Accounts of the Public Services 2010

Vote Management

# Report of the Comptroller and Auditor General

## Volume 2

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

September 2011

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

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

The report focuses on 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.

Tá leagan Gaeilge den tuarascáil seo ar fáil freisin A11/1295

# Report on the Accounts of the Public Services 2010

# Volume 2 – Vote Management

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# Chapter 18

# Central Government Accounting

# Central Government Accounting

18.1 Dáil Éireann provides money for the services of government departments and offices, both capital and non-capital, by

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

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

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

## Results of 2010 Audits

Audits of the 2010 Appropriation Accounts for all votes have been completed. Each account, together with the related audit report, is set out in an accompanying volume entitled Appropriation Accounts 2010. Clear opinions have been given in all cases.

In addition to certifying the appropriation accounts of each Department and Office, I am required under Section 3 (5) of the Comptroller and Auditor General (Amendment) Act 1993 to refer in my audit certificate to any material instance where money has not been applied for the purpose intended or where a transaction is not in accordance with the authority governing it. I have drawn attention to a material level of irregular payment on the Vote for Social Protection.

Without qualifying my opinion, certain charges to votes that arose by way of payments in advance of the maturity of the related liability are referred to in this chapter. These amounts, while not material, nonetheless breach Public Financial Procedures.

## Appropriations for 2010

18.4 A summary of the amounts appropriated in 2010 for the public services administered through the votes of Departments and offices is included in Annex A. The outturn for the year is also shown, together with the surplus of appropriations over expenditure.

18.5 The final amount appropriated for public services in 2010 was €53.7 billion[157]. This comprised supply grants of €47.3 billion, capital funding carried over from 2009[158] totalling €126 million and appropriations in aid of €6.3 billion.

18.6 There was an increase of €1 billion in the expenditure provision in the course of the year due to

- an overall increase in the provision on spending subheads of €657 million
- a reduction in planned receipts of €334 million.

The details are set out in Figure 94

**Figure 94 Supplementary Estimates, 2010**

| Vote | Additional expenditure approved | Savings on other subheads | Increased Expenditure Provision | Change in A in A[a] | Supplementary net supply grant |
|---|---|---|---|---|---|
| | €m | €m | €m | €m | €m |
| 19 Justice and Law Reform | 24.2 | (12.4) | 11.8 | (11.8) | —* |
| 20 Garda Síochána | 83.8 | (52.2) | 31.6 | (21.6) | 10.0 |
| 22 Courts Service | 8.9 | (5.0) | 3.9 | (3.9) | —* |
| 25 Environment, Heritage, Local Government | 23.0 | (23.0) | — | — | —* |
| 26 Education and Skills | 105.0 | (105.0) | — | — | —* |
| 27 Community, Equality and Gaeltacht Affairs | 14.0 | — | 14.0 | — | 14.0 |
| 28 Foreign Affairs | 15.2 | (2.8) | 12.4 | — | 12.4 |
| 32 Transport | 21.4 | (21.4) | — | — | —* |
| 34 Enterprise, Trade and Innovation | 5.8 | — | 5.8 | (5.8) | —* |
| 37 Army Pensions | 10.0 | (0.5) | 9.5 | — | 9.5 |
| 38 Social Protection | 566.5 | (206.7) | 359.8 | (9.8) | 350.0 |
| 40 Health Service Executive | 250.0 | (42.0) | 208.0 | 387.0 | 595.0 |
| **Supplementary Allocations for All Votes** | **1,127.8** | **(471.0)** | **656.8** | **334.1** | **990.9** |

Notes: * Indicates that a supplementary sum of €1,000 was granted (referred to as a technical supplementary estimate).

a (Increase) or decrease in voted appropriations in aid.

157 See Figure 97 (Annex A).

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

## Expenditure Outturn

18.7 The amount spent by departments and offices in 2010 was €52.7 billion. After deduction of realised appropriations in aid totalling €6.2 billion, the net expenditure in the year was €46.6 billion as set out in Figure 95.

**Figure 95 Vote Outturn 2008 to 2010**

| | 2008 | 2009 | 2010 |
|---|---|---|---|
| | €m | €m | €m |
| Gross voted expenditure | 53,761 | 53,119 | 52,738 |
| Less appropriations in aid | (4,464) | (5,916) | (6,172) |
| **Net voted expenditure** | **49,297** | **47,203** | **46,566** |

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

18.9 The 2010 surplus was €866 million. Of that amount, a total of €14 million was approved for carrying over to 2011. The balance of €852 million was due for surrender. The sums liable for surrender or carried over to 2011 for each vote are shown in Figure 98 (Annex A).

**Figure 96 Disposal of Surplus**

| | 2008 | 2009 | 2010 |
|---|---|---|---|
| | €m | €m | €m |
| Surplus for the year | 878 | 794 | 866 |
| Amount carried over to the following year | (128) | (126) | (14) |
| **Surplus for surrender** | **750** | **668** | **852** |

18.10 The surplus allocation in 2009 was €794 million. The amount approved for carrying over to 2010 was €126 million. The balance of €668 million was due for surrender to the Exchequer. The practice is to make these surrenders in the subsequent financial year.

## Conclusion – Expenditure Outturn

All departments and offices managed within their voted allocations. Consequently, no excess vote occurred in 2010. Surpluses were recorded by all votes based on their gross provisions, and also on their net allocations after taking account of appropriations in aid.

