.34 Two of the 45 cases examined were appealed by the taxpayer.

- In one case, the appeal was disallowed by the Tax Appeals Commission as the taxpayer failed to provide tax returns for the period under review.
- In the second case, a settlement was accepted by Revenue just days before the case was to be heard by the Tax Appeals Commission (see case study B). In this case, Revenue had assessed tax due at €113 million but accepted an offer of €10 million on foot of legal advice from senior counsel to accept the settlement due *inter alia* to the passage of time.

17.35 The review found that

- Taxpayers made unprompted or prompted disclosures to the value of €72 million in 17 or 38% of the 45 cases examined.
- In 44 cases, Revenue had assessed liabilities or had considered and accepted qualifying disclosures. The tax liabilities determined in each case were based on the evidence retained on file.
- In one case, an unprompted disclosure was made to the value of €2,747. Revenue did not calculate a liability. The amount submitted by the taxpayer was recorded as the total liability identified during the intervention.
- In another case, a claim of inability to pay part of the liability was accepted by Revenue and collection of €22,285 was deferred.

17.36 The Quality Intervention Standards of the *Revenue Tax and Duty Manual* sets out the quality of documentation required to be retained on electronic or paper file for intervention cases. In all cases, required documentation was on file.

Case study B — Delay in case due to complex issue

2009 — A distribution was received by a parent company (taxpayer) from a foreign subsidiary.

2010 — A corporation tax return for the year 2009 was submitted with an accompanying 'expression of doubt' in relation to the tax treatment of a distribution from a share premium account.¹ The distribution was treated in the parent company's tax return as a part disposal resulting in a loss for capital gains tax purposes.

2011 — Case transferred to the Large Cases Division. Revenue has stated that a number of meetings with the tax agent were held, but was unable to provide notes or minutes of the meetings.

February 2012 — Revenue wrote to the company confirming the distribution received was not paid from retained earnings and therefore was of a capital nature.

April 2012 — Revenue wrote to the company seeking more information.

October 2012 — An internal Revenue recommendation was made stating that counsel's opinion should be sought.

June 2014 — Revenue emailed the agent attaching an extract from a note from senior counsel and requesting sight of legal advice received by the agent in 2009 together with the instructions and request for advice etc.

September 2014 — Change in Revenue caseworker.

December 2014 — The tax agent declined to release the legal advice for reasons of legal privilege but outlined the relevant issues from their legal counsel's opinion.

September 2015 — The tax agent advised Revenue that, in their opinion, 2009 is now beyond the time scope for any intervention.

February 2016 — A letter was issued to the company outlining the reasons why an amended assessment would be made.

June 2016 — A notice of amended assessment was issued to the company outlining the balance payable of €113 million.

July 2016 — The taxpayer appealed the assessment on two grounds

- Revenue was not entitled to make the assessment in excess of four years after the end of the chargeable period
- the taxpayer had originally treated the receipt correctly in its Irish corporation tax return by including an expression of doubt.

February 2017 — Preliminary hearing scheduled before Tax Appeals Commission but the case was adjourned to allow for discussion between counsel.

March 2017 — Case settled for €10 million and liability discharged by taxpayer, before scheduled hearing of Tax Appeals Commission in April 2017.

January 2018 — €10 million recorded as paid on Revenue's RCM system forming part of the reported yield for 2018.

¹ Where a taxpayer has a genuine doubt about the correct tax treatment of a particular issue the taxpayer may make an 'expression of doubt' in accordance with section 959P of the Taxes Consolidation Act 1997. Expressions of doubt are not treated as genuine where there is no ambiguity in the legislation or where Revenue has clarified the matter in its published material.

Interest and penalties in sample cases

- 17.37** The examination also reviewed the application of interest and penalties in the sample of cases. Interest was applied in 32 out of 45 cases amounting to a total of €22.3 million. However, interest was incorrectly levied in seven of the cases examined.
- In one case, (case study C), interest was incorrectly calculated by a Revenue caseworker resulting in an undercharge of €3,371.
 - Minor errors were noted in six other cases, amounting to a total shortfall in interest applied of €1,502.
- 17.38** The examination found that non-application of interest was appropriate in the remaining 13 cases as can be seen in case study D.
- 17.39** Penalties were applied in 17 of the 45 cases (38%) and yielded €600,000.
- In 16 of 17 cases where penalties were applied, the penalties were appropriate. A minor error in the penalty was noted in one case, resulting in a shortfall of €248.
 - In 11 of 17 cases, the taxpayers incurred reduced penalties because they had made qualifying disclosures.
 - In three cases, the taxpayers had not made qualifying disclosures but penalties were mitigated due to full co-operation.
 - In two cases, the full penalty was applied.
- 17.40** The examination reviewed the 28 cases where no penalty was applied and found that the non-application of penalties was appropriate in 27 of these cases. In one case, a penalty of 30% should have applied as the disclosure and return had been submitted after the audit had started and the amount disclosed had exceeded €6,000. Penalties were not applied in this case resulting in a short fall of €4,796 as can be seen in case study C.

Case study C — Incorrect calculation of interest and penalties

A new business was registered in 2014 but VAT and employer PAYE/PRSI (PREM) returns were not filed. A VAT audit case was opened in 2016 and was open for a total of 891 days with multiple Revenue caseworkers assigned to the case. Revenue noted that other factors contributed to the delay such as requests to reschedule the audit, delays from the taxpayer in supplying data requested, tensions between the taxpayer and a supplier in providing information requested by Revenue and multiple inaccuracies in that data when provided.

Errors noted in this case included

- Incorrect calculation of interest due on VAT liabilities, PREM and Corporation Tax (CT). The interest shortfall total was €3,371.
- A formal letter notifying the taxpayer of the liability was issued with the incorrect interest amount included.
- No penalty was applied by the Revenue caseworker as the liability uplift was less than €6,000 and the behaviour was considered not to be in the 'deliberate behaviour' category. In fact, the aggregate default exceeded €6,000. Accordingly, a penalty rate of 30% should have applied to the full liability. This resulted in a shortfall of €4,796.

The overall loss to the Exchequer due to incorrect calculation of interest and penalties in this case amounted to €8,167.

Case study D — Appropriate non-application of interest and/or penalties

A taxpayer incorrectly claimed a married tax credit for the period 1998 – 2014 amounting to €36,308.

No penalties were applied in this case as Revenue stated there was no evidence the credit was claimed other than through an innocent error. No interest was applied, as under section 960 TCA, in cases other than self-assessment, if the liability raised is paid within one month of notification, no interest will apply. The underpayment of €36,308 was paid within one month.

Following PAYE redesign in 2005, a relationship must be created so that married tax credits/rate bands can be applied on the Revenue system. Revenue confirmed that prior to PAYE modernisation in 2019, a review of cases where married credits were being claimed was undertaken. This consisted of cases where

- the spouse's PPSN was not known
- where the spouse's PPSN was changed on marriage ('W numbers' — where women who married in the period up to the early 1990s were assigned the PPSN of their husbands with the letter W attached at the end).

Over 100,000 cases were identified in 2018, following a separate project. These cases are currently being appraised to establish the next steps.

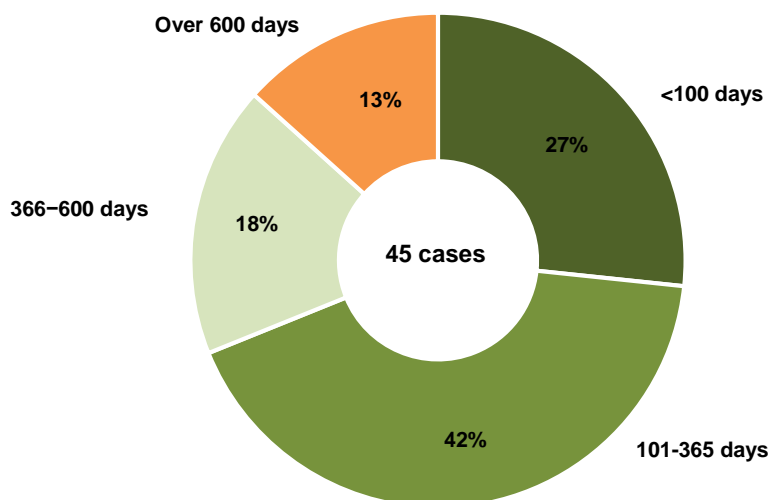
Authorisation and approval of settlement amounts

- 17.41** Tax settlement offers are subject to varying levels of approval. The code of practice states that the Revenue caseworker's report on an intervention should contain a clear recommendation on whether the settlement amount proposed should be approved.
- 17.42** Revenue's formal approval levels for settlements are as follows
- up to €50,000 — District Manager (equivalent to Principal Officer (PO) level)
 - €50,001– €249,999 — Assistant Secretary
 - €250,000 and over — Revenue Commissioner.
- 17.43** The same thresholds apply to PAYE cases except for cases where specific pre-authorisation has been granted and the amount is less than €4,000. In these cases the caseworker may close the case without further approval.
- 17.44** The review found that all settlements had been approved in accordance with Revenue approval thresholds and as per settlement proposed.

Timeliness

- 17.45** Revenue aims to carry out compliance interventions in a thorough and efficient manner, so as to minimise the burden on the compliant taxpayer and to maximise recovery of unpaid tax and duties. The examination reviewed the length of time that interventions completed in 2018 had been open, from initial contact with the taxpayer or agent to the date of closure, as shown in Figure 17.5.

Figure 17.5 Length of time (number of days) intervention cases were open



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

- 17.46** Of the 45 cases selected for review, cases were open for an average of 285 days. The length of time taken on an intervention can jeopardise the strength of a Revenue case where taxes are due following the intervention process. This is largely because a tax assessment must be raised within a specific timeframe, unless there is negligence or fraud on the part of the taxpayer.
- 17.47** Long delays are evident in three of the four case studies outlined in the examination. Revenue noted that two of the cases in question included highly technical and complex issues that required legal consultation and in-depth engagement with the taxpayer, the timing of which was often outside of caseworker control. These delays contributed, in case study B, to a significant difference in the liability originally assessed and the amount settled for. Revenue also noted that in case study A, Revenue's interventions succeeded in increasing the tax liability declared by the taxpayer in spite of very difficult technical issues.
- 17.48** Revenue noted that it does not set time limits for the conclusion of cases. Its rationale is that it is committed to completing interventions as soon as is practically possible but it is also important that interventions are concluded on a sustainable and justifiable basis. Revenue stated that there are many reasons for delays in closing interventions including delays in dealing with correspondence both on the part of taxpayer/agent and on the part of Revenue, and appeals being dealt with by the Tax Appeals Commission. It noted that a time limit focus, while relevant, cannot be the key determinant for the close of a risk-based intervention.
- 17.49** Revenue noted that it has implemented a number of initiatives to ensure cases are finalised in a timely way.
- Revenue monitors how long cases are open, and this has been a consistent priority for the senior management teams in the relevant Revenue Operational Divisions over many years. For 2019, divisions are focusing on interventions that were opened prior to 2016. Between 28 February 2019 and 19 June 2019, excluding cases under appeal, 37% of these cases have been closed.
 - Information on open interventions can be extracted and analysed using the RCM dashboard. The dashboard allows for the extraction of data using standard reports and charts as well as supporting interactive reports where the user can adjust the reporting format as required. These are important tools to assist audit managers in the identification of compliance interventions that are open for a long period.

Classification of interventions

- 17.50** Review of the files for 45 cases examined as part of this examination noted the following.
- One of the cases with a settlement of €10 million arose following an 'expression of doubt' notified to Revenue by the taxpayer in relation to a Corporation Tax return. This has been outlined in case study B.
 - In a further six cases, the resulting yield originated from a process initiated by the taxpayer or agent, either by way of an unprompted voluntary disclosure (where no other Revenue intervention was underway), a formal expression of doubt or a request from the taxpayer to Revenue for clarification on a particular matter.
- 17.51** Of the cases examined, 69% of the reported yield arose in instances where the taxpayer had contacted Revenue.¹ Revenue noted that its continuous engagement with the taxpayer base is designed to encourage self-review, self-correction and disclosure and to make taxpayers aware of the risks of failure to do so. This is particularly true in larger cases, where the co-operative compliance framework, involving significant liaison between Revenue and businesses, works to promote self-review of tax liabilities.

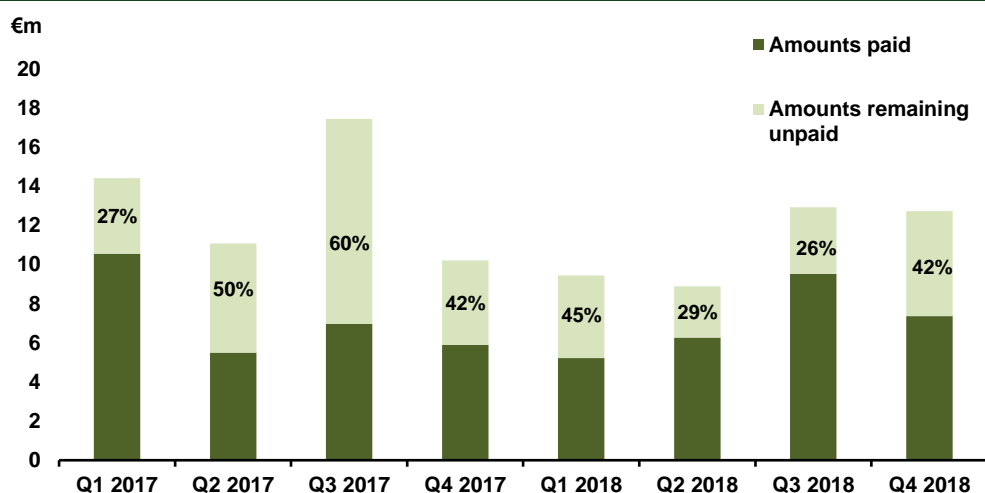
Collection of settlements

- 17.52** Taxpayers do not always immediately pay the amount due when settlement agreements are reached.
- 17.53** Excluding 96,254 yielding assurance checks,² there were 27,665 yielding interventions closed in 2018 (aspect query, profile interview and audit), of which 1,610 had a yield under €100. Revenue does not pursue yields from interventions which it deem uneconomic to pursue, but has not set a threshold for this. The collectability of each yield is judged on a case-by-case basis.
- 17.54** Section 1086 of the Taxes Consolidation Act 1997 imposes an obligation on Revenue to publish on a quarterly basis a list of agreed settlements reached with taxpayers, and Court determined penalties and fines made in the previous quarter. The list is published in two parts.
- Part 1 — persons on whom a fine or other penalty was imposed by a court.
 - Part 2 — persons where Revenue has accepted a settlement of the kind mentioned in section 1086 of the Taxes Consolidation Act 1997.
- 17.55** All cases for publication must be approved, at least, at Assistant Secretary level. The following are excluded from publication
- a taxpayer who has made a qualifying disclosure
 - where the liability does not exceed €35,000³
 - where the penalties do not exceed 15% of the tax due.
- 17.56** In the period quarter 1 2017 to quarter 4 2018, under part 2, 554 cases were published in respect of settlements made. These involved agreed settlements of €97 million. By May 2019, 59% had been collected as shown in Figure 17.6.

¹ The conclusion of case study A in the amount of €58.5 million skews the data and this has been excluded in calculating the proportion of yield that arises following contact from the taxpayer. If this case was included, the proportion would be 89%.

² The average yield on assurance checks is €75.

³ Increased from €33,000 which applied from 2010 to 2016.

Figure 17.6 Published tax defaulters Q1 2017 to Q4 2018 — payment rates as at end May 2019

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

17.57 Two of the 45 cases reviewed as part of this examination were published and both liabilities were paid in full by the time of examination. The remaining 43 cases met one or more of the publication exemption criteria as follows

- 19 cases were as a result of a qualifying disclosure
- 12 cases did not exceed the settlement threshold
- 12 cases incurred no penalty or the penalty did not exceed 15% of tax due.

Conclusions and recommendations

17.58 Revenue seeks to secure compliance in a cost effective manner and it encourages taxpayers to correct errors and mistakes as quickly as possible.

17.59 Revenue reports on the yield from its compliance activity by type of intervention. Analysis of a sample of cases as part of this examination indicated that a significant proportion of the reported yield on compliance activity arose in cases where the taxpayer had contacted Revenue to make a voluntary disclosure or to record an 'expression of doubt' in relation to a particular tax matter.