The balances due to be surrendered out of votes for public services for the year ended 31 December 2009 amounted to €668 million. I certify that those balances have been duly surrendered.

## Exchequer Extra Receipts

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

18.12 Where Exchequer extra receipts arose in 2010, the amount is shown in a note to the respective appropriation accounts. The aggregate amount of those receipts reported in each account is set out in Figure 99 (Annex A).

## Conclusion – Exchequer Extra Receipts

The total Exchequer extra receipts recorded by government departments and offices in 2010 was €94 million.

The Exchequer extra receipts shown in the 2010 appropriation accounts have been paid into the Exchequer. Some of these payments occurred in early 2011.

## Stock and Store Accounts

18.13 Under Section 3 (6) of the Comptroller and Auditor General (Amendment) Act 1993, I am required to examine certain stock and store accounts of Departments and offices. This examination is conducted as part of the audit of the Appropriation Accounts.

## Conclusion – Stock and Store Accounts

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

## Grants-in-Aid

18.14 In addition to covering the ordinary services administered directly by a government department or office, a vote may contain financial provision for a particular activity or service administered by an outside body. This financial provision can take the form of a grant or a grant-in-aid to the body.

18.15 Grants are subject to all the usual restrictions pertaining to any payment from a subhead and any balance remaining unexpended at the end of the year is liable to be surrendered[159]. A grant-in-aid differs from other voted grants in that any unexpended end-year balance of the sums issued from the vote is not liable to surrender to the Exchequer.

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

18.16 Grants-in-aid generally relate to public bodies carrying out particular functions. These functions have well-defined parameters and are executed without continual reference to the granting Department. Prior to making a proposal to classify expenditure as a grant-in-aid, a Department needs to be satisfied that the retention of unexpended end-year balances, as well as the accounting and other arrangements associated with grants-in-aid, are appropriate[160].

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

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

## Conclusion – Grant-in-Aid Expenditure

In 2010, total issues under grant-in-aid subheads amounted to €2.6 billion. In all cases, the amount paid by way of grant-in-aid was equal to or less than the amount of the subhead provision approved by Dáil Éireann. Consequently, my audits confirmed that there was no excess expenditure on grant-in-aid subheads.

## Accounting for Vehicle Registration Tax

18.19 All motor vehicles (including motor-cycles), other than those brought temporarily into the State by visitors, must be registered with the Revenue Commissioners. Vehicle Registration Tax (VRT) is paid when a motor vehicle is registered. Most motor distributors register imported vehicles on-line and pay VRT through the Revenue On-line Service (ROS). Some dealers and direct importers of previously-used vehicles register vehicles directly with Revenue offices.

18.20 From September 2010 onwards, Revenue outsourced the non-ROS registration of vehicles to a private sector service provider. Under this arrangement, VRT receipts collected by the service provider are lodged to a company bank account and transferred monthly to Revenue. Under the terms of the contract, the service provider is due a fee for each vehicle registered, based on an agreed fee scale. When the tax receipts are being transferred, the service provider deducts the collection fees that are due. The amount transferred to Revenue also takes account of interest accruing on the bank balances while they are held by the service provider[161].

18.21 The amount included in the Account of the Receipt of Revenue of the State (the Revenue Account, see Volume 1, Chapter 11, Annex A) in respect of VRT receipts in 2010 was €424 million[162]. This includes a net amount of €17.6 million received by Revenue from the service provider in the period from September to December 2010. The charge in respect of collection fees deducted by the service provider was €426,053 for the period. This was offset by accrued bank interest estimated at €103,621. Collection fee expenses and bank interest will be higher in a full year.

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

161 The formula for arriving at the allowed deductions is specified in Section 136A of the Finance Act 1992, as amended.

162 This is part of the excise duty receipts reported in the Account.

18.22 In principle, tax receipts should be accounted for on a gross basis in the Revenue Account i.e. without deduction of collection costs. In addition, operational costs of the Revenue Commissioners, including the expenses incurred in the collection of taxes, should be accounted for in the Appropriation Account of the Office of the Revenue Commissioners (Vote 9).

## Conclusion – Accounting for Vehicle Registration Tax

The gross amount of VRT collected in 2010 under the outsourcing arrangements was €18 million. Interest estimated at €103,621 was also received in respect of VRT receipts held by the service provider.

It is a general principle that both the costs of collection and the revenue of the State be accounted for in gross terms.

Accounting separately for gross taxation receipts and for the costs of collection allows for transparency about the level and distribution of the taxation burden. It also facilitates transparent accountability for collection costs. It is recommended that changes in the payment and accounting arrangements are made by Revenue to ensure that the full costs of collection of VRT are accounted for in the Appropriation Account, and that gross VRT receipts be recorded in the Revenue Account.

Without impacting on the settlement procedures established by law, this could be done through inter-account payments and receipts i.e. a transfer of the collection fee from the Vote to the Revenue Account.

## State Cash Management

18.23 Public Financial Procedures[163] require that grants paid by a Department must be fully vouched and that any balance remaining unexpended at the end of the year is liable to be surrendered. They also provide that Departments should issue grants-in-aid by instalments over the year as needed by the grantee, unless otherwise agreed with the Minister for Public Expenditure and Reform. It is a requirement that particular care is taken to avoid overissues, especially at the end of the financial year and there should be no automatic issue of the full provision without ascertaining whether the funds are required to meet the grantee's actual requirements.

18.24 The overall principle underlying these procedures is that there should be economy in the management of State funds. Some State bodies report significant cash balances at year-end, as the following examples show.

### *Road Safety Authority*

18.25 In 2010, the Authority received an Exchequer grant of €24 million. This was in addition to €22.4 million of other receipts, representing mainly fees and levies, which it is entitled to charge by law[164]. At the end of 2010 it had a bank balance of €23.5 million held in commercial bank accounts. It had creditors and accruals amounting to €5.9 million at year-end.

18.26 The Authority has signed a Service Level Agreement (SLA) with the Department which sets out the services to be provided by the Authority, the cost of those services and the funding mechanism. The

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163 Public Financial Procedures constitute a guide that sets out the principles of Government accounting and ways those principles should be applied in day-to-day financial operations of Government departments and offices.

164 Driver testing fees of approximately €12 million and the National Car Test levies of €8 million made up the bulk of these other receipts.

SLA also agrees a capital programme which the Authority will deliver over a three year horizon. The effect of the SLA is that the Authority may retain funds out of its non-Exchequer income up to a specified limit (€17.2 million in 2011) to fund the agreed capital programme.

### *National Tourism Development Authority*

18.27 The National Tourism Development Authority (the Authority) is funded by way of grant-in-aid from the Department of Transport, Tourism and Sport. In 2010, the grant-in-aid amounted to €140 million.

18.28 Monthly drawdowns are made by the Authority against the allocation agreed with the Department for the year. The practice in recent years, and followed in 2010, has been to draw down a large amount of funds in December and then not request any funds in the first two to three months of the following year.

18.29 In December 2010, the Authority received a total of €22.5 million from the Department. At the end of 2010 it had a bank balance of €28.9 million (2009 - €28.5 million) and creditors and accruals of €25 million (2009 - €27.5 million). These figures indicate that the Authority is drawing down funds in line with accrued expenditure rather than as it requires the cash.

## Conclusion – State Cash Management

State cash management arrangements of the kind described above do not seem consistent with the principle of economy in the management of State funds. It may be more appropriate to align payments to State bodies with their actual cash funding needs. The Department of Public Expenditure and Reform may need to issue further guidance on the practical implementation of the public financial procedures relating to the timing of payments of grants and grants-in-aid.

## Payment of Unmatured Liabilities

18.30 Public Financial Procedures represent, *inter alia,* the interpretation of the Department of Public Expenditure and Reform of the legislative provisions governing the chargeability of payments to Appropriation Accounts. These procedures provide that payment ought to be made only where a liability has matured for payment. A number of breaches of this principle of government accounting were noted in the course of 2010 audits.

### *ICT Service Fee Prepayments by Revenue Commissioners*

18.31 The Appropriation Account for Vote 9 Office of the Revenue Commissioners shows that at 31 December 2010, there were prepayments for goods and services totalling €22.7 million. 94% of those prepayments were amounts charged during the year under subhead A.5, which covers expenditure on office machinery, other office supplies and related services.

18.32 Advance payments totalling €15.4 million were made to three of Revenue's main information and communications technology (ICT) service providers. The companies provide a range of ongoing services in support of Revenue's extensive ICT systems, including the Revenue Online Service.

18.33 Revenue has stated that prepayment for ICT services is a means of ensuring that identified staff resources in the service provider companies are made available for Revenue work in the period to which the prepayments relate. Discounts on agreed contract prices and other non-contracted service benefits (such as training for Revenue staff) are obtained to reflect the benefit to the service providers in being paid in advance. The Accounting Officer stated that Revenue received a weighted average annual discount of about 5.8% from the three suppliers concerned and the terms obtained in return for prepayment were approved by the IT Executive – a subgroup of Revenue's Management Advisory

Committee. She also noted that the VAT element of the payments resulted in accelerated payments of approximately €2.7 million to Exchequer.

## *Veterinary Hospital at the Zoo*

18.34 Subhead C.1 of Vote 10 Office of Public Works made provision for the payment of a grant to the Zoological Society of Ireland. The purpose of the funding was to aid the financing of a veterinary hospital facility in the zoo. An amount of €2.5 million representing the full amount charged to the subhead was paid in November 2010. However, work on this contract only commenced in October 2010 and the contract will take a year to complete. A total of €258,000 was paid to the contractor in 2010.

18.35 The Accounting Officer stated that the payment made in 2010 was necessary to ensure that financial obligations under the contract could be met. She stated that the Commissioners of Public Works were satisfied at the time of payment that a legally enforceable contractual commitment was in place to carry out the clearly defined essential works and the payment was advanced on that basis.

18.36 Given the funding constraints on the Exchequer in November 2010, it was considered at the time that there would be no possibility of a further allocation being provided in 2011 to complete the veterinary facility works. Contractual commitments in place for 2011 exceeded €78 million in November 2010. Contracts deemed to be a priority and necessary for 2011 amounted to €158 million over and above this amount. All of these demands are being managed within the 2011 capital allocation of €119 million. The capital carry forward mechanism could not provide the level of certainty on funding required. The Commissioners had applied to carry forward €15.8 million (10% of the 2010 allocation) but sanction was granted only for €5 million[165].