17.60 Analysis of reported yield as between interventions initiated by the taxpayer and those initiated solely by Revenue would provide useful information in relation to the result of compliance activity arising from Revenue's risk analysis of tax returns submitted and other third party information.

Recommendation 17.1

Revenue should analyse and report yield on compliance activity distinguishing between those interventions which are prompted by contact from the taxpayer and interventions commenced by Revenue based solely on its analysis of tax returns and third party information.

17.61 Following compliance activity, a number of values may be associated with a case

- assessed liability to tax, interest and penalties
- a settlement amount which is counted as the compliance yield amount
- the amount subsequently collected in relation to compliance yield.

There can be differences between these values. Revenue does not report the aggregate amount of the assessed values or the amount subsequently collected in relation to compliance yield.

Recommendation 17.2

Revenue should consider reporting the differences between tax assessed and the tax settled for and collected and the reasons for those variances.

Accounting Officer's response

Agreed.

Revenue currently reports the results of its compliance activity by type of intervention in terms of the yield that is either collected or deemed collectible. Revenue will investigate opportunities to enhance its reporting on compliance activity having regard to recommendation 17.1 and 17.2 above.

Annex 17A

Figure 17A.1 Actions by Revenue Commissioners to address previous recommendations (2012)

2012 Recommendation	Revenue response to recommendation at September 2019
<p>Revenue should review the manner in which its interventions with taxpayers are recorded in order to ensure that the nature of an intervention is accurately recorded and that the yields from the different intervention types are appropriately classified in order to ensure more accurate targeting of scarce audit and investigation resources.</p>	<p>In 2015, Revenue introduced Revenue Case Management system (RCM) for the recording of all compliance interventions which allows for the appropriate categorisation into different intervention types (i.e. aspect query, profile interview, audits and investigations) and projects/risks.</p>
<p>Revenue should review the mechanisms it has in place to ensure that interest and penalties are quantified in accordance with legislation and its code of practice. It should consider putting in place a quality assurance system whereby a sample of files are reviewed and shortcomings that are identified are addressed. This could help to ensure consistency of interpretation and application of the legislation and the code of practice and provide assurance to Revenue that taxpayers are treated equitably.</p>	<p>In July 2013, a new process of referral of a percentage of settlements to top management, on a random basis was introduced. A total of 217 cases were referred in the period 2015 – 2018.</p> <p>In 2013, quality standards for compliance interventions was launched. These standards are an additional tool to support auditors in exercising their judgement on individual cases and to ensure a consistent approach to interventions throughout Revenue.</p> <p>A national quality assurance programme was introduced in 2016. 680 cases were examined under this programme. The findings are discussed at divisional management level and at the compliance networks. A further centrally managed quality assurance review is undertaken on 25% of the cases. A report on the findings of this review is discussed at a business management executive group, which consists of assistant secretaries and is chaired by a Revenue Commissioner.</p>
<p>Revenue should review its approval process and consider setting up a settlement approvals committee for specified types of cases e.g. cases of high value, cases of technical complexity and cases with a high degree of risk where there is a difference between the estimate of liability and the settlement amount proposed, consider requiring approval at the level of the original Revenue assessment (including appropriate interest and penalties) in order to ensure the potential tax forgone is reviewed at the appropriate level.</p>	<p>The existing approval process, enhanced by the random referral of cases to senior management, is working well. As a matter of routine, the results of high-value audit or publication cases are approved at assistant secretary and/or board level.</p>

2012 Recommendation**Revenue response to recommendation at September 2019**

Where cases may be settled for materially less than the Revenue estimate of a taxpayer's liability, Revenue should consider (and document) the alternative outcomes that might be expected from litigation where this is the alternative course of action. It is acknowledged that significant judgment may be required and settlements may be complex. Matters to be considered include uncertainties about the possible outcome as well as the time, costs and risks involved in litigation. Decisions, and the rationale for them, should be fully and clearly documented before the file is submitted for approval.

The option to litigate can only take place in certain circumstances. Where a taxpayer does not agree with the audit findings or there is no engagement (by the taxpayer), a tax assessment is raised for the amount due. The assessment can be appealed by the taxpayer to the independent Tax Appeals Commission. Section 949AP of the Taxes Consolidation Act 1997 allows for an opinion of the High Court to be sought where a party is dissatisfied with the determination of the Tax Appeals Commission and considers it to be erroneous on a point of law.

Where cases involve technical complexity, specialist staff within Revenue (and externally where this is considered necessary) should be consulted and their opinions documented and recorded on the file.

Revenue stated that it has a range of internal networks to support complex and/or technical case working and to also help with capability building. The Revenue solicitor's division provides a wide range of legal services to the organisation. External consultants are engaged for complex and/or technical cases where the issues in dispute require such support. This includes experts on Research and Development (R&D) issues, valuation skills, industry experts, experts with specialised financial services knowledge, experts on US Corporate Law and experts on accountancy policies and practice.

In regard to the negotiation of audit settlements, Revenue should consider putting in place detailed guidance and procedures for the conduct of settlement negotiations requiring those negotiating the settlements to put forward Revenue's highest estimate of the taxpayer's liability including the appropriate interest and penalties setting up an experienced negotiating team which would be available to all units in circumstances where significant sums are at stake.

Revenue stated that it has an extensive range of material on its website and internal network on compliance matters. Tax and duty manuals are regularly reviewed to ensure that they are up to date and still relevant. Revenue provides a tailored one-day training courses on negotiating to staff.

Annex 17B

Figure 17B.1 Penalty rates for defaults^a

Qualifying disclosure and taxpayers co-operation	Category of default	Prompted disclosure^b	Unprompted disclosure^b
All qualifying disclosures in this category	Careless behaviour without significant consequences	10%	3%
First qualifying disclosure in these categories	Careless behaviour with significant consequences	20%	5%
	Deliberate behaviour	50%	10%
Second qualifying disclosure in these categories	Careless behaviour with significant consequences	30%	20%
	Deliberate behaviour	75%	55%
Third or subsequent qualifying disclosure in these categories	Careless behaviour with significant consequences	40%	40%
	Deliberate behaviour	100%	100%
No qualifying disclosure	Category of default	No co-operation	Co-operation only
All defaults where there is no qualifying disclosure	Careless behaviour without significant consequences	20%	15%
	Careless behaviour with significant consequences	40%	30%
	Deliberate behaviour	100%	75%

Source: Revenue Commissioners

Notes: a This table refers to defaults that occurred on or after 24 December 2008 (Finance (No. 2) Act 2008).

b The penalty rate is a percentage of the tax underpaid.

18 Tax relief on film production

- 18.1** Tax relief for investment in films (film relief) was first introduced in Ireland in the 1980s. Up to 2015, individuals and companies could claim tax relief in relation to investment in a 'qualifying company'. Tax relief was available to individual investors on 100% of the invested amount, up to a maximum of €50,000 per annum.
- 18.2** The scheme was amended by the Finance Acts 2013 and 2014, and Film Regulations 2015, making film relief available to production companies as a credit against corporation tax.¹ The relief is granted at a rate of 32% claimable in respect of the lowest of
- the **eligible Irish expenditure** amount — this includes expenditure on goods, services and facilities purchased from a business, in circumstances where the business operates from a fixed place of business in the State (or, in some limited cases expenditure incurred outside the State may be eligible) and payments to eligible individuals defined as individuals employed by a qualifying company for the purposes of the production of a qualifying film, or
 - **80% of total cost of production** — defined as including all expenditure necessary to produce a film from the development phase to post production, or
 - €70 million.²

¹ The tax relief is provided for under section 481 of the Taxes Consolidation Act 1997 (as amended). The 2015 amendment further extended the previous deadline of the relief to 2020. This was further extended to 2024 under the Finance Act 2018. Further provisions are included in Statutory Instrument (SI) 4/2015 and SI 119/2019.

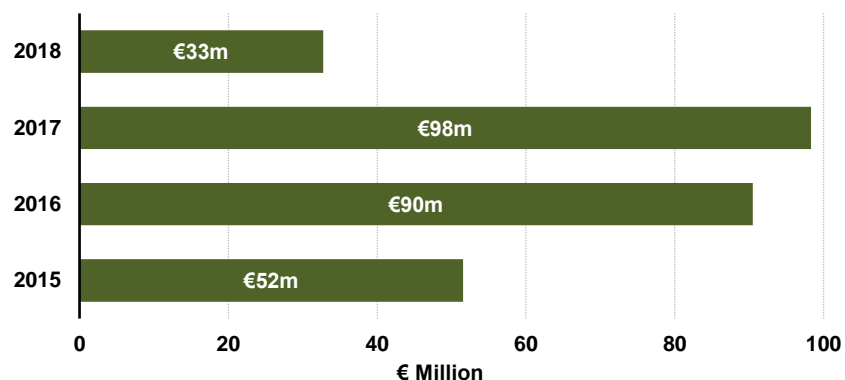
² As a consequence the maximum potential value of the tax relief is €22.4 million (i.e. 32% of €70 million) per qualifying audio-visual project before any regional uplift.

³ The change was given effect in SI 358/2019. The EU Regional Aid Guidelines (RAGS) allow each member state to provide enhanced rates of State aid in the least economically developed areas of each country. All counties are designated apart from: Dublin city and county, Cork city and county (except for named islands), Kildare (except for Athy), Meath (except for Kells) and Wicklow (except for Arklow).

Where the relief due is greater than any tax due then a payment of the excess will be made by Revenue (i.e. a 'payable tax credit').

- 18.3** In July 2019, following EU Commission approval, a regional uplift of up to an additional 5% for audio-visual projects substantially produced in designated regions was introduced.³ Where applicable, the regional uplift will result in relief at a rate of 37% for 2019 and 2020, 35% in 2021 and 34% in 2022.
- 18.4** Under the arrangements set out in the Film Regulations 2015, Revenue administers the film relief and the Minister for Culture, Heritage and the Gaeltacht (the Minister) has specific responsibilities in relation to the prior approval of certain aspects of individual projects, before the relief can be claimed.
- 18.5** The relief is available as a direct support to production companies on eligible expenditure arising from certain audio-visual projects that either
- act as an effective stimulus to the making of audio-visual projects in the State through the provision of quality employment, training and skills development opportunities, and/or
 - are of importance to the promotion, development and enhancement of national culture.

Therefore, under legislation, an audio-visual project may qualify for film relief solely on the basis of importance to the promotion, development and enhancement of national culture.

Figure 18.1 Approved section 481 relief

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

18.6 337 projects were granted €273 million of film relief in the period 2015 to 2018, thereby reducing corporation tax receipts by that amount (see Figure 18.1). Approved claims over the period 2015 to 2018 averaged €810,000 per project.

18.7 This chapter

- outlines the overall administration of the relief
- reviews the mechanisms for approval operated by the Department of Culture, Heritage and the Gaeltacht (the Department)
- examines the administration of this relief by Revenue, and
- reviews the adequacy of the business case analysis underpinning film relief.

Administration of the relief

18.8 The 2015 Film Regulations were in place from 2015 until March 2019.¹ Under those arrangements, production companies can claim

- the full relief on completion of the audio-visual project, or
- an instalment of 90% based on the production budget, with the remaining 10% paid on completion.

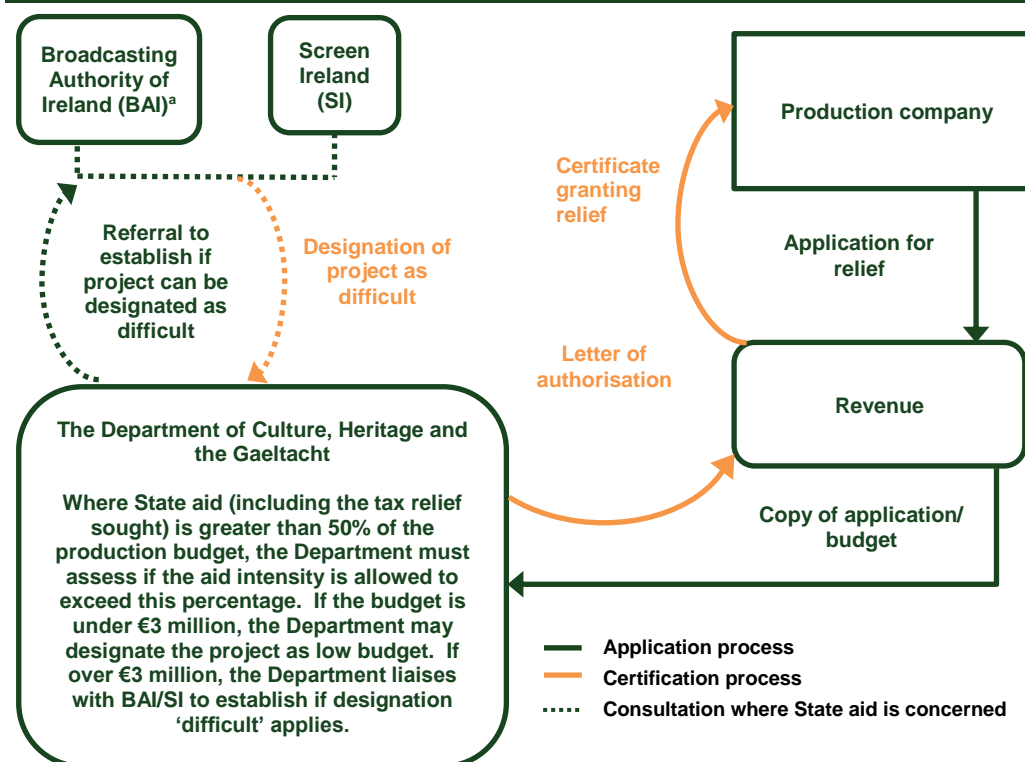
In practice, the majority of production companies claim 90% of the production budget in advance of the completion of the project.

¹ In March 2019, changes were made to the administration of the scheme. These changes are outlined later in this report (paragraphs 18.50 to 18.60).

18.9 The key responsibilities are as follows (see Figure 18.2)

- **Producer** — The production company submits an application for the credit to Revenue based on the production budget and, following certification, makes a claim for payment of either 90% of the credit based on the production budget or 100% of the credit on completion based on costs incurred.
- **Revenue** — On receipt of an application, Revenue ensures that the production company complies with the legal, commercial and corporate requirements required to claim the relief. Revenue then reviews the production budget submitted and simultaneously passes the application to the Department. Once the Department approves certain aspects of the project and returns a letter of authorisation to Revenue, Revenue may issue a certificate allowing the tax relief to be claimed. The production company can then amend a previous corporation tax return and once Revenue have approved that amendment, payment is issued. Revenue also reviews a required compliance report submitted by the production company within four months of completion of the project in order to certify a balancing or full payment of the credit.
- **The Department** — The Department is responsible for ensuring that it is appropriate for Revenue to issue a certificate having regard to the categories of film eligible for certification, and the contribution the film is expected to make to culture and employment in the industry. The Department may consult with the Broadcasting Authority of Ireland and Screen Ireland in the process of making this determination.

Figure 18.2 Section 481 application and certification process



Source: Analysis by Office of the Comptroller and Auditor General

Note: a BAI funding available under the Sound and Vision scheme (funded by the Broadcasting Fund) also includes a third designation as exempt under State aid rules accepted by the European Commission where the project counteracts the limited geographic extension of certain languages and cultures. BAI applies this to programmes in the Irish language.

Department authorisation

- 18.10** Under section 481 of the Taxes Consolidation Act 1997 (as amended), authorisation is given to Revenue by the Minister where the Minister is satisfied that
- the audio-visual project is ***within specified categories***, and
 - the audio-visual project will be of importance to the promotion, development and enhancement of the national culture including, where applicable, the Irish language (referred to in this chapter as ***the cultural test***), and/or
 - the audio-visual project will act as an effective stimulus to the making of audio-visual projects in the State through provision of quality employment, training and skills development opportunities (referred to in this chapter as ***the employment test***).

Category of film

- 18.11** Film relief is available in relation to feature films, television dramas, animation and creative documentaries.
- 18.12** The following types of film are not eligible for certification.¹
- Films made for exhibition as an advertisement or advertising programme.
 - Films comprising or substantially based on
 - public or special performance(s) staged for filming or otherwise
 - sporting event(s)
 - games or competitions
 - current affairs/talk shows
 - demonstration programmes for tasks, hobbies or projects
 - review, magazine-style or lifestyle programmes
 - unscripted or 'reality' type programmes, or
 - product produced in-house by a broadcaster or for domestic consumption in one country.

The cultural test

- 18.13** An application by a production company for certification under the cultural test must pass a minimum of three of eight broadly defined cultural criteria as assessed by the Department. These are
- The project is an effective stimulus to film making in Ireland and is of importance to the promotion, development and enhancement of creativity and the national culture through the medium of film, including, where applicable, the dialogue/narration is wholly or partly in the Irish language or the production of a full Irish-language version of the film is included as part of the total budget for the film.
 - The screenplay (or, in the case of a documentary film, the textual basis) from which the film is derived is mainly set in Ireland or elsewhere in the EEA.²
 - At least one of the principal characters (or documentary subjects) is connected with Irish or European culture.

¹ These categories were extended in the 2019 Regulations and projects consisting substantially of stock footage (other than documentaries) and live programming are now excluded.

² EEA — European Economic Area, which comprises all EU member states, Iceland, Liechtenstein and Norway.

- The storyline/underlying material of the film is a part of, or derived from, Irish or European culture and/or heritage; or, in the case of an animation film, the storyline clearly connects with the sensibilities of children in Ireland or elsewhere in the EEA.
- The screenplay (or textual basis) from which the film is derived is an adaptation of an original literary work.
- The storyline or underlying material of the film concerns art and/or any artists.
- The storyline or underlying material of the film concerns historical figures or events connected with Irish or European culture.
- The storyline or underlying material of the film addresses actual, cultural, social or political issues relevant to the people of Ireland or elsewhere in the EEA; or, in the case of an animation film, addresses educational or social issues relevant to children in Ireland or elsewhere in the EEA.

18.14 The assessment by the Department is carried out through a review of the production company's application and cover letter, which is required to identify the three (or more) cultural criteria addressed by the project. Applications are examined to ascertain how the audio visual project meets the stated criteria, which is then recorded on an assessment form and submitted for internal approval. If there is uncertainty on whether certain requirements are met, the Department may seek further clarification from the production company.

The employment test

18.15 The audio-visual project can also qualify under an employment test if the Minister is satisfied the project can act as a stimulus to the making of audio-visual projects in Ireland through the provision of quality employment, training and skills development opportunities.

Quality employment

18.16 The relevant legislation refers to 'the provision of quality employment'. However, this is not defined in the legislation and neither Revenue nor the Department could provide any existing documentation on what constitutes quality employment.

18.17 While the provision of quality employment has not been defined, in applying for certification under section 481, production companies must provide details in relation to proposed employment including the duration of the production, details of crew and cast members, details of key personnel and their remuneration and a 'person days schedule' which sets out details of employee tenure and remuneration.

Training opportunities

18.18 A guidance note published by Revenue in January 2015 to accompany the 2015 regulations states that a minimum of two trainees must be employed for each €355,000 of corporation tax credit, up to a minimum of eight trainees per production where the relief amounts to €1.4 million or more. The Department reiterate this requirement as a condition of authorisation.

- 18.19** As part of the application process, the production company must submit details of the trainees' names, training modules, the proposed role, the number of trainee days and proposed salaries. Since November 2017, the Department request confirmation from the production company by way of a specific return, within 60 days of completion of the project that trainees were engaged and paid, as set out in the application for relief.

Examination results

- 18.20** The team carrying out this examination reviewed certification applications made to the Department between 2015 and 2018 for a sample of 35 audio-visual projects. All of the applications had been made under the 2015 film regulations. The review found that
- three applications were deemed ineligible under Part 3 of Film Regulations 2015 — 'categories of films not eligible for certification'
 - the remaining 32 audio-visual projects were all approved based on passing the cultural test.

Contribution to culture

- 18.21** Of the 32 audio-visual projects which were certified on the basis of the project's contribution to culture
- 31 out of 32 (97%) were deemed by the Department to have met the criterion 'the project is an effective stimulus to audio-visual project making in Ireland, and is of importance to the promotion, development and enhancement of creativity and the national culture'
 - 23 out of 32 (72%) were deemed by the Department to have met the criterion that 'the storyline or underlying material of the project addresses actual, cultural, social or political issues relevant to the people of Ireland or elsewhere in the EEA'
 - 11 out of the 32 (34%) were deemed by the Department to have met the criterion that at least one of the principal characters (or documentary subjects) is connected with Irish or European culture.

Quality employment

- 18.22** While the projects were certified on the basis of their contribution to culture, the Department also had regard to the project's contribution to quality employment and to training and skills opportunities. Examination of the process indicated the following.
- The Department has formal criteria to assess the training and skills development aspects of the project, whereby there is a requirement on each project to have between two and eight trainees with an assigned mentor to provide training.
 - The Department summarises the projected employment specified in the application but does not have specific criteria to assess the extent to which this represents quality employment.
 - The audit noted that while information on the number of jobs proposed is sought at the application stage, confirmation and/or verification that the employment occurred is not sought by the Department once the project is complete because there is no legislative basis to do so.

- 18.23** As part of the application form for section 481 relief, the production company must provide details of the number of proposed employees who are tax resident in Ireland, the EU or outside the EU under a number of headings: crew, main cast, support cast and extras.
- 18.24** It is unclear how a production company would be in a position to establish the tax residency of proposed employees.
- 18.25** Figure 18.3 shows the numbers of jobs proposed on a sample of 15 projects that were granted €15.6 million of section 481 relief in the period 2015 to 2018 grouped by Irish and non-Irish employment and presenting extras as a percentage of overall employment.

Figure 18.3 Composition of proposed employment for a sample of 15 film relief projects

Tax residence of proposed employees	Total	Of which, extras	
		number	as % of total
Tax resident in Ireland	3,274	2,121	65%
Tax resident outside Ireland	1,008	285	28%
Total	4,282	2,406	56%
Person days scheduled	71,163	4,090	
Full time equivalent ^a	309	18	6%

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

Note: a Full time equivalent (FTE) calculation is based on a 230 day working year, as used by the Department of Culture, Heritage and the Gaeltacht.

- 18.26** Of the total 4,282 proposed employments, 27% were for Irish tax resident crew, main or support cast. Of the 3,274 Irish tax resident employments, 65% were for extras, compared to 28% for the non-Irish tax resident employments. As the person days schedule does not separately categorise Irish tax resident individuals, it is not possible to establish the full time equivalent Irish tax resident proposed employments.
- 18.27** The examination noted that the person days schedule outlines the proposed role and the proposed number of days each person is expected to work on a production. As a result, based on assumptions, it is possible to estimate the proposed number of whole time equivalent employees of a project. For example, in relation to the 15 sample projects examined, the total 4,282 employments represented 309 whole time equivalent employments. The Department does not report the aggregate (proposed or actual) employment on a full time equivalent basis or relate this to the overall level of relief granted.

Training opportunities

18.28 Figure 18.4 summarises by year the submissions related to the 337 audio-visual projects granted relief, from 2015 to 2018, including proposals to provide 1,390 trainee positions. The average number of trainees per production proposed to be employed in the period was 4.1.

Figure 18.4 Number of trainees proposed 2015 to 2018

Year	Audio-visual projects granted relief	Trainees employed ^a	Average trainees employed
2015	73	257	3.5
2016	113	484	4.3
2017	99	450	4.5
2018	52	199	3.8
Total	337	1,390	4.1

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

Note: a Analysis based on proposed trainee numbers on application forms submitted to Revenue and the Department.

18.29 The examination tested 32 audio-visual projects granted approval by the Department. In 13 cases, production was still ongoing and therefore confirmation of trainees engaged on the project were not yet available. Of the remaining 19 cases,

- nine projects were approved prior to November 2017 and therefore the production companies were not required to confirm that the training proposed in the initial application form had in fact occurred
- ten production companies whose projects were approved post November 2017 had confirmed that trainee numbers and associated remuneration proposed had occurred.

18.30 In the ten cases where confirmation of trainee numbers and remuneration was received, the examination noted that in all cases

- the actual number of trainees agreed to what was proposed at the application stage, and
- the related remuneration exceeded what was proposed at the application stage.

However, no supporting evidence is required or was requested for these confirmations by the Department.

Administration of relief by Revenue

18.31 For the period under review, 2015 to 2018, Revenue was responsible for approving the value of the relief. Where the claim was made in instalments, this was based on budgeted expenditure at the time of the first claim and the balance based on compliance reports submitted on completion of the project. Where a single claim for payment was made at completion stage it was based on actual expenditure.

Pre-production checks

18.32 The financial aspects of the project regarding legal, commercial and corporate arrangements are reviewed by Revenue prior to certification. The following rules relate to the trading status of firms.

- A production company must have traded for at least twelve months and filed a corporation tax return in Ireland within nine months following the most recent trading year end before it can access the tax credit.
- The production company must hold all the shares in a special-purpose 'qualifying company' that exists solely for the purpose of the production of only one qualifying audio-visual project.
- The qualifying company must be incorporated and resident in the State or must be carrying on a trade in the State through a branch/agency.
- It is the responsibility of the qualifying company to ensure all amounts recorded as qualifying expenditure are correctly stated.

18.33 As part of this examination, fifteen Revenue files relating to audio-visual projects granted relief from 2015 to 2018 were examined. The examination found that in all cases

- the production company held 100% of the shares in the relevant qualifying company
- the trading status and tax return filing status of all the related parties was on file and confirmed by Revenue.

18.34 The production company includes a projected budget for the audio-visual project with the application form. Revenue reviews items within the projected project budget, based on industry cost norms and averages. For example, when reviewing fees paid to directors, writers, producers and executive producers, collective fees above 20% of the overall budget are considered excessive.

18.35 Following assessment of the budget, the file is sent for approval within Revenue to

- a Higher Executive Officer if the credit payable is up to €500,000
- an Assistant Principal if the credit payable is over €500,000 and less than €5,000,000 or
- a Principal Officer if the credit payable is €5,000,000 or over.

18.36 In the case of the fifteen Revenue files relating to audio-visual projects reviewed for this examination, Revenue granted €15.6 million of film relief. The eligible budgeted expenditure was adjusted marginally (reduced by €1,500) in only one case. Revenue has stated however, that there is protracted correspondence pre-certification regarding budgeted expenditure, which results in revised budgets being submitted. In all cases, the relief granted was authorised by an appropriate officer within Revenue.

Post production checks

18.37 Within four months of completion of the audio-visual project, the qualifying company must provide Revenue with a compliance report which is a declaration that the film was produced in accordance with the 2015 film regulations and conditions of the certification issued by Revenue. Schedule 5 of the regulations requires a number of documents to accompany the compliance report including a copy of the film in DVD format and a report from the production company's auditors including, *inter alia*

- details of the amount expended directly in the State on the employment of eligible individuals
- confirmation that available funding from all sources did not exceed the amount necessary to fund the total cost of production of the film, and
- confirmation that eligible expenditure equalled or exceeded the amounts specified in the certificate issued under section 481.

Revenue's review of the compliance report and auditor's report may involve a request for additional back up for line items from production companies such as a producer fee calculation, legal fees breakdown, studio overheads and marketing expenses.

18.38 Based on Revenue's review of the compliance report, and if all the conditions have been successfully met by the production company, the final payment is released.

18.39 Revenue also checks the credits listed at the end of the audio-visual project to ensure they include the statement

*Produced with the support of incentives for the Irish
film industry provided by the Government of Ireland*

and, if applicable,

Filmed on location in Ireland.

These credits must be located in a prominent position in the closing credits immediately after the cast and crew credits.

18.40 Of the 15 audio-visual projects reviewed for this examination, 12 of the projects had been completed.

- In all 12 completed projects, Revenue records indicate that the audio-visual project had been reviewed for evidence of the required on-screen credits.
- In nine projects, Revenue's review of the compliance reports and approvals to pay were on file. These reviews resulted in a reduction of €24,896, or 0.35%, in film relief credit. This was recovered by reducing the final instalment of the relief.
 - In eight cases, the production companies had not paid any tax in the prior period but, as film relief is a payable credit, payments of just under €7 million were issued by Revenue for the full amount of the relief.
 - In the remaining case, the production company claimed film relief of €77,933 and had paid just under €1,500 in corporation tax in the prior period.
- In the other three completed cases, there were compliance reports on file but Revenue had not completed a review of expenditure at the time of this examination and the final payment had not been released.

- 18.41** Revenue commenced monitoring ineligible expenditure claimed for, but not paid, in January 2018. By the end of May 2019, 75 compliance reports had been reviewed with combined eligible expenditure (gross) totalling €218 million, of which €2 million was deemed ineligible. This reduced the related film relief by €0.6 million.
- 18.42** Revenue can recover the tax credit from the production company or from the qualifying company if there is evidence of a failure to satisfy conditions in the original certificate and where this failure reduces the overall relief granted to less than what was paid at the 90% stage. Revenue confirmed that, to date, there has been no instance of a recoupment.
- 18.43** During the period 2015 to 2018, 337 projects were granted €273 million in film relief. At end May 2019, €230 million had been paid with the remainder outstanding; €14 million relates to projects where a compliance report has been returned but Revenue has as yet to complete a review of that expenditure. For the remaining €29 million, the audio-visual project has not yet been completed and therefore, no compliance report has been submitted.
- 18.44** Due to the change in scheme rules on 27 March 2019, the final payments totalling €29 million due to these audio-visual projects will be paid under the new self-assessment system. These final payments are the balancing payments of the relief and will not therefore be subject to the same rigours as the initial payment. However, Revenue will determine based on risk ratings, the extent of checks to be undertaken.

State aid compliance

- 18.45** Section 481 film relief is regarded as State aid under European Commission rules.¹ Grants paid to a qualifying company by Screen Ireland or the Broadcasting Authority of Ireland are also counted as State aid and, combined with the section 481 credit, must be limited to 50% of the production budget, except in the case of difficult or low budget projects.²
- 18.46** In practice, the Department has responsibility for designation of a project as either low budget or difficult, in order to exempt the project from State aid rules. If the aid is greater than 50% of the production budget of the film, the Department moves to apply the 'difficult or low budget' test. It does this in consultation with Screen Ireland or the Broadcasting Authority of Ireland, depending on which agency is supplying most of the State aid funding.
- Following a review of empirical evidence of indigenous productions since 2002, in 2007 the Department defined a **low-budget film** as a film with a budget of €3 million or less.
 - A **difficult film** is defined as a film of high quality that faces severely limited prospects of attracting commercial finance for its production and/or of achieving wide commercial distribution. In determining whether a film can be characterised as difficult, Screen Ireland and Broadcasting Authority of Ireland use a document developed by the Department in 2007 setting out the characteristics of such films.
- 18.47** From 2015 to 2018, the section 481 relief granted to 116 projects was in excess of 50% of the respective budgets, and 16 projects were in receipt of State aid in excess of 90%.

¹ State aid is a term that refers to any form of public assistance, using taxpayer-funded resources, with the potential to distort competition and affect trade between member states of the EU.

² Official Journal of the European Union *Communication from the Commission on State aid for films and other audio-visual works* (2013/C 332/01).

18.48 The examination tested the sample of 32 audio-visual projects selected for audit for designation under State aid rules. Seven of the 32 projects had received in excess of 50% State funding.

- In one case, the audio-visual project met the low budget criterion of under €3 million.
- In the other six cases, designation was on file certifying the project as difficult from either Screen Ireland or the Broadcasting Authority of Ireland.

18.49 Under new arrangements introduced in March 2019, where a production company wishes to apply for a derogation from the State aid funding limit for a difficult project, the applicant must submit supporting documentation to this effect directly to Screen Ireland or to the Broadcasting Authority of Ireland.

New arrangements

18.50 The 2019 film regulations (SI 119/2019) came into operation on 27 March 2019 and introduced a number of changes to the administration of the scheme for film relief. The key changes relate to the assessment of claims for relief and additional information to be provided (at application stage) in relation to proposed training.

Change to self-assessment

18.51 Up to 27 March 2019, claims submitted by production companies were reviewed and approved by Revenue. There were no penalties for the submission of an incorrect return — Revenue simply adjusted the value of the claim for any amounts deemed ineligible.