18.37 The Accounting Officer said that the necessity to place the contract for the facility in 2010 was clear-cut in order for the Zoo to continue to function. The uncertainty of the availability of funding in 2011 meant that the Zoo and OPW were anxious to ensure the certain funding of the contract from the available funds in 2010. It was considered that the only method to ensure this was to make the payment for the contractual commitments in November 2010 having been assured that the payment was fully approved and processed in accordance with the terms of the scheme. As is the case for all grant payments, the contract and payments thereunder will be carefully monitored to ensure that liabilities are met in an appropriate manner.

## *Flood Risk Management*

18.38 A further instance related to payments totalling €2.7 million made to two local authorities in late 2010 and charged to subhead H.2 – Flood Risk Management in Vote 10 Office of Public Works. These amounts were paid in advance of requirements and had not been expended by the payees by 31 December 2010. A further sum of €197,000 was paid to a third local authority near the end of 2010 of which €148,000 remained unspent at the year-end.

18.39 The three payments consisted of

- a payment of €1 million to Fingal County Council
- a payment of €1.66 million to Bray Town Council
- a payment of €197,000 to Carlow County Council.

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

18.40 The Accounting Officer said that the payment of €1 million to Fingal County Council was made after the Council entered a contract for the construction of a bridge as part of the River Tolka flood relief scheme. The cost including design, site supervision and works was €2.2 million. It was decided that a payment of €1 million was appropriate to ensure that the Council was in a position to meet contractual commitments as they arose. It was envisaged that further payment would be made at a later stage in the contract. At mid-2011, the €1 million has been expended by the Council and a request for further funding has been received.

18.41 The payment of €1.66 million to Bray Town Council was made, at the Council's request, after it had issued notices to treat for a CPO on lands required for the construction of a design and build flood relief scheme for the town. The CPO process is in train and the Council expects to complete it by the end of 2011.

18.42 The works scheme has been tendered and the Council is ready to place a contract. However, the uncertainty about availability of funding for 2012 and following years has meant that OPW is not in a position to sanction the Council to proceed with entering the contract.

18.43 The payment of €197,000 to Carlow County Council is for professional consultants fees and was made after the Council had entered a contract with the consultant for the design of the second and third phases of the flood relief scheme for the town. At present, the Council has paid €157,181 as interim payments to the consultant and expects to complete the payment during 2011.

18.44 Again, she stated that the capital carry forward mechanism could not provide the level of certainty in regard to the funding required given the limit placed on the carry forward amount.

### *Agency Payments to OPW*

18.45 The OPW acts as agent for other Departments and offices in many property and property related transactions. Public Financial Procedures provide that OPW may request advances from any Department or office (the principal) prior to entering into contracts or meeting payments falling due. Such advances must be charged to a suspense account in the principal's books of account. Amounts charged to the principal's Appropriation Account in any year should only be those amounts certified by OPW as having been actually disbursed by it.

18.46 In the course of 2010 audits, it was noted that sums of €2.5 million and €800,000 were charged to the related Votes of the Departments of Transport, Tourism and Sport and Foreign Affairs and Trade respectively. The Department of Transport, Tourism and Sport advanced the sum to OPW late in 2010 to fund the construction of coastguard stations in Goleen and Crosshaven in County Cork. No construction work was undertaken prior to the year-end. Similarly, approximately €800,000 advanced in 2010 to the OPW by the Department of Foreign Affairs and Trade had not been expended by year-end.

18.47 The payments made by the Department of Transport, Tourism and Sport were in response to requests from the OPW. The Accounting Officer of the Department of Transport, Tourism and Sport said that he understood that after the design, planning permission and bill of quantities stage of a project is completed by the OPW, it seeks agreement from the principal that the full expected costs of the project are available to it, before it will seek tenders from the market. After the tendering procedure, when the OPW signs a contract and is bound to the agreed cost subject to satisfactory completion, the approach taken has been to treat the full amount as a matured liability for the Department. He said that OPW requires the principal to maintain the account in credit so as to ensure that there are always sufficient funds available from the principal and accessible to meet payment demands, without incurring penalty payments under the Prompt Payment of Accounts Act. OPW also consider it prudent to keep the account active and in credit until it is certain that there will be no further requirement for funding.

18.48 He took note of the Public Financial Procedures relating to Agency services and indicated that the Department would engage with the OPW and the Department of Public Expenditure and Reform with a view to ensuring that the proper accounting arrangements for agency services are applied in accordance with Public Financial Procedures.

18.49 The Accounting Officer of the Department of Foreign Affairs and Trade noted that it had been the practice to charge payments for agency services to the Department's own Vote rather than to a suspense account. He acknowledged that this practice was not in accordance with Public Financial Procedures and confirmed that steps were being taken to ensure proper accounting treatment of these advance payments in 2011 and subsequent years. He stated that he was satisfied that all projects covered by the advance payment arrangements had been managed appropriately in close consultation with OPW and that no loss of public funds had occurred as a result of the accounting treatment of these payments.

## Conclusion – Payment of Unmatured Liabilities

The principle that the departments and offices make payments when the related liabilities have matured and that advances should not be charged to Appropriation Accounts is designed to ensure that those accounts properly present payments that have come in course of payment in the year of account[166].

In general, payment in advance for services leads to a risk that if the contracted services are not delivered to the required standard, the purchaser does not have the option of withholding payment (or part payment) to enforce acceptable delivery. Furthermore, advance payment carries financing costs for the State, since funds must be raised earlier than they would otherwise be needed.