18.52 Revenue noted film relief was one of the last reliefs that was not self-assessed. It also noted that the compliance element of the relief, as it was previously administered, was resource intensive and that the move to self-assessment provides for the application of penalties and interest where production companies are found to have claimed for ineligible expenses.

18.53 Accordingly, from March 2019, a new self-assessment process was put in place. A production company that wishes to make a claim for corporation tax credit pursuant to section 481 of the Taxes Consolidation Act 1997 (as amended) must first apply for a certificate directly from the Department.

18.54 Where the Minister issues a certificate in relation to a qualifying audio-visual project, and all the other provisions of section 481 have been complied with, a production company may make a claim to Revenue for corporation tax credit following self-assessment rules.

18.55 Under the new regulations, the production company is still required to prepare a compliance report but it is no longer required to be submitted to either Revenue or the Department, nor is an auditor's report required to accompany this compliance report. It remains within the remit of Revenue under section 481 to request the compliance report from the production company.

- 18.56** Revenue has not, as yet, published guidelines on the operation of the credit under the new self-assessment rules. Revenue have stated however, that the draft guidelines have been the subject of considerable consultation with the sector and publication is planned before the end of September 2019. The operation of the self-assessment system commenced in 2019 and therefore it is not possible to conclude on the impact this change will have on the relief. However, Revenue have stated that planning for compliance testing following the move to self-assessment is underway.

Assessment of employment and training opportunities

- 18.57** A cost-benefit analysis¹ completed in October 2018 noted the absence of robust data in relation to overall employment and training opportunities as a significant impediment to assessing the economic benefits of film relief and recommended that more detailed data would be required in order to facilitate a high quality assessment of this scheme. This includes

- full time employee equivalents for both employee and trainee numbers in particular, on a per-production basis
- details of employment activities of trainees (e.g. hours worked, nature of employment).

- 18.58** Under the arrangements in place up to 2019, applications for film relief had to include details of proposed training modules. Under the new arrangements, applications for relief must now provide a skills development plan and, where eligible expenditure is greater than €2 million, plans must be agreed with Screen Skills Ireland.² The Department expects that this will assist in the tailoring of skills development to the requirements of the industry and noted its intention to roll out further changes in this regard over the coming years.

- 18.59** Production companies must submit a post-project skills development report to the Department in relation to each project.

- 18.60** Under the new arrangements, the requirement to submit information about proposed project employment on a person-day schedule continues. As under the 2015 regulations, there is no requirement for production companies to confirm after the project is completed that proposed employments occurred.

Business case for film relief

- 18.61** In December 2012, the Department of Finance completed an economic impact assessment of film relief.³ The review examined the impact of the relief in terms of the volume and value of productions supported, the number of jobs associated with the relief and the cost to the Exchequer.

- 18.62** An estimate of full time equivalent (FTE) employees was made based on the Department's analysis of a sample of Revenue files on audio-visual productions and compared with estimates produced by Indecon Economic Consultants on behalf of IBEC for consistency.⁴ The estimate was used to inform the economic impact assessment.

- 18.63** The review analysed data for 2011 and estimated the employment created was 1,606 FTE jobs. It noted that the scheme as it was then operated resulted in a net economic cost of €34.7 million for that year.⁵

1 Cost benefit analysis undertaken as part of Budget 2019 — *Report on Tax Expenditures Incorporating outcomes of certain Tax Expenditure and Tax Related Reviews completed since October 2017.*

2 Screen Skills Ireland is a division of Screen Ireland that provides continuing training and career development opportunities for professionals working in the screen sectors.

3 *Economic Impact Assessment of section 481 Film Relief December 2012* — Department of Finance.

4 *Indecon Review of section 481 Film Relief* on behalf of IBEC's Audiovisual Federation.

5 This was derived taking account of the costs of the relief (tax foregone and the cost of public funds) of €70.2 million with the benefits (economic impact of direct and indirect wages) of €35.5 million.

- 18.64** In line with international practice and in light of the analysis presented, the review recommended that Ireland move towards a producer-led tax credit model. The review did not include a detailed cost-benefit analysis of the proposed alternative but noted that the cost to the Exchequer would have been some €14.5 million lower in 2011 had the producer-led tax credit model been in place.
- 18.65** In 2016, consultants were commissioned by a number of departments including the Department of Culture, Heritage and the Gaeltacht to measure the current economic value of the Irish audio-visual industry and to propose policy changes to support its future growth.¹ The report — completed by the end of 2017 — found that in 2016, every euro of section 481 outlay returned €1.02 in tax revenue and had a benefit to cost ratio of 2.8:1 for the Irish economy. The study noted the data was restricted to 2016 and, because there are significant year-to-year fluctuations, the results might not be indicative of the overall levels of industry revenue or employment in subsequent years.
- 18.66** A further cost-benefit analysis completed by the Department of Finance in 2018 used the same parameters/assumptions as those used in the 2012 analysis.² This was the first review of the scheme since its transition from an investor based relief to a corporation tax credit system in 2015. The review calculated the net economic cost of the scheme for 2016 at €72.4 million, based on costs of €118.3 million and benefits of €45.9 million.
- 18.67** The 2012 and 2018 analyses highlight that data constraints and the unquantifiable nature of the cultural return to society make it difficult to capture the entirety of the social or economic benefits associated with film relief. In particular, the review did not attempt to quantify (or value) the cultural impact of the scheme. Finally, the 2018 review recommended several grounds upon which more detailed data collection could be implemented in order to facilitate a high-quality assessment of this scheme during the planned future five-year review in 2020. It noted the requirement for enhanced data in relation to the types of production, employee and trainee numbers and employment activities of trainees (e.g. hours worked and nature of employment).

Conclusions and recommendations

- 18.68** The scheme for film relief was amended in 2015 making the relief directly available to production companies. In the period 2015 to 2018, 337 projects were granted relief totalling €273 million, reducing corporation tax receipts by an equivalent amount.
- 18.69** In circumstances where the relief claimed is higher than corporation tax previously paid, the excess is paid to the production company by Revenue. For a sample of projects reviewed €7.1 million was paid to production companies for nine audio-visual projects. Just under €1,500 of this amount was tax refunded from a prior period. The balance was paid to the production companies by Revenue as this relief is a payable tax credit.
- 18.70** Economic assessment of the relief conducted in 2012 and 2018 noted that the scheme resulted in a net welfare loss to society. However, the 2012 and 2018 assessments noted that they did not capture the cultural impact of the scheme. In addition, the 2018 assessment noted the requirement for better information, in particular in relation to employment and trainees, to enable a high quality assessment of the relief.
- 18.71** Each application for film relief specifies the total number of personnel the project is proposing to employ and using this data, the Department can calculate expected employment on a FTE basis. It does not seek confirmation that proposed employment occurred.

¹ *Economic Analysis of the Audiovisual Sector in the Republic of Ireland — A Report from Olsberg SPI with Nordicity.*

² *Report on tax expenditures - incorporating outcomes of certain tax expenditure and tax related reviews completed since October 2017, Department of Finance, 2018.* The report noted that this exercise was restricted to a cost-benefit analysis with a full review of the scheme to be conducted in 2020.

Recommendation 18.1

In order to facilitate effective assessment of the scheme for film relief, the Department should ensure that adequate arrangements are in place to collect relevant data in relation to employment arising on foot of the granting of film relief.

Accounting officer's response

Agreed.

Based on the requirement emerging from the 2018 assessment, the Department plans to further enhance the arrangements around training and skills development. This will include an increase in the proportion of projects which must formally engage with Screen Skills Ireland in the preparation of their skills development plan and developing a database of skills development provided. In addition, it is planned that the training requirement for receipt of section 481 be tailored to facilitate a pro-active approach to skills development. Skill-sets for which demand is high or increasing would be identified and production companies guided to developing those particular skills to fulfil their training requirements.

In addition, the Department is examining ways of improving data collection particularly data on direct employment in the industry.

18.72 The Minister for Culture, Heritage and the Gaeltacht has responsibility for the certification of projects as qualifying for film relief. Projects are assessed on the basis of

- their contribution to the promotion, development and enhancement of the national culture including, where applicable, the Irish language and
- to the provision of quality employment, training and skills development opportunities.

18.73 The Department has selected eight criteria to assess a project's contribution to the promotion, development and enhancement of national culture. While seven of the eight criteria are amenable to quantification and/or testing, one criterion

*The project is an effective stimulus to film making in Ireland
and of importance to the promotion, development and
enhancement of creativity and national culture*

is very broadly stated. Almost all of the projects reviewed as part of this examination were deemed to have passed the cultural test on this criterion.

Recommendation 18.2

The Department should develop guidance in relation to how proposed section 481 projects should be assessed under this criterion. The basis upon which each criterion is assessed as having been fulfilled should be clearly recorded by the Department in its assessment documents.

Accounting officer's response

Agreed.

However, it should be noted that a project cannot be approved by passing this criterion alone. In order to pass the culture test, the European Commission has agreed that a project must meet at least three of eight culture test criteria. These eight criteria are agreed with the European Commission. If a project meets the criterion stated in Recommendation 2, it cannot pass the culture test unless it meets at least two more of the eight criteria. However, the Department will examine the scope for expanding and explaining this particular criterion further.

18.74 Projects can also qualify for film relief on the basis of the provision of quality employment, training and skills development opportunities. Minimum requirements in relation to training opportunities have been specified and in applying for relief, production companies must specify proposed employment numbers. However, the Department has not developed criteria to assess these proposals. For example, there is no definition of what constitutes 'quality employment' and no target or minimum (quality) employment level required per €1 million relief granted.

Recommendation 18.3

For the purposes of the quality employment test, the Department should establish criteria to assess the employment aspects of proposals for film relief.

Accounting officer's response

Agreed.

The Department will consider the development of criteria to assess the employment aspects of proposals for film relief.

Other Matters

19 Accounts of the National Treasury Management Agency

- 19.1** Section 12 of the National Treasury Management Agency Act 1990 (the 1990 Act) (as amended) requires the National Treasury Management Agency (the NTMA) to keep accounts of all moneys it receives or expends in the form approved by the Minister for Finance (the Minister), and to submit them for audit by the Comptroller and Auditor General. Following completion of the audit, the NTMA must submit the accounts and the related audit reports to the Minister, who in turn must present them to the Houses of the Oireachtas.
- 19.2** Separately, section 12 of the 1990 Act requires the Comptroller and Auditor General to report to Dáil Éireann with respect to the correctness of the sums brought to account by the NTMA each year. This is the report for 2018 under that section of the 1990 Act.

Accounts of the NTMA 2018

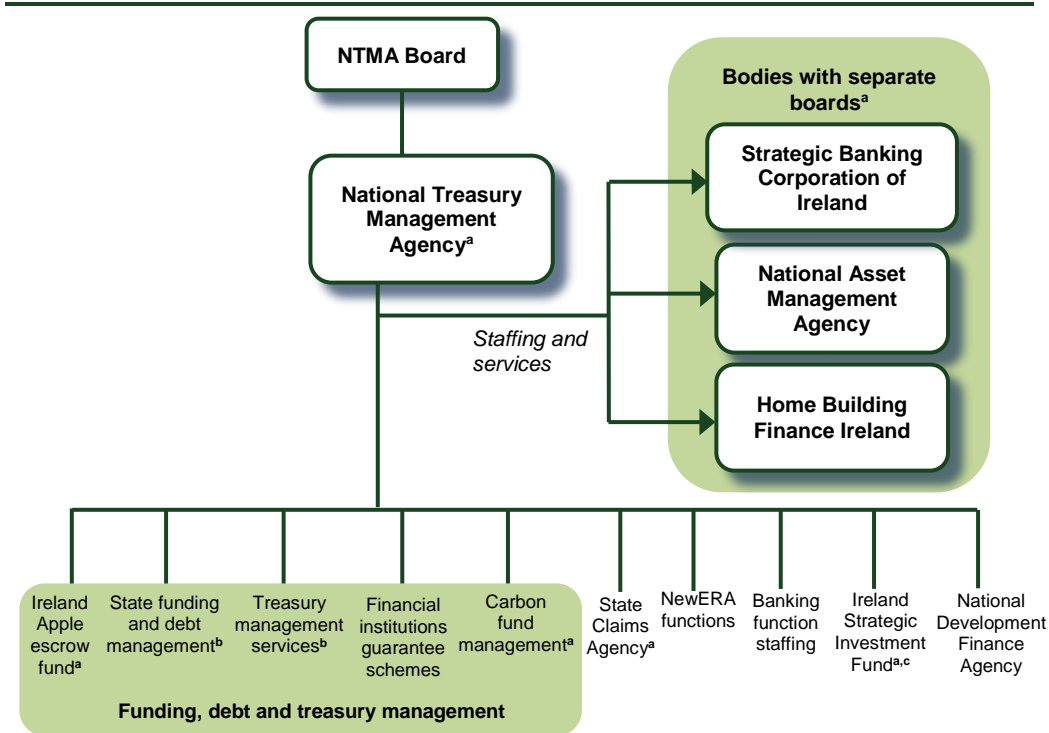
- 19.3** The accounts audited under section 12 of the 1990 Act (as amended) are as follows
- National debt of Ireland
 - NTMA administration account
 - Post Office Savings Bank Fund financial statements
 - State Claims Agency financial statements
 - Ireland Strategic Investment Fund (ISIF) financial statements
 - Ireland Apple escrow fund.¹
- 19.4** Separately, the NTMA prepares the financial statements of the Dormant Accounts Fund (under the Dormant Accounts Act 2001) and of the Carbon Fund (under the Carbon Fund Act 2007). These are published by the NTMA together with the other (section 12) accounts it publishes.
- 19.5** The accounts for 2018 have been audited. My reports on the audits were issued on 16 May 2019.

¹ See Chapter 20 *Ireland Apple escrow fund* for details on the establishment of the fund, and on the accounting thereof.

Structure, costs and staffing of the agency

- 19.6** The NTMA was originally set up in 1990. It has since evolved into a complex organisation with multiple functions that extend beyond its original and core role in managing Ireland's national debt. The structure of the NTMA is outlined in Figure 19.1.
- 19.7** The NTMA assigns staff to the National Asset Management Agency (NAMA), the Strategic Banking Corporation of Ireland (SBCI) and Home Building Finance Ireland and also provides them with business and support services and systems on a cost recoupment basis. These costs are outlined in Figure 19.2.¹ Each of the entities has its own board and is separately accountable to Dáil Éireann.
- 19.8** Home Building Finance Ireland (HBFI) was established under the Home Building Finance Ireland Act 2018 for the purpose of funding residential development in Ireland. The HBFI is a commercial entity wholly owned by the Minister for Finance. In 2019, at the direction of the Minister for Finance, the ISIF entered into a loan facility agreement with Home Building Finance (Lending) Ireland DAC, a subsidiary company of HBFI, and made available a loan facility of €730 million under the terms of the agreement.
- 19.9** At the end of 2018, NTMA staff numbers totalled 786 on a whole time equivalent basis. The assignment of staff to the various functions and activities at year-end for 2015 to 2018 is set out in Figure 19.3.

Figure 19.1 Functions of the National Treasury Management Agency



Source: National Treasury Management Agency

- Notes:
- a Separate financial statements are prepared for the activities of each of these functions/entities.
 - b In the case of State funding, debt management and treasury management services, separate financial statements are prepared for the Dormant Accounts Fund, the Post Office Savings Bank Fund and the national debt.
 - c The Ireland Strategic Investment Fund (ISIF) took over assets and liabilities of the National Pensions Reserve Fund (NPRF) in 2014. Financial statements for the NPRF will continue to be prepared until all remaining assets are legally transferred to the ISIF. At 31 December 2018, foreign assets valued at €50,000 (2017: €95,000) remained in the NPRF.

¹ No costs were charged to HBFI in 2018.

Figure 19.2 Cost of operations, 2015 to 2018^a

	2015	2016	2017	2018
NTMA business units	€m	€m	€m	€m
Funding and debt management	10.1	11.5	12.5	12.3
Ireland Strategic Investment Fund	8.7	10.4	12.5	14.5
State Claims Agency	15.7	19.4	20.8	25.0
NewERA	6.2	5.3	5.4	6.1
Banking Unit (Shareholding and Financing Advisory Division, Department of Finance)	2.4	2.8	4.3	3.8
National Development Finance Agency	9.1	9.5	10.1	11.3
Supported bodies				
National Asset Management Agency	53.5	46.7	38.1	40.8
Strategic Banking Corporation of Ireland	3.6	4.2	5.2	5.9
Total payments	109.3	109.8	108.9	119.7

Source: National Treasury Management Agency

Note: a Costs of operations were not attributed to all NTMA business units prior to 2015.