The Department of Public Expenditure and Reform should consider, in the light of the statutory provisions and the changes that have occurred in the terms of modern day business, whether there is a need for additional guidance to public bodies about the steps to be taken where advance payment is proposed and how such payments should be reported in Appropriation Accounts.

From a value perspective, the guidance could extend to the procedures for assessment of proposals relating to the timing of payments in order to ensure they are financially justifiable, and to the steps to be taken to identify and manage the risks of non-delivery.

## Delays in Account Production

18.50 As well as production of the Appropriation Account, some departments also produce a number of other 'non-vote' accounts. Two of these accounts were substantially in arrears at the start of 2011. The accounts in question were

- The Fishery Harbour Centres Fund 2007, 2008 and 2009
- The European Agricultural Guarantee Fund (EAGF) and the European Agricultural Fund for Rural Development (EAFRD) Irish Operations Account 2008 and 2009.

18.51 In addition, the accounts of the State Examination Commission where some processing is carried out by the Department of Education and Skills are also in arrears.

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[166] Section 24 of the Exchequer and Audit Departments Act 1866.

### Fishery Harbour Centres Fund 2007 to 2009

18.52 Six harbours in the State have been designated by law as fishery harbour centres. The Fishery Harbour Centres Act 1968 (as amended) established the Fishery Harbour Centres Fund (the Fund) into which the income of the six centres is paid and out of which running costs and development costs of the centres are met. An annual account of the Fund is prepared, as well as an account of the income and expenditure of each centre.

18.53 In October 2007, responsibility for the centres and for the Fund transferred from the Department of Communications, Energy and Natural Resources to the Department of Agriculture, Fisheries and Food, though it was not until April 2008 that Department of Agriculture, Fisheries and Food was in a position to take on the processing of the financial transactions. The Department of Communications, Energy and Natural Resources acted as an agent of Department of Agriculture, Fisheries and Food until April 2008.

18.54 The issue of invoices in respect of harbour dues and rents virtually ceased from October 2007 to April 2008. This resulted in some 2007 income only being invoiced in the period 2008 to 2010. The 2007 and 2008 draft accounts, which were presented for audit in October and November 2009 respectively, did not take account of these errors and omissions, with the result that considerable amendment was needed.

18.55 It is anticipated that the accounts for 2007 and 2008 will be finalised shortly. I have been informed that the 2009 account is currently being drafted and will be available for audit in mid-October. The Department expects to present the 2010 account by the year-end.

### EAGF and EAFRD Account 2008 and 2009

18.56 EAGF measures are mainly designed to maintain incomes in the agricultural community. EAFRD measures are designed to aid the agricultural industry in maintaining and enhancing its infrastructure.

18.57 The Irish Operations Account of the European Agricultural Guarantee Fund (EAGF) and the European Agricultural Fund for Rural Development (EAFRD) is an account that reflects all of the costs, other than administration costs, incurred by the Minister for Agriculture, Fisheries and Food in administering the EAGF and EAFRD schemes he operates, and the funding provided by the EU and the Exchequer towards meeting those costs. It is prepared following a recommendation of the Committee of Public Accounts.

18.58 The 2007 and 2008 accounts were certified in December 2010. The 2009 and 2010 draft accounts were provided to my Office in July 2011 and the audits commenced in August.

### State Examinations Commission 2008 and 2009

18.59 The State Examinations Commission is responsible for the development, assessment, accreditation and certification of the Junior Certificate and the Leaving Certificate examinations. It is a public body under the aegis of the Department of Education and Skills.

18.60 The Commission is required to keep proper accounting records, which should disclose its financial position with reasonable accuracy at any time. However, it has not put in place an integrated accounting system. A legacy of its origin is that the Department continues, by agreement, to process the salary and travel expenses of Commission staff. As a result, the Commission depends on the Department to assist it in providing information for accounting and audit purposes.

18.61 The Commission directly undertakes all other financial operations including examination fee collection, general payments and accounts preparation. It records its financial transactions on a cash basis.

18.62 The major cause of delay was the absence of an adequate accounting system. The Commission has committed to address these issues through all means available to it.

18.63 The accounts for both years were certified on 6 September 2011.

## Conclusion – Delays in Account Production

Public accountability requires that accounts be produced and audited within a reasonable timeframe. Accounting Officers need to ensure that arrangements are in place to effectively record all transactions, produce accurate accounts and facilitate a prompt and efficient audit.

## Contingency Fund

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

18.65 The Fund is managed by the Department of Finance. A decision to use money held in the Fund is taken only by the Accounting Officer of the Department, with the prior agreement of the Minister for Finance. The Fund operates as a deposit account held in the Paymaster General's Office[167].

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

- by way of a new or additional vote if the advance is for a completely new service
- by way of a supplementary estimate if the service is related to an existing vote
- from the Central Fund – which requires specific legislation.

18.67 The size of the Fund is reviewed every five years. Following a review in 2009, it was decided that the Fund should remain at €1.2 million. The next review is due in 2014.

## Conclusion – Contingency Fund

There were no transactions on the Fund in 2010.

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

# Annex A Central Government Financial Outturn

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

Figure 97 provides a summary of the outturn on expenditure and receipts relative to the amounts appropriated for public services in 2010.

Figure 98 shows how surplus appropriations in 2010 were applied — either through deferral of expenditure to 2011, or by surrender to the Exchequer.

Figure 99 shows expected and realised Exchequer Extra receipts.

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

- **Supply Grant –** The money granted (or voted) by Dáil Éireann for each of the public services.

- **Deferred from 2009 –** Amounts of capital moneys not spent in 2009 and carried over for expenditure on capital services in 2010. The carry over of these sums was approved by Dáil Éireann in the Appropriation Act 2009.

- **Appropriations in Aid –** Departmental receipts which, with the agreement of Dáil Éireann, may be retained to defray the expenses of the Vote to which they refer.

- **Total Appropriations –** Sum of the supply grant, deferred 2009 capital moneys (if any) and appropriations-in-aid.

- **Deferred Surrender –** Amount of capital moneys not spent in 2010 which were carried over for expenditure in 2011. The carry over of these sums was approved by Dáil Éireann in the Appropriation Act 2010.

- **Amount to be Surrendered –** Amount of money appropriated in 2010 but not spent in the year or deferred to 2011, and so required to be surrendered to the Exchequer.

- **Exchequer Extra Receipts –** Departmental receipts that are not appropriated-in-aid, but are paid directly into the Exchequer.

**Figure 97 Summary of Appropriations for Public Services in 2010, by Vote**

| Vote | | Amount Appropriated | | | | Outturn | | | Surplus/Deficit | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | Supply Grants | Deferred from 2009 | Appropria-tions in Aid | Total Appropria-tion | Gross Expenditure | Appropria-tions in Aid Realised | Net Expenditure | Gross Surplus | Excess/ (Deficit) in Receipts | Net Surplus[a] |
| | | €000 | €000 | €000 | €000 | €000 | €000 | €000 | €000 | €000 | €000 |
| 1 | President's Establishment | 3,171 | — | 92 | 3,263 | 2,763 | 85 | 2,678 | 500 | (7) | 493 |
| 2 | Department of the Taoiseach | 28,756 | — | 912 | 29,668 | 21,255 | 955 | 20,300 | 8,413 | 43 | 8,456 |
| 3 | Office of the Attorney General | 15,231 | — | 570 | 15,801 | 14,187 | 731 | 13,456 | 1,614 | 161 | 1,775 |
| 4 | Central Statistics Office | 57,832 | — | 2,249 | 60,081 | 53,538 | 2,776 | 50,762 | 6,543 | 527 | 7,070 |
| 5 | Office of the Comptroller and Auditor General | 6,816 | — | 6,188 | 13,004 | 10,843 | 5,780 | 5,063 | 2,161 | (408) | 1,753 |
| 6 | Office of the Minister for Finance | 70,158 | — | 6,822 | 76,980 | 69,420 | 7,545 | 61,875 | 7,560 | 723 | 8,283 |
| 7 | Superannuation and Retired Allowances | 396,753 | — | 80,250 | 477,003 | 437,635 | 83,155 | 354,480 | 39,368 | 2,905 | 42,273 |
| 8 | Office of the Appeal Commissioner | 518 | — | 32 | 550 | 449 | 32 | 417 | 101 | — | 101 |
| 9 | Office of the Revenue Commissioners | 339,051 | — | 64,644 | 403,695 | 401,769 | 72,477 | 329,292 | 1,926 | 7,833 | 9,759 |
| 10 | Office of Public Works | 414,169 | 20,279 | 25,231 | 459,679 | 453,410 | 27,965 | 425,445 | 6,269 | 2,734 | 9,003 |
| 11 | State Laboratory | 9,183 | — | 481 | 9,664 | 9,194 | 811 | 8,383 | 470 | 330 | 800 |
| 12 | Secret Service | 1000 | — | — | 1,000 | 580 | — | 580 | 420 | — | 420 |
| 13 | Office of the Chief State Solicitor | 34,811 | — | 1,604 | 36,415 | 33,582 | 1,958 | 31,624 | 2,833 | 354 | 3,187 |
| 14 | Office of the Director of Public Prosecutions | 43,240 | — | 614 | 43,854 | 42,384 | 1,031 | 41,353 | 1,470 | 417 | 1,887 |
| 15 | Valuation Office | 9,345 | — | 2,198 | 11,543 | 10,231 | 2,699 | 7,532 | 1,312 | 501 | 1,813 |
| 16 | Public Appointments Service | 8,321 | — | 394 | 8,715 | 7,849 | 460 | 7,389 | 866 | 66 | 932 |
| 17 | Commission for Public Service Appointments | 928 | — | 30 | 958 | 594 | 28 | 566 | 364 | (2) | 362 |
| 18 | Office of the Ombudsman | 7,639 | — | 381 | 8,020 | 6,924 | 372 | 6,552 | 1,096 | (9) | 1,087 |
| 19 | Justice and Law Reform | 390,246 | — | 45,386 | 435,632 | 415,831 | 48,068 | 367,763 | 19,801 | 2,682 | 22,483 |
| 20 | Garda Síochána | 1,399,357 | — | 132,947 | 1,532,304 | 1,530,678 | 133,040 | 1,397,638 | 1,626 | 93 | 1,719 |