Figure 19.3 NTMA staffing distribution at year-end, 2015 to 2018^a

NTMA business units	2015	2016	2017	2018
Funding and debt management	21	20	24	24
Ireland Strategic Investment Fund	36	41	44	42
State Claims Agency	109	128	138	148
NewERA	19	19	21	26
Banking Unit (Shareholding and Financing Advisory Division, Department of Finance)	12	13	11	11
National Development Finance Agency	60	61	67	63
NTMA corporate functions				
Finance, technology and operations	121	125	138	138
Legal, compliance, HR and internal audit	33	35	41	46
Risk	18	20	20	21
Other	2	2	4	9
Supported bodies				
National Asset Management Agency	341	302	264	236
Strategic Banking Corporation of Ireland	9	16	18	17
Home Building Finance Ireland	—	—	—	5
Total	781	782	790	786

Source: National Treasury Management Agency

Note: a 2018 numbers are based on whole time equivalent. Previous years are based on headcount.

NTMA office move to North Wall Quay

- 19.10** In May 2018 the Agency entered into leases for office accommodation at Treasury Dock, North Wall Quay, Dublin 1, until May 2033. Staff moves to Treasury Dock were completed in August 2019.
- 19.11** The NTMA has lease agreements of varying duration until 2025 and 2026 in respect of its previous office accommodation at Treasury Building, Grand Canal Street, Dublin 2. The Agency has engaged an external property advisor regarding the sub-let, disposal or assignment of existing leases in respect of the office accommodation at Treasury Building.

Operations in 2018

Funding, debt and treasury management

- 19.12** The NTMA borrows on behalf of the Exchequer and manages Ireland's national debt.¹
- 19.13** The NTMA performs a number of other debt management and treasury functions, including
- treasury operations for NAMA, ISIF, SBCI and Irish Bank Resolution Corporation Limited (in special liquidation) (IBRC)
 - providing a central treasury service for State bodies and local authorities
 - managing the assets of the Dormant Accounts Fund and the Post Office Savings Bank Fund
 - oversight of the investment and management of the Ireland Apple escrow fund on behalf of the Minister for Finance.
- 19.14** In October 2018, in its third bond syndication of the year, the NTMA issued Ireland's first sovereign Green Bond which had been almost two years in planning. Funds of €3 billion were raised at a yield of 1.399%. This was a move by the NTMA to further diversify its investor base, allowing it to access a new category of investor to lend to Ireland.

Financial institutions guarantee schemes

- 19.15** Certain eligible liabilities in financial institutions, including deposits and debt securities of up to five years maturity were guaranteed by the Minister for Finance (the Minister) under the Credit Institutions (Eligible Liabilities Guarantee) Scheme 2009 (the scheme). The NTMA was appointed as scheme operator by the Minister.²
- 19.16** Each institution with liabilities guaranteed under the scheme is required to pay a fee. The amount received in 2018 was almost €1.06 million (2017: €12 million).³ The Accounting Officer of the Department of Finance is accountable for the fees received.
- 19.17** In advance of 28 March 2018, being the final end date for all remaining liabilities under the scheme, the NTMA wrote to each of the participating institutions requesting assurance that there were no outstanding issues and that all appropriate fees had been paid. This was confirmed by each participating institution.

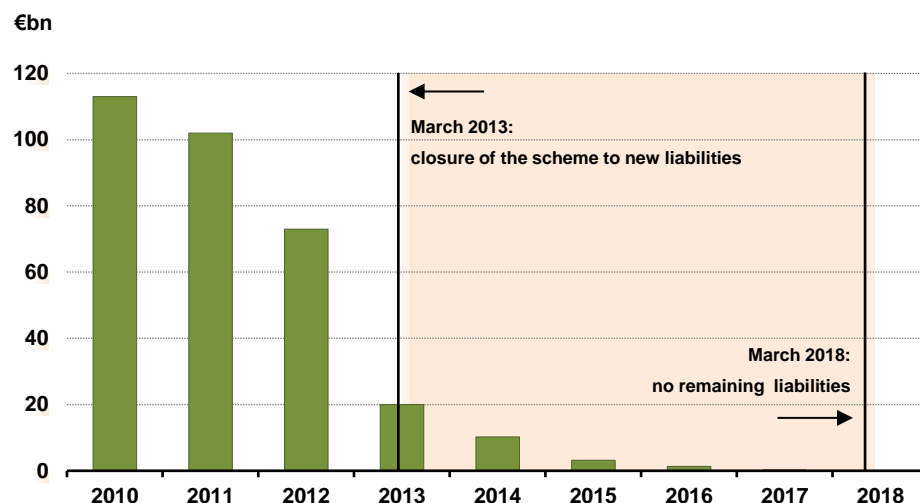
¹ Summary details of the structure of the national debt and trends in Government debt are included in chapter 1, *Exchequer Financial Outturn for 2018*.

² SI No 490/2009.

³ Fees are recognised on a cash basis and received quarterly in arrears and are paid into the Central Fund of the Exchequer. Fees in respect of 2018 on an accruals basis were €0.4 million (2017: €8 million).

19.18 As at 29 March 2018, there were no remaining liabilities guaranteed under the scheme, with the exception of minor residual liabilities resulting from the liquidation of IBRC (see Figure 19.4).

Figure 19.4 Covered liabilities under the Eligible Liabilities Guarantee Scheme, at year-end 2010 to 2018



Source: Department of Finance

19.19 Following the liquidation of IBRC in February 2013, a number of claims were made under the guarantee scheme and, in March 2013, the Minister delegated the following further functions to the NTMA¹

- verification of claims for payment in respect of a deed of guarantee put in place on 29 November 2010 in relation to certain derivative contracts entered into by IBRC
- payment of amounts due under the deed of guarantee.

19.20 The State has lodged claims totalling €1,126 million with the joint special liquidators of IBRC. These comprise

- €1,088 million claimed by the NTMA in respect of payments to bondholders, and depositors. This figure also includes expenses of €7.2 million.²
- €37.8 million claimed by the Department of Finance in respect of derivatives.²

¹ SI No 85/2013.

² Interest is payable on amounts claimed from the date of each claim to the date of payment by the joint special liquidators.

³ See chapter 2 *Cost of banking stabilisation measures at end 2018*.

19.21 In 2016 and 2017, the joint special liquidators of IBRC paid two dividends totalling €560 million (50% of all admitted unsecured creditors of the liquidation). The special liquidators announced the remaining dividend payment of 50% to admitted unsecured creditors of the liquidation in December 2018. This was received in separate payments in December 2018 and early 2019. The Exchequer received approximately €341 million in 2018 and a further €225 million in February 2019 in relation to these payments.³

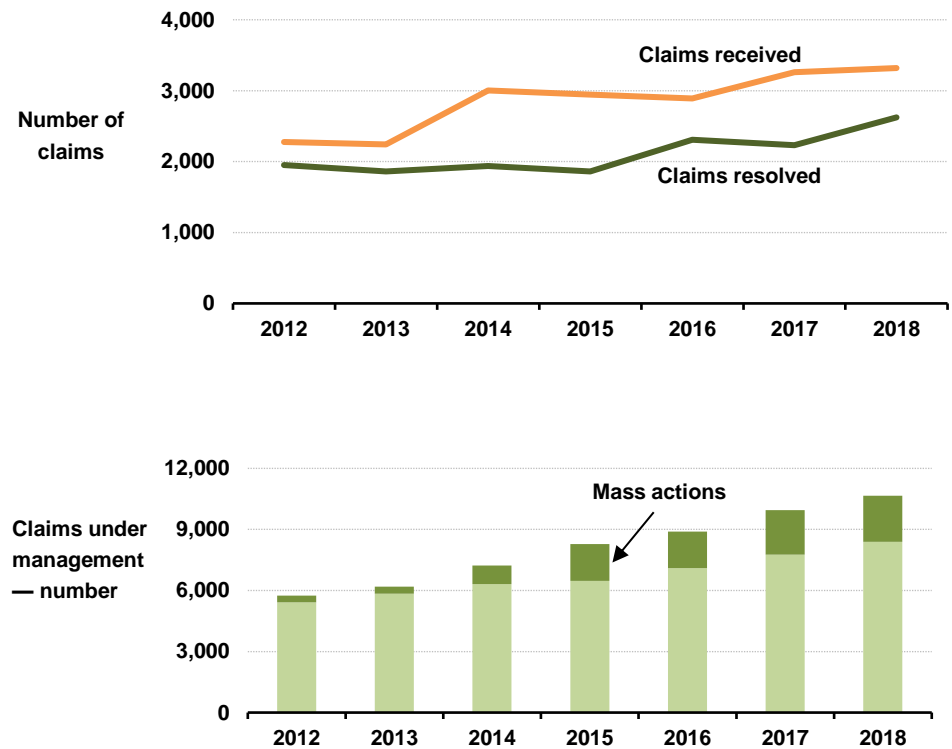
State Claims Agency

19.22 The NTMA manages personal injury, property damage and clinical negligence compensation claims on behalf of certain delegated State authorities. In addition, it has a risk management role, advising and assisting those State authorities in minimising their claim exposures. It also considers and manages third party cost claims arising from certain tribunals of inquiry and claims for legal costs by parties who have successfully sued the State in respect of personal injury and other non-personal injury related actions. When performing these functions, the NTMA is known as the State Claims Agency (SCA). At 31 December 2018, the SCA's remit covered 146 State authorities.

19.23 Awards and associated claim costs of the SCA in 2018 amounted to a total of €354.6 million (2017 €316.8 million). These costs are recoupable from the relevant State authorities availing of the SCA services. In addition, the NTMA incurred €25 million (2017: €20.8 million) in administrative costs in the performance of its SCA functions. These administrative costs are included in the administration expenses of the NTMA and are charged on the Central Fund.

19.24 The number of claims under management has increased significantly since 2012. At the end of 2018, there were 10,658 claims under management including 2,267 claims in mass actions (general and clinical). In 2018, 2,623 claims were resolved, an increase of 17% over the previous year (see Figure 19.5).

Figure 19.5 Claims received and resolved annually, and claims under management, at year end, 2012 to 2018

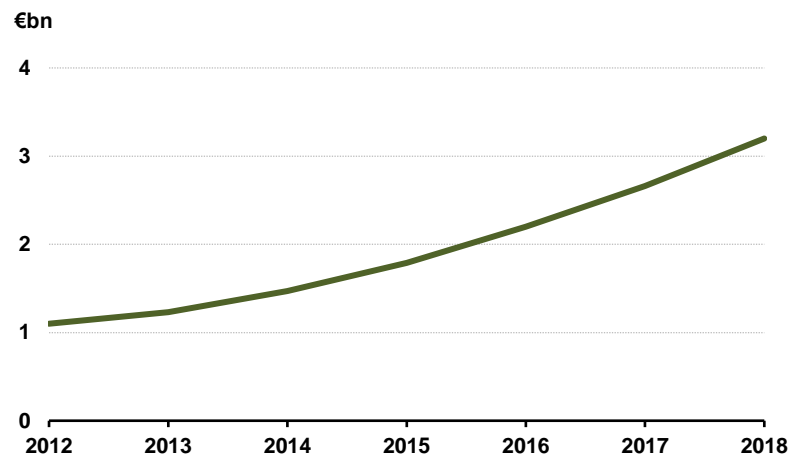


Source: National Treasury Management Agency

19.25 The estimated cost of settling outstanding claims has been steadily increasing. The liability at the end of 2018 has been estimated by the SCA at €3.15 billion — about three times the estimated liability at the end of 2012 (see Figure 19.6). A key factor in the increase in the estimated liability since 2015 is the impact of a reduction in the real rate of return used, from 3% to 1% or 1.5% on foot of the determination by the Court of Appeal.

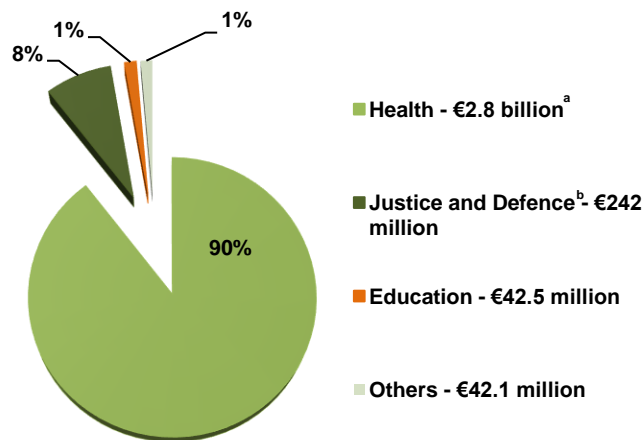
19.26 Health sector bodies (including the HSE, Tusla and the Department of Health) accounted for 90% of the estimated outstanding liability at the end of 2018. Two other sectors (Justice and Defence, and Education) accounted for a further 9% (see Figure 19.7).

Figure 19.6 Estimated cost of settling outstanding claims, at end-2012 to 2018



Source: National Treasury Management Agency

Figure 19.7 Proportion of estimated outstanding claims for each State authority sector, at end-2018



Source: National Treasury Management Agency

Notes: a The health sector includes the HSE, Department of Health and bodies under its aegis, and Tusla.
 b Justice and Defence include the Irish Prison Service, An Garda Síochána, Defence Forces and certain others.

Third party legal costs claims

- 19.27** In February 2013, a State legal cost unit was set up within the SCA to deal with third-party costs arising from the Mahon, Moriarty and Smithwick Tribunals of Inquiry.¹ In 2015, the Government extended the responsibilities of this unit to management of all third party legal costs claims against delegated State authorities.²
- 19.28** The SCA reviews legal costs claimed by plaintiffs' legal representatives. If agreement on the amounts claimed is not reached, the claims are referred to the Taxing Master of the High Court. In 2018, the SCA settled 556 claims for legal costs. The claims — totalling €90.6 million — were settled for €53.7 million (41% reduction in amounts claimed). A large proportion of this saving was from high reductions in Tribunal costs (58%).
- 19.29** Part 2 of the Civil Liability (Amendment) Act 2017 commenced in October 2018 and introduced periodic payments orders (PPOs) as an alternative to lump sums paid to compensate persons who have suffered catastrophic injuries. PPOs guarantee that such victims will receive annual fixed payments in respect of treatments and care, thereby reducing worries associated with lump-sum payments that may run out for families affected by catastrophic injuries.

Insurance Compensation Fund

- 19.30** The Insurance (Amendment) Act 2018 sets out the separate roles of the SCA and the Central Bank of Ireland (CBI) in the event of an insurance company liquidation or receivership. In such events, the SCA will make an application to the High Court, on behalf of the liquidator, to approve payments from the Insurance Compensation Fund (ICF), on completion of a due diligence examination of the relevant claims. Once approved by the High Court, the CBI will pay the specified amount to the SCA for distribution to the claimants in respect of an insurance company authorised in an EU member state other than Ireland. In cases where an insurance company is authorised in Ireland, the CBI will pay the specified amount to the liquidator for distribution to the claimants. The SCA made its first application to the High Court in November 2018, arising from the liquidation of Setanta Insurance Company, where the Court agreed to release €20.6 million to 1,300 claimants.

Carbon Fund

- 19.31** The Carbon Fund was established by the Carbon Fund Act 2007 in order to purchase carbon credits to meet Ireland's commitments under the Kyoto Protocol — an international climate change agreement. Under the 2007 Act, the NTMA has responsibility for the purchase, through the Carbon Fund, of carbon credits required to meet Ireland's climate change obligations.
- 19.32** The assets held in the Carbon Fund are not held for trading purposes but to be submitted as parts of Ireland's compliance under the Kyoto Protocol and its obligations under European Union legislation.³
- 19.33** In 2009, in the light of the slowdown in the Irish economy and the subsequent revised estimate of Ireland's need to purchase carbon credits, it was decided to cease the purchase of credits. The final accounting transactions for the commitment period 2008 – 2012 of the Kyoto Protocol were carried out in 2015, during which time assets worth €9.4 million were surrendered to fulfil Ireland's obligation.