| | | €000 | €000 | €000 | €000 | €000 | €000 | €000 | €000 | €000 | €000 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| 21 | Prisons | 334,731 | — | 17,384 | 352,115 | 335,204 | 18,095 | 317,109 | 16,911 | 711 | 17,622 |
| 22 | Courts Service | 102,204 | — | 50,419 | 152,623 | 148,594 | 50,447 | 98,147 | 4,029 | 28 | 4,057 |
| 23 | Property Registration Authority | 38,749 | — | 1,249 | 39,998 | 36,401 | 1,402 | 34,999 | 3,597 | 153 | 3,750 |
| 24 | Charitable Donations and Bequests | 425 | — | 15 | 440 | 361 | 14 | 347 | 79 | (1) | 78 |
| 25 | Environment, Heritage and Local Government | 2,174,328 | 3,277 | 21,156 | 2,198,761 | 2,108,697 | 30,280 | 2,078,417 | 90,064 | 9,124 | 99,188 |
| 26 | Education and Skills | 8,668,105 | 79,000 | 626,995 | 9,374,100 | 9,345,730 | 621,868 | 8,723,862 | 28,370 | (5,127) | 23,243 |
| 27 | Community, Equality and Gaeltacht Affairs | 419,559 | — | 35,305 | 454,864 | 435,059 | 35,171 | 399,888 | 19,805 | (134) | 19,671 |
| 28 | Foreign Affairs | 190,537 | — | 39,697 | 230,234 | 224,211 | 42,900 | 181,311 | 6,023 | 3,203 | 9,226 |
| 29 | International Co-operation | 535,330 | — | 1,053 | 536,383 | 524,418 | 1,488 | 522,930 | 11,965 | 435 | 12,400 |
| 30 | Communications, Energy and Natural Resources | 273,015 | 15,721 | 244,907 | 533,643 | 499,823 | 244,003 | 255,820 | 33,820 | (904) | 32,916 |
| 31 | Agriculture, Fisheries and Food | 1,402,418 | — | 382,864 | 1,785,282 | 1,731,131 | 401,374 | 1,329,757 | 54,151 | 18,510 | 72,661 |
| 32 | Transport | 2,311,511 | — | 446,536 | 2,758,047 | 2,739,118 | 441,977 | 2,297,141 | 18,929 | (4,559) | 14,370 |
| 33 | National Gallery | 10,163 | — | 253 | 10,416 | 10,148 | 322 | 9,826 | 268 | 69 | 337 |
| 34 | Enterprise, Trade and Innovation | 1,104,825 | 6,440 | 78,641 | 1,189,906 | 1,151,165 | 81,724 | 1,069,441 | 38,741 | 3,083 | 41,824 |
| 35 | Tourism, Culture and Sport | 464,909 | — | 3,179 | 468,088 | 450,487 | 4,628 | 445,859 | 17,601 | 1,449 | 19,050 |
| 36 | Defence | 705,525 | 1,000 | 49,859 | 756,384 | 743,880 | 50,149 | 693,731 | 12,504 | 290 | 12,794 |
| 37 | Army Pensions | 211,993 | — | 6,500 | 218,493 | 218,202 | 6,230 | 211,972 | 291 | (270) | 21 |
| 38 | Social Protection | 13,270,168 | — | 222,190 | 13,492,358 | 13,377,458 | 218,132 | 13,159,326 | 114,900 | (4,058) | 110,842 |
| 39 | Health and Children | 376,417 | — | 4,296 | 380,713 | 322,097 | 5,926 | 316,171 | 58,616 | 1,630 | 60,246 |
| 40 | Health Service Executive | 11,123,581 | — | 3,667,850 | 14,791,431 | 14,477,921 | 3,523,317 | 10,954,604 | 313,510 | (144,533) | 168,977 |
| 41 | Children and Youth Affairs | 351,268 | — | 9,040 | 360,308 | 335,209 | 2,966 | 332,243 | 25,099 | (6,074) | 19,025 |
| | **Total** | **47,306,286** | **125,717** | **6,280,413** | **53,712,416** | **52,738,430** | **6,172,381** | **46,566,049** | **973,986** | **(108,032)** | **865,954** |

Note: a The net surplus is comprised of the excess of total appropriations by Dáil Éireann over the gross expenditure, plus the net excess or deficit on appropriations in aid. These figures are shaded in the above table.

**Figure 98 Application of Surplus 2010 Appropriations, by Vote**

| Vote | | Net Surplus | Deferred Surrender | Amount to be Surrendered |
|---|---|---|---|---|
| | | €000 | €000 | €000 |
| 1 | President's Establishment | 493 | — | 493 |
| 2 | Department of the Taoiseach | 8,456 | — | 8,456 |
| 3 | Office of the Attorney General | 1,775 | — | 1,775 |
| 4 | Central Statistics Office | 7,070 | — | 7,070 |
| 5 | Office of the Comptroller and Auditor General | 1,753 | — | 1,753 |
| 6 | Office of the Minister for Finance | 8,283 | — | 8,283 |
| 7 | Superannuation and Retired Allowances | 42,273 | — | 42,273 |
| 8 | Office of the Appeal Commissioner | 101 | — | 101 |
| 9 | Office of the Revenue Commissioners | 9,759 | — | 9,759 |
| 10 | Office of Public Works | 9,003 | 5,000 | 4,003 |
| 11 | State Laboratory | 800 | — | 800 |
| 12 | Secret Service | 420 | — | 420 |
| 13 | Office of the Chief State Solicitor | 3,187 | — | 3,187 |
| 14 | Office of the Director of Public Prosecutions | 1,887 | — | 1,887 |
| 15 | Valuation Office | 1,813 | — | 1,813 |
| 16 | Public Appointments Service | 932 | — | 932 |
| 17 | Commission for Public Service Appointments | 362 | — | 362 |
| 18 | Office of the Ombudsman | 1,087 | — | 1,087 |
| 19 | Justice and Law Reform | 22,483 | — | 22,483 |
| 20 | Garda Síochána | 1,719 | — | 1,719 |