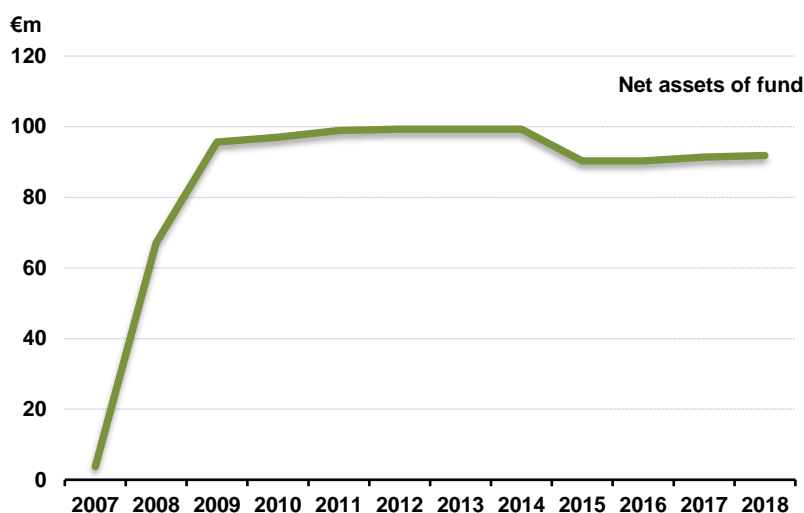
¹ The NTMA (Amendment) Act 2014 (the 2014 Act) put the SCA legal costs function on a statutory basis.

² SI No. 505 of 2015 NTMA (Delegation of Claims for Costs Management Functions) Order 2015.

³ See also chapter 9, *Greenhouse gas related financial transactions*.

- 19.34** Since the final settlement in 2015 of obligations for the period 2008 – 2012, no assets have been purchased or surrendered. The remaining assets in the Carbon Fund have been carried forward towards meeting Ireland's 2020 commitments under the European Union's 2020 Climate and Energy Package. At the end of 2018, the Carbon Fund held assets with an acquisition cost of €91.8 million (see Figure 19.8).

Figure 19.8 Net assets value of the Carbon Fund, 2007 to 2018



Source: Financial Statements of the Carbon Fund, 2007 to 2018. Analysis by the Office of the Comptroller and Auditor General.

- 19.35** In November 2018, the Government decided to re-commence the purchase of greenhouse gas emissions allowances for compliance with Ireland's obligations under the EU Effort Sharing Decision on targets for 2013 – 2020. There have been no purchases to date.

NewERA

- 19.36** The New Economy and Recovery Authority (NewERA) functions of the NTMA were established on a statutory basis in December 2014 on commencement of the relevant sections of the 2014 Act.¹
- 19.37** The NewERA functions include the provision of financial and commercial advisory services on a range of issues to a relevant Minister of the Government in respect of a designated body under his/her remit.² Also, where any Minister holds assets or shares in a body that is not designated for NewERA purposes, or has general responsibility for, or has any function in relation to such a body or assets, NewERA may also provide similar services to that Minister.

¹ The New Economy and Recovery Authority (NewERA) was initially set up on a non-statutory basis following a Government announcement in September 2011.

² At 31 December 2018, the designated bodies were the Electricity Supply Board, Ervia, Bord na Mona plc, Coillte Teoranta, Eirgrid plc, Irish Water, An Post and any of their subsidiaries or any company in which any of the designated bodies has an interest.

19.38 Expenditure incurred by the NTMA on NewERA activities in 2018 was around €6.1 million and is separately disclosed in the NTMA's administration account. This expenditure mainly represents the operating costs of the NTMA in providing financial and commercial advice to relevant Ministers, including on 132 submissions for Ministerial consideration made by commercial State bodies in 2018. This included advice relating to

- bond issuance by ESB, credit facilities for Irish Water, EirGrid and Shannon Group, and a European Investment Bank (EIB) credit facility for Gas Networks Ireland
- capital expenditure budgets, the majority relating to regulated electricity, gas and water network assets
- specific capital expenditure projects including infrastructure projects by Gas Networks Ireland and Irish Water, a VHI healthcare project and an ESB/Bord na Mona wind farm project.

Banking system functions staffing

19.39 The NTMA's Banking Unit has been seconded to the Department of Finance since August 2011, where it now forms part of the Department's Shareholding and Financial Advisory Division.¹ At the direction of the Minister, costs of the Banking Unit, comprising staff costs and certain professional advisor costs, continue to be met by the NTMA. Costs incurred by the NTMA in 2018 in relation to the Banking Unit totalled €3.8 million and are separately disclosed in the NTMA's administration account in 2018.

Ireland Strategic Investment Fund

19.40 The Ireland Strategic Investment Fund (ISIF) was established in December 2014, pursuant to the 2014 Act. On its establishment, the assets and liabilities of the National Pensions Reserve Fund (NPRF) became assets and liabilities of the ISIF, apart from a small residual amount of foreign assets and liabilities which are still being worked out.²

19.41 The assets of the fund are held in two portfolios.

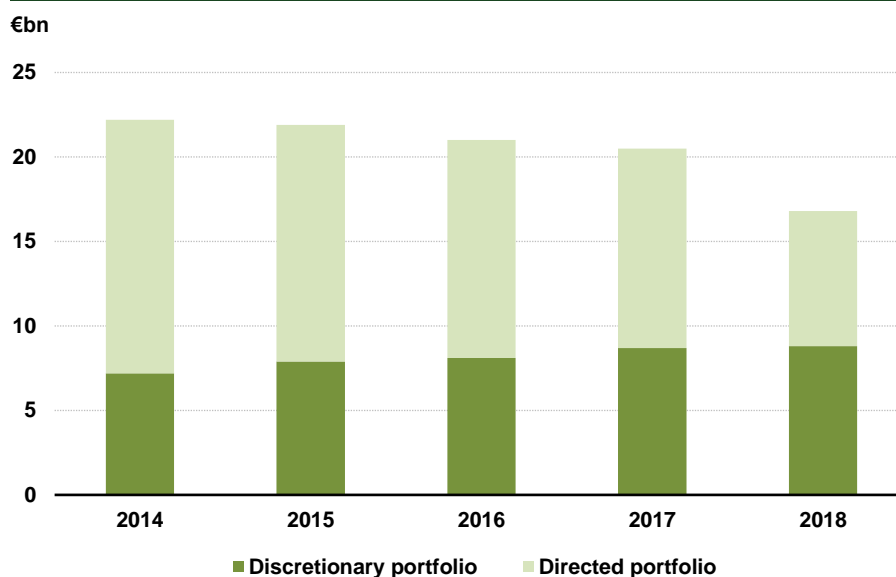
- The directed investment portfolio is subject to directions given by the Minister for Finance.³ The Minister has directed that any interest or other income received in respect of deposits and/or securities held in the directed investment portfolio are transferred to the discretionary investment portfolio and are held or invested by the NTMA.
- The discretionary investment portfolio consists of investments made in accordance with the relevant sections of the 2014 Act, where the NTMA holds or invests the assets of the ISIF (other than directed investments) on a commercial basis.

19.42 At 31 December 2018, the ISIF held net assets of €16.8 billion (2017: €20.4 billion). The net assets comprised €8 billion (2017: €11.7 billion) in the directed investment portfolio and €8.8 billion (2017: €8.7 billion) in the discretionary portfolio (see Figure 19.9).

¹ SI No 395/2011.

² At end 2018, a small number of foreign assets valued at €50,000 had not transferred to the ISIF.

³ Section 43 of the 2014 Act provides that the Minister may give a direction to the NTMA in relation to the holding and management of a directed investment, the exercise of any voting or other rights attaching to a directed investment, and the disposal of a directed investment.

Figure 19.9 Value of ISIF net assets, 2014 to 2018

Source: Financial Statements of the Ireland Strategic Investment Fund, 2014 to 2018. Analysis by the Office of the Comptroller and Auditor General.

Directed investment portfolio

19.43 In 2018, the value of the directed investment portfolio fell by over €3.5 billion. This drop in value was almost all due to the decrease in the market price of AIB shares during the year.

19.44 At 31 December 2018, the net assets of the directed investment portfolio comprised

- AIB — 71% shareholding valued at €7.05 billion (€3.65 per share).
- Bank of Ireland — 13.95% shareholding valued at €733 million (€4.87 per share).
- €215 million held in cash and committed for lending to the Strategic Banking Corporation of Ireland.

Discretionary portfolio

19.45 The statutory mandate of the ISIF, in respect of the discretionary portfolio, is to invest on a commercial basis in a manner designed to support economic activity and employment in the State. The NTMA Board is required to determine, monitor and keep under review an investment strategy for the assets of the ISIF, in consultation with the Minister for Finance and the Minister for Public Expenditure and Reform.¹

19.46 The discretionary portfolio value has grown since inception from €7.1 billion to €8.8 billion, comprised of investment gains of €600 million and cash injections of €1.1 billion, arising from AIB dividends €761 million, Bank of Ireland dividends €17 million and the sale of the State's shareholding in Aer Lingus €335 million. The discretionary portfolio is comprised of an Irish portfolio (€2.6 billion) and a global portfolio (€6.2 billion).

19.47 Since inception, the ISIF has generated an annualised return of 1.9% per annum, comprising a return of 7.1% per annum from the Irish portfolio and a return of 0.7% per annum from the global portfolio.

¹ Section 39 National Treasury Management Agency (Amendment) Act 2014.

19.48 In July 2018, the Minister for Finance announced that the ISIF would focus on priorities that will support Project Ireland 2040. In February 2019, the ISIF published a new investment strategy which aims to invest €3 billion over the next five years. The aim is to invest in areas that have a substantial and lasting economic impact in Ireland, guided by the objectives of Project Ireland 2040. This will include investments in the following categories

- regional — enabling regions, regional businesses, food and agri focus to encourage balanced economic growth
- housing — delivering mass market housing through unlocking land, building for sale and long term rental
- indigenous business — long term capital to scale to international levels
- climate change — investment in renewable electricity and heat, food and agri and transport, subject to State market support regimes
- Brexit — supporting long-term diversification and sectors adversely affected by Brexit.

19.49 The ISIF has also reserved €3.5 billion for investment in other government priority areas, which include

- €1.5 billion — National Surplus (Exceptional Contingencies) Reserve Fund (rainy day fund). In June 2019, the legislation to establish the rainy day fund completed its passage through the Oireachtas. Following commencement of the legislation and issue of the relevant Ministerial order, the rainy day fund will be given an initial injection of €1.5 billion from the ISIF followed by annual exchequer contributions of €500 million from 2019 to 2023 to bring its balance up to the total value of €4 billion in 2023. The rainy day fund is intended to be used as an instrument to address severe, unanticipated events, as opposed to the normal fluctuations within the economic cycle.¹
- €1.25 billion — proposed by the Minister to support the Land Development Agency in its acquisition of a portfolio of lands, for housing and other purposes.
- €750 million — HBF1. During 2018 under the direction of the Minister for Finance, €20 million was transferred from ISIF to provide initial capital for HBF1.²

Targeted funds

19.50 In 2015, €335 million was transferred from the Exchequer to the ISIF for the purpose of a new Connectivity Fund within the discretionary portfolio. The Connectivity Fund is restricted to investment in projects that enhance Ireland's physical, virtual or energy connectivity. The total deployed by ISIF under the Connectivity Fund up to the end of 2018 amounted to over €90 million. These investments and commitments comprised

- €26 million (\$28 million) equity investment committed to Aqua Comms — supporting subsea fibre-optic network interconnecting New York, Dublin and London via Killala, County Mayo
- €35 million committed to the Dublin Airport Authority
- €18 million committed to the Port of Cork to assist it to relocate from its existing location near the city centre to a redeveloped site in Ringaskiddy
- €14 million committed to Shannon Airport to support the upgrade of the existing runway.

¹ National Surplus (Reserve Fund for Exceptional Contingencies) Act 2019.

² ISIF backed residential housing platforms completed over 2,000 units at 31 December 2018 and have funding committed or sites acquired to deliver a further 10,000 homes.

National Development Finance Agency

19.51 When performing certain infrastructure investment activities, the NTMA describes itself as the National Development Finance Agency (NDFA). The functions of the NDFA include providing financial advice to State authorities for public investment projects with a capital value over €20 million.

19.52 The NDFA also has responsibility for

- the procurement and delivery of public private partnership (PPP) projects for State authorities with certain exceptions such as transport
- the direct procurement of certain education projects
- the provision of contract management services and support for the operation and maintenance of certain PPP education projects
- contract management support on the Convention Centre Dublin PPP under a service level agreement.

19.53 Progress in relation to PPP projects that were ongoing at the end of 2018, is as follows

- Primary care centres PPP — the development of 14 new primary care centres, designed to provide health and social care services in local communities across a number of locations. Four facilities became operational in 2017 and the remaining ten in 2018.
- Courts PPP — this involves the development of new court houses and the refurbishment of existing courthouses in seven locations. Three courthouses became operational in 2017 and the remaining four in 2018.
- Schools PPP bundle five — this involves five schools and one Institute of Further Education providing 4,870 student places. It was delayed following the liquidation in January 2018 of Carillion Construction Ltd. Three of the schools are completed and the remaining two schools and one Institute for Further Education are targeted for completion in Q3 2019.
- Technology University campus Grangegorman PPP — the contract award and the financial close was completed in March 2018. Following a two-year construction period, the buildings are expected to become operational in 2020.
- Social housing PPP programme — this involves the development of 1,500 social housing units in three bundles. Bundle one procurement commenced in 2017 (534 homes), bundle two commenced in 2018 (465 homes) and tender evaluation was completed in May 2019. Bundle three (c. 500 homes) is currently finalising sites with a decision on site selection by the Department of Housing, Planning and Local Government awaited.

19.54 Key projects where the NDFA provided financial advice during 2018, are

- Housing: The NDFA is providing advice in relation to a number of housing projects including social housing leasing, mixed tenure residential developments and mortgage to rent schemes. Together these will account for circa 7,000 homes.
- Motorway service areas: Design, construction, operation and maintenance of two service areas located on the M6 motorway east of Athlone and on the M9 motorway south of Kilcullen together with the fit-out, operation and maintenance of a third service area on the M11 motorway north of Gorey.
- Schools PPP bundle four: refinancing of the project.

19.55 In addition, the NDFA provides assistance in sourcing European Investment Bank (EIB) funding for both traditionally funded and PPP projects. The NDFA facilitated the signing of a €225 million loan from EIB for e-health projects in October 2018.

19.56 The NDFA undertakes contract management services and provides support under service level agreements involving monitoring the relevant PPP companies in the performance of their obligations under the PPP contract and seeking to ensure the long-term value of these contracts is achieved. The NDFA provides the following services

- contract management to all operational PPP schools (at the end of 2018, the NDFA was managing the contracts for six projects with a capital value of c. €500 million)
- contract management support on the Convention Centre in Dublin
- contract management support to the higher education PPPs (Cork School of Music and Cork Maritime College).

National Asset Management Agency

19.57 As in previous years, the NTMA assigned staff and provided services to the National Asset Management Agency (NAMA) during 2018. The NTMA incurred costs of €40.8 million (2017: €38 million) in that regard, which was recharged to NAMA.¹

- €30.8 million (2017: €34 million) was incurred in respect of staff costs. This comprised staff directly employed by the NTMA and assigned to NAMA (236 staff at 31 December 2018) and the apportioned remuneration cost of NTMA employees operating shared services including IT, human resources and finance.
- €10 million (2017: €4 million) in respect of other costs was incurred by the NTMA on behalf of NAMA, including rent, office services and consultancy costs.

19.58 NAMA is accounted for separately and does not form part of the NTMA's accounts for the purposes of section 12 of the 1990 Act (as amended).²

Strategic Banking Corporation of Ireland

19.59 The Strategic Banking Corporation of Ireland (SBCI) was incorporated in September 2014 as a company under the Companies Acts pursuant to the requirements of the Strategic Banking Corporation of Ireland Act 2014, to promote the provision of additional credit to enterprises and other persons in the State, in particular to small and medium enterprises (SMEs) by sourcing funds from national and international lenders (and investors).³

19.60 The NTMA provides the SBCI with business and support services and systems, staff and treasury services and advice in connection with debt securities and borrowings.⁴ The NTMA incurred costs of €5.9 million for the provision of these services in 2018 (2017: €5.2 million) which were recharged to the SBCI.

19.61 The SBCI is accounted for separately and does not form part of the NTMA's accounts for the purposes of section 12 of the 1990 Act (as amended).⁵

¹ The total administrative costs of NAMA were €75 million in 2018 (€67 million in 2017).

² The report on the audit of NAMA issued on 7 May 2019.

³ SMEs are defined in accordance with Article 2 of EC Recommendation 2003/361/EC (6 May 2003).

⁴ Section 10 of the Strategic Banking Corporation of Ireland Act 2014.

⁵ The report on the audit of the SBCI for 2018 issued on 18 April 2019.

20 Ireland Apple escrow fund

20.1 The Ireland Apple escrow fund is a multi-billion-euro fund held under the terms of a formal agreement between the Minister for Finance (the Minister) and Apple Sales International and Apple Operations Europe, pending the outcome of legal challenges to the findings of a State aid investigation undertaken by the European Commission (the Commission).

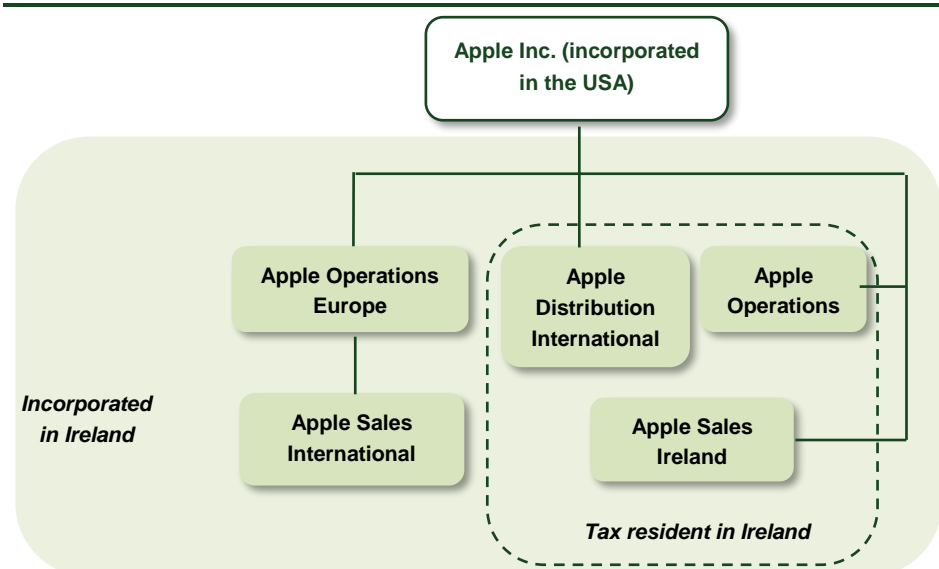
Origin of the escrow fund

20.2 The Treaty on the Functioning of the European Union (Lisbon Treaty) includes a general prohibition on the provision of State aid which distorts or tends to distort competition.¹ There are some exceptions, including aid to remedy a serious disturbance in the economy of a member state. Under the Lisbon Treaty, a new State aid scheme requires prior approval by the Commission.

20.3 The corporate structure of Apple in Ireland is outlined in Figure 20.1. Two of Apple's subsidiaries, Apple Sales International (ASI) and Apple Operations Europe (AOE), although incorporated in Ireland, were not tax-resident in Ireland, in accordance with Section 23A of the Taxes Consolidation Act 1997.² Prior to its modification by the Finance Acts 2013 and 2014, Section 23A provided that a company incorporated in Ireland was not non-tax resident in Ireland if

- it was considered to be tax resident in another country for the purpose of a double taxation treaty, or
- the company was listed on a recognised stock exchange or ultimately controlled by a person that was resident in an EU member state or tax treaty country, and the relevant company or its subsidiaries had a trading activity in Ireland.³

Figure 20.1 Apple's corporate structure in Ireland^a



¹ State aid is described in Article 107 of the Treaty on the Functioning of the European Union (TFEU) as any aid granted by a member state or through State resources in any form whatsoever which distorts or threatens to distort competition by favouring certain undertakings.

² As amended by Section 43 of the Finance Act 2014.

³ This includes a company incorporated in Ireland carrying on a trade in the State and centrally managed and controlled outside of Ireland.

Source: European Commission Decision of 30.08.2016 on State Aid SA.38373

Note: a This corporate structure was in place until 2015.

- 20.4** Section 25 of the Taxes Consolidation Act 1997 provides the legal basis for computing the chargeable profits of a non-resident company that carries on a trade in the State through a branch or agency. Profits from activities undertaken by a non-resident company that are not attributable to an Irish branch, are not chargeable to Irish corporation tax. The Revenue Commissioners (Revenue) issued two tax opinions (in 1991 and 2007) about the attribution of profits to the Irish branches of ASI and AOE.¹
- 20.5** The 1991 and 2007 Revenue opinions dealt with the application of tax law to certain specific transactions or situations.² An opinion may be provided by Revenue where the issues are complex, information is not readily available or there is uncertainty in relation to the application of tax law to a particular transaction or situation and the opinion may assist the taxpayer in filing a tax return as required under the legislation.
- 20.6** In June 2014, the European Commission opened a formal investigation procedure into the 1991 and 2007 tax opinions issued by Revenue to AOE and ASI. The investigation was focused on establishing whether these opinions conferred any advantage on the Apple Ireland subsidiaries, such that they constituted State aid.
- 20.7** In August 2016, the Commission issued a decision concluding that Ireland had given illegal State aid to the two Apple subsidiaries.³
- 20.8** The Commission ordered Ireland to recover alleged State aid plus interest from Apple, related to a ten-year period. The Commission estimated that the State aid allegedly granted was of the order of €13 billion. The Ireland Apple case is the largest State aid recovery ever ordered. Both the Irish Government and Apple separately appealed the Commission's decision and the case is ongoing. The full process of litigation could take several years.
- 20.9** Notwithstanding Ireland's appeal against the Commission's decision, the Irish Government complied with its obligation to recover the alleged State aid plus interest from Apple.⁴ The Minister agreed with Apple that the amounts collected would be held in an escrow fund until the legal process was completed.
- 20.10** Revenue computed the alleged State aid to be collected by reference to the Commission's decision. The estimated sum was €13.1 billion plus interest of €1.2 billion.

¹ The 1991 opinion was in place until 2007, when it was replaced by the 2007 opinion. The 2007 opinion remained in place until 2014.

² Ireland does not have a statutory system of binding tax rulings and there is no provision in Irish law for the issuing of such rulings. However, Ireland does issue non-binding advisory opinions on the application of tax law to specific transactions or situations.

³ Commission Decision on State aid SA.38373 of 30.08.2016.

⁴ Article 9, Chapter V of the Commission Regulation (EC) No 794/2004 of 21 April 2004.

Oversight and management of the fund

- 20.11** Placement of the funds in an escrow account is intended to allow for the proper management and monitoring of the investment to preserve its value to the greatest extent possible in light of the prevailing market conditions. It also allows all parties (the Minister and ASI and AOE) to share control over the funds and to determine how these funds are invested until the appeal is finalised.
- 20.12** In April 2018, the Minister for Finance and ASI and AOE entered into an escrow framework deed giving legal effect to arrangements for the recovery of the alleged State aid. The deed sets out the detailed legal agreement governing the collection and payment of funds from ASI and AOE, and any required releases from the escrow fund. The arrangements include appointment of an escrow agent and custodian and investment managers, and provide for oversight and management of the escrow fund in accordance with an agreed investment policy.

20.13 To give effect to the establishment of the escrow fund, the Minister delegated to the National Treasury Management Agency (NTMA) the following functions¹

- procurement and appointment of an escrow agent and custodian
- procurement and appointment of one or more investment managers
- negotiation of an investment policy for the escrow fund.

Procurement and appointment of the escrow agent and custodian and investment managers was undertaken by the NTMA on behalf of the Minister in conjunction with ASI and AOE.

20.14 The Minister also delegated certain of his functions in relation to the investment of the escrow fund to the NTMA, including inter alia²

- the negotiation and execution of, and performance of, obligations under an escrow agent and custodian agreement
- the negotiation and execution of, and performance of, obligations under an investment management agreement
- appointment of the Ireland members of the fund's investment committee and other rights and obligations in relation to that committee
- oversight of the investment and management of the fund in accordance with the escrow deed.

Escrow agent and custodian

20.15 At the direction of the Minister, the NTMA, jointly with ASI and AOE, appointed the Bank of New York Mellon (BNYM) to provide escrow agency and custodian services, following a competitive tender process. The role of BNYM as the escrow agent and custodian is to open and maintain escrow bank/securities accounts as well as to hold, apply and release the escrow funds in accordance with the terms and conditions of the escrow agent/custodian agreement.

Investment managers

20.16 Three investment managers — Amundi Asset Management, Blackrock Investment Management (UK) Limited and Goldman Sachs Asset Management International — were appointed to provide investment management services in June 2018, following a competitive tender process. The investment managers are responsible for the management of investments in accordance with an investment manager mandate to preserve the fund's capital to the greatest extent possible in light of prevailing market conditions.

¹ Statutory Instrument No. 331 of 2017.

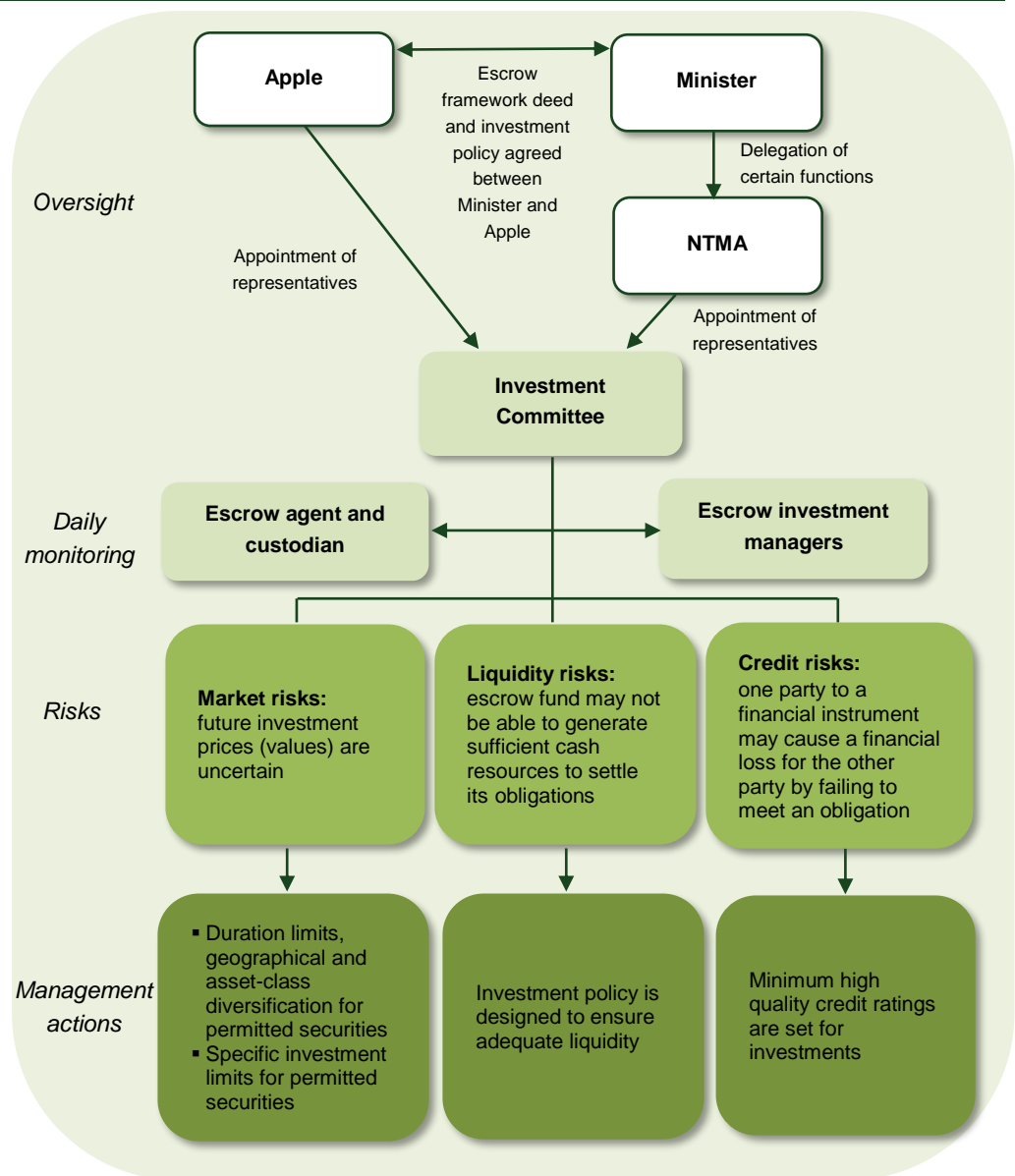
² Statutory Instrument No. 157 of 2018.

Investment committee

20.17 An investment policy was developed through negotiation between the NTMA, ASI and AOE, and was submitted by the NTMA to the Minister for approval. The policy was approved in February 2018 and forms part of the escrow framework deed.

20.18 The escrow fund is held by BNYM, as escrow agent and custodian. The investment and management of the escrow fund is jointly overseen by the Minister and ASI and AOE through an investment committee.¹ The oversight arrangements in respect of the escrow fund are presented in Figure 20.2. The Minister for Finance is the beneficial owner for the duration of the escrow fund in accordance with the agreed escrow framework deed.

Figure 20.2 Oversight, management and monitoring of the escrow fund



¹ The investment committee includes three representatives of the NTMA and three representatives of Apple. A NTMA representative chairs the committee.

Source: Financial Statements of the Ireland Apple Escrow Fund, 2018. Analysis by the Office of the Comptroller and Auditor General.

Investment strategy

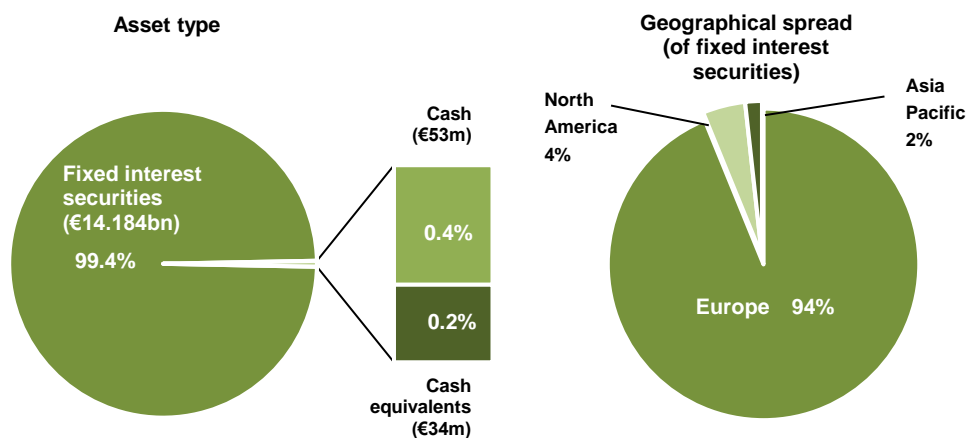
- 20.19** The investment principles and parameters for the escrow fund are set out in the investment policy. The objective of the investment policy is to preserve the capital value of the escrow fund to the greatest extent possible in light of prevailing market conditions. The agreed risk appetite in respect of the escrow fund is 'low', with investments permitted only in securities that have a low degree of inherent risk, such as highly-rated fixed-income securities of short to medium term duration. The investment committee reviews the ongoing appropriateness of the investment policy.
- 20.20** The escrow fund is exposed to different market, liquidity and credit risks. The escrow fund's risk management programme seeks to minimise the potential adverse effects of the risks on the escrow fund's financial performance (see Figure 20.2).
- 20.21** The management and monitoring of risks is carried out by the investment managers, while the escrow agent and custodian independently monitor compliance with the investment manager mandates and reports to the NTMA and ASI and AOE on a daily basis. The investment manager mandates are consistent with the investment policy for the escrow fund. Compliance with the investment policy is considered by the Investment Committee on a quarterly basis. Regular meetings with the Investment Committee and the investment managers are held to review the investment managers' performance and that of the overall escrow fund.

Performance of the escrow fund

- 20.22** As a consequence of the Minister's delegation of the investment functions, the NTMA is required to prepare, on an annual basis, financial statements to be audited by the Comptroller and Auditor General, and to be presented following audit to the Houses of the Oireachtas.¹
- 20.23** The financial statements of the escrow fund are prepared in accordance with the International Financial Reporting Standards (IFRS), as directed by the Minister.²
- 20.24** The collection of the alleged State aid commenced in May 2018 with the first of a series of twelve payments to the escrow fund. The final payment was received in September 2018. The lodgements totalled €14.285 billion.
- 20.25** In line with the investment policy, the escrow fund is invested in highly rated euro-denominated fixed income securities, and cash and cash equivalents. Fixed income securities include sovereign, quasi sovereign and corporate bonds. Cash and cash equivalents include cash and other short term investments with maturities of three months or less.
- 20.26** All financial assets of the escrow fund are valued in the statement of financial position at fair value, which is the quoted market value at the close of trading on the period end date.
- 20.27** At 31 December 2018, the financial assets held in the escrow fund amounted to €14.271 billion. A breakdown of the assets is shown in Figure 20.3.

¹ This arises from the terms of Section 12 of the NTMA Act 1990.

² The financial statements of the escrow fund are prepared pursuant to Section 28(5) of the National Treasury Management Agency (Amendment) Act 2000.

Figure 20.3 Assets of escrow fund as at 31 December 2018

Source: Financial statements of the Ireland Apple Escrow Fund 2018

20.28 The value of the fund assets decreased between September 2018, when the transfer of funds from Apple into the escrow fund was completed, and the end of December 2018. This was the result of changes in the value of the financial assets, combined with interest expenses, resulting in an overall decrease of €14 million in the value of the fund. A further €2 million in operating expenses had been accrued at the year end.

20.29 The performance of the escrow fund will be determined by the prevailing interest rate environment and the asset credit quality over the duration of the escrow fund which is currently unknown. For illustrative purposes, the NTMA estimates that in the current negative interest rate environment, the escrow fund could decline by 0.5% per annum.^{1,2} On a €14 billion fund, this would amount to a loss of c. €70 million per annum.

Costs associated with establishment of the escrow fund

20.30 Additional costs associated with the recovery process and the establishment of the escrow fund total approximately €3.9 million (including VAT) to date.³ This includes all legal costs, consultancy fees and any other associated costs incurred by all State parties involved in the process.⁴

1 Public Accounts Committee meeting of 4 July 2019.

2 This is equivalent to a loss of around €5 million a year for each billion euro held.

3 These costs were incurred by the Department of Finance, Revenue Commissioners, Chief State Solicitor's Office, NTMA and the Central Bank of Ireland.

4 These costs do not include costs associated with the Commission's investigation and the appeal of the Commission's decision.

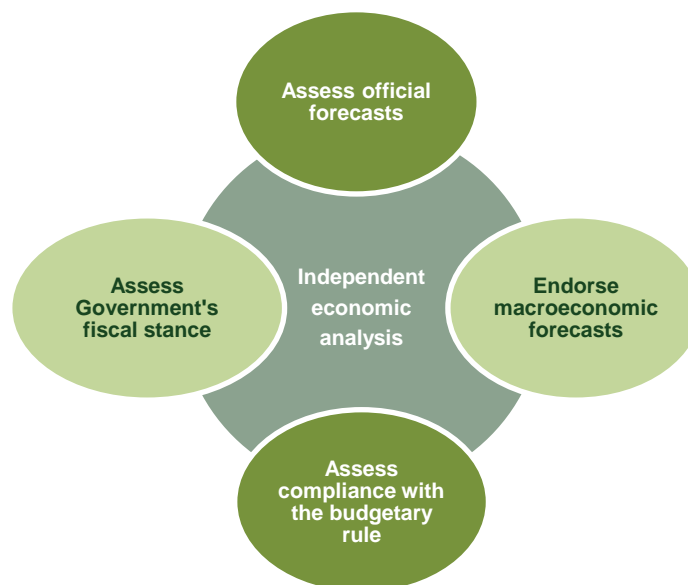
21 Irish Fiscal Advisory Council

21.1 The Irish Fiscal Advisory Council (the Council) is required under the Fiscal Responsibility Act 2012 (the Act) to provide independent assessments of the Government's budgetary plans and projections and to inform public discussion of economic and fiscal matters.

21.2 The Council's statutory responsibilities are to

- assess the official forecasts produced by the Department of Finance (the Department) in spring and autumn each year¹
- assess whether the fiscal stance of the Government is conducive to prudent economic and budgetary management including by reference to the EU Stability and Growth Pact²
- monitor and assess whether the general government budgetary position is either in balance or in surplus, or is moving at a satisfactory pace towards that condition (the 'budgetary rule' as set out in the Act), and assess whether any non-compliance is as a result of exceptional circumstances³
- endorse, as it considers appropriate, the macroeconomic forecasts prepared by the Department, on which the budget and stability programme updates are based.⁴

Figure 21.1 Functions of the Irish Fiscal Advisory Council



1 In accordance with the Act, 'official forecasts' are the macroeconomic and budgetary forecasts published by the Department of Finance for the purposes of fiscal planning.

2 The Stability and Growth Pact is a rule-based framework for the coordination of national fiscal policies in the EU.

3 Under the Act, 'exceptional circumstances' include a period of severe economic downturn or an unusual event (outside the control of the Government) which has a major impact on the budgetary position of the Government.

4 A joint memorandum of understanding between the Council and the Department underpins the endorsement process.

Accounts of the Irish Fiscal Advisory Council

- 21.3** The Chairperson of the Council is the officer accountable for the preparation and presentation of its financial statements for audit. Under the Act, the Council is required to keep accounts of receipts and expenditure in the form approved by the Minister for Finance (the Minister),¹ and to submit them for audit by the Comptroller and Auditor General within three months after the end of the accounting period to which they relate. On completion of the audit, a copy of the accounts and of the audit report must be given to the Minister, who in turn must lay them before the Houses of the Oireachtas.
- 21.4** Separately, the Act requires the Comptroller and Auditor General to report to Dáil Éireann with respect to the correctness of the sums brought to account by the Council each year. This is the report for 2018.
- 21.5** The accounts of the Council for 2018 have been audited, and the report on the audit was issued on 7 August 2019.
- 21.6** I am satisfied that the accounts give a true and fair view of the assets, liabilities and financial position of the Council at end 2018 and of its income and expenditure for the year.

Membership and staffing

- 21.7** The Council consists of five members, including the Chairperson. Appointments are made by the Minister, with the term of office generally being four years. Council members may not serve for more than two consecutive terms.
- 21.8** No vacancies arose on the Council in 2018.
- 21.9** At the end of 2018, the Council was supported by seven staff, comprising six economists and an administrator. One member on secondment from another organisation left the Council's staff in August 2018.

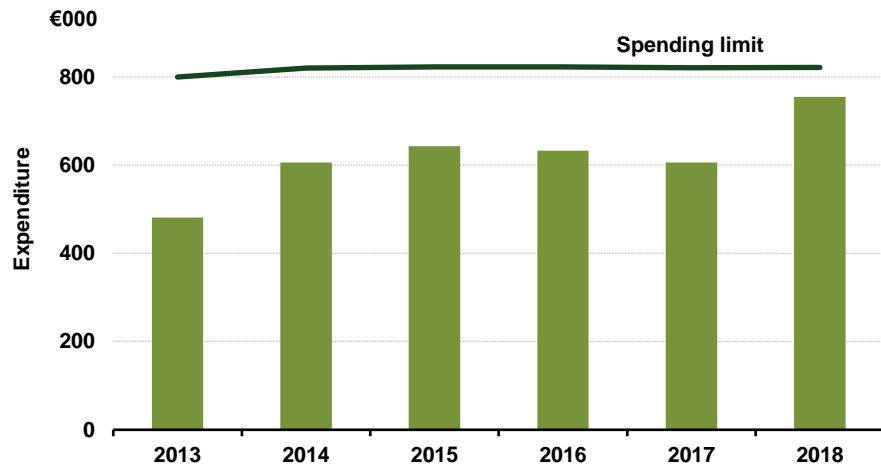
¹ The Council's financial statements have been prepared in accordance with Financial Reporting Standard (FRS)102.

² Paragraph 9 of the schedule to the Act provides for the funding source and sets the baseline level of spending for the Council on commencement (31 December 2012) at €800,000.

³ The Department of Finance applied the Central Statistics Office Harmonised Index of Consumer Prices when determining the ceiling for any year.

Funding

- 21.10** The Council is funded from the Central Fund of the Exchequer, subject to an inflation-indexed annual 'ceiling' amount.² The funding ceiling for 2018 was €822,500 (2017: €820,900).³
- 21.11** Expenditure of the Council totalled around €755,000 in 2018 (2017: €607,000), of which 53% (2017: 55%) related to salary costs. The largest element of the Council's non-pay administration expenditure related to an administration fee payable to the Economic and Social Research Institute (ESRI) in respect of accommodation costs and support services in 2018 which totalled around €113,000 (2017: €106,000).
- 21.12** A summary of the Council's budget and related expenditure for the period 2013 to end 2018 is shown in Figure 21.2.

Figure 21.2 Financial summary of the Irish Fiscal Advisory Council, 2013 to 2018

Source: The Irish Fiscal Advisory Council's annual financial statements. Analysis by the Office of the Comptroller and Auditor General.

21.13 Fees and expenses incurred in relation to Council members for 2018 totalled just under €87,000 (2017: €85,500). Fees in respect of three members were paid to their (public sector or international) employer organisations, rather than to the individuals concerned.¹ Expenses paid to (or in respect of) Council members mainly reflect travel and subsistence costs incurred by international and non-Dublin based members attending Council meetings (which are held in Dublin) and events abroad.

21.14 Retirement benefit costs of just over €77,000 were recognised by the Council in 2018. The Council operates two superannuation schemes for its staff.

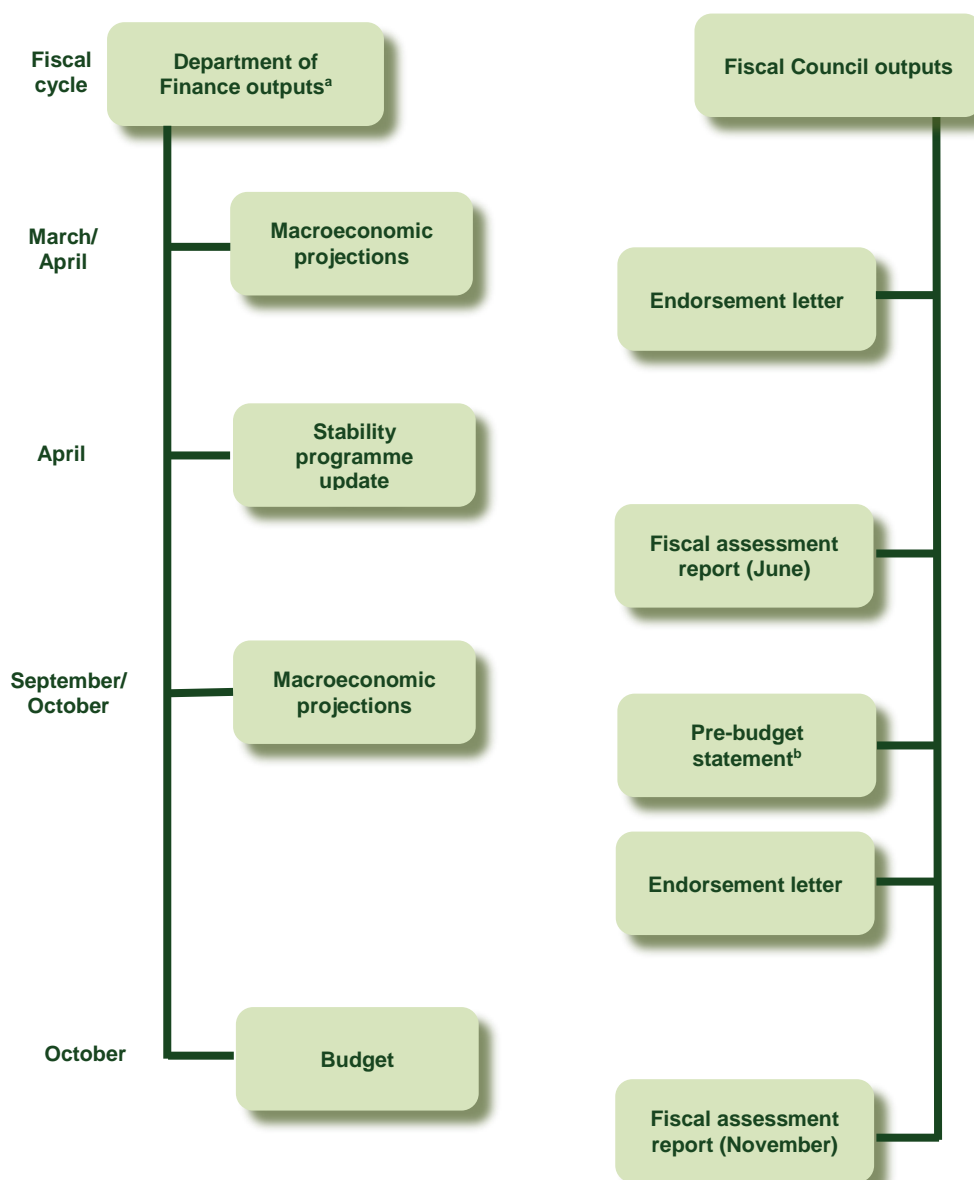
- The Single Public Service Pension Scheme (the Single Scheme) is the defined benefit scheme for pensionable public servants appointed on or after 1 January 2013. Six staff are eligible for retirement benefits under the Single Scheme.
- The Council has received sanction from the Department of Public Expenditure and Reform to operate a 'model' pension scheme on an administrative basis for the purpose of providing superannuation benefits for staff recruited to the public service prior to the introduction of the Single Scheme. One staff member is participating in the model scheme.

¹ Under the one-person-one salary principle, Council members who are employees of other public bodies do not receive fees in respect of their service on the Council.

Activity of the Council

- 21.15** The Council produces a number of annual outputs in response to outputs from the Department. Figure 21.3 outlines these outputs. In addition, the Council has produced a number of non-statutory reports and papers (see Annex 21A).
- 21.16** Under paragraph 11 of the schedule to the Act, the Chairperson of the Council may be called before a Committee of either House of the Oireachtas to account for the performance of the Council's functions. The Council appeared before the Committee on Budgetary Oversight on three occasions during 2018.

Figure 21.3 Irish Fiscal Advisory Council outputs



Source: Office of the Comptroller and Auditor General

Notes: a The Department also publishes a summer economic statement around June/July. This statement was introduced as part of the budgetary reform process.

b This statement is published annually in September and takes into account, inter alia, the summer economic statement.

Annex 21A Irish Fiscal Advisory Council's non-statutory reports

Figure 21A.1 Irish Fiscal Advisory Council's non-statutory reports, 2016 to July 2019

2016 Analytical notes

Public Capital: Investments, Stocks and Depreciation

Challenges Forecasting Irish Corporation Tax

2017 Working papers

Producing Short-Term Forecasts of the Irish Economy

2018 Working papers

Estimating Ireland's Output Gap

Designing a Rainy Day Fund to work within the Fiscal Rules

Nowcasting to Predict Data Revisions

Analytical notes

A 'Heat Map' for Monitoring Imbalances in the Irish Economy

Other reports

Stand-Still Scenario for Government Spending in the Medium Term 2019 – 2023

2019^a Working papers

Ireland's Spending Multipliers

The Current Account: a Real-Time Signal of Economic Imbalances or 20/20 Hindsight?

Estimating Ireland's Tax Elasticities: A Policy-Adjusted Approach

Analytical notes

Estimating Ireland's Budgetary Semi-Elasticities

Other reports

Stand-Still Scenario for Government Spending 2020 – 2023

Source: Irish Fiscal Advisory Council

Note: a to July 2019.