**Figure 99 Exchequer Extra Receipts 2010, by Vote**

| Vote | | Estimated Extra Receipts | Extra Receipts Realised |
|---|---|---|---|
| | | €000 | €000 |
| 1 | President's Establishment | — | — |
| 2 | Department of the Taoiseach | — | — |
| 3 | Office of the Attorney General | — | — |
| 4 | Central Statistics Office | — | — |
| 5 | Office of the Comptroller and Auditor General | — | — |
| 6 | Office of the Minister for Finance | — | 10 |
| 7 | Superannuation and Retired Allowances | — | — |
| 8 | Office of the Appeal Commissioner | — | — |
| 9 | Office of the Revenue Commissioners | — | 3,054 |
| 10 | Office of Public Works | — | 5,000 |
| 11 | State Laboratory | — | — |
| 12 | Secret Service | — | — |
| 13 | Office of the Chief State Solicitor | — | 7 |
| 14 | Office of the Director of Public Prosecutions | — | 195 |
| 15 | Valuation Office | — | — |
| 16 | Public Appointments Service | — | — |
| 17 | Commission for Public Service Appointments | — | — |
| 18 | Office of the Ombudsman | — | 57 |
| 19 | Justice and Law Reform | — | — |
| 20 | Garda Síochána | 24,150 | 19,125 |

| | | €000 | €000 | €000 |
|---|---|---|---|---|
| 21 | Prisons | 17,622 | 2,000 | 15,622 |
| 22 | Courts Service | 4,057 | — | 4,057 |
| 23 | Property Registration Authority | 3,750 | — | 3,750 |
| 24 | Charitable Donations and Bequests | 78 | — | 78 |
| 25 | Environment, Heritage and Local Government | 99,188 | — | 99,188 |
| 26 | Education and Skills | 23,243 | — | 23,243 |
| 27 | Community, Equality and Gaeltacht Affairs | 19,671 | — | 19,671 |
| 28 | Foreign Affairs | 9,226 | — | 9,226 |
| 29 | International Co-operation | 12,400 | — | 12,400 |
| 30 | Communications, Energy and Natural Resources | 32,916 | — | 32,916 |
| 31 | Agriculture, Fisheries and Food | 72,661 | — | 72,661 |
| 32 | Transport | 14,370 | — | 14,370 |
| 33 | National Gallery | 337 | — | 337 |
| 34 | Enterprise, Trade and Innovation | 41,824 | — | 41,824 |
| 35 | Tourism, Culture and Sport | 19,050 | 5,000 | 14,050 |
| 36 | Defence | 12,794 | 1,500 | 11,294 |
| 37 | Army Pensions | 21 | — | 21 |
| 38 | Social Protection | 110,842 | — | 110,842 |
| 39 | Health and Children | 60,246 | — | 60,246 |
| 40 | Health Service Executive | 168,977 | — | 168,977 |
| 41 | Children and Youth Affairs | 19,025 | — | 19,025 |
| | | **865,954** | **13,500** | **852,454** |

| | | €000 | €000 |
|---|---|---|---|
| 21 | Prisons | — | — |
| 22 | Courts Service | 24,700 | 20,684 |
| 23 | Property Registration Authority | 40,620 | 30,462 |
| 24 | Charitable Donations and Bequests | — | — |
| 25 | Environment, Heritage and Local Government | — | 149 |
| 26 | Education and Skills | 10 | 345 |
| 27 | Community, Equality and Gaeltacht Affairs | — | 690 |
| 28 | Foreign Affairs | — | 608 |
| 29 | International Co-operation | — | — |
| 30 | Communications, Energy and Natural Resources | — | — |
| 31 | Agriculture, Fisheries and Food | — | 405 |
| 32 | Transport | — | 35 |
| 33 | National Gallery | — | — |
| 34 | Enterprise, Trade and Innovation | 509 | 12,580 |
| 35 | Tourism, Culture and Sport | — | 344 |
| 36 | Defence | — | 2 |
| 37 | Army Pensions | — | — |
| 38 | Social Protection | — | 52 |
| 39 | Health and Children | — | 97 |
| 40 | Health Service Executive | — | — |
| 41 | Children and Youth Affairs | — | — |
| | | **89,989** | **93,901** |

# Chapter 19

## Data Management System

Vote 4   Central Statistics Office

# Data Management System

19.1 The role of the Central Statistics Office (CSO), as set out in the Statistics Act 1993, includes the '*collection, compilation, extraction and dissemination for statistical purposes of information relating to economic, social and general conditions in the State*'. The Office is also responsible for co-ordinating official statistics produced by other public authorities and for developing the statistical potential of administrative records.

19.2 The CSO collects information in a wide range of censuses and surveys[168], the biggest one being the Census of Population, which is undertaken every five years. For household surveys, information is collected directly throughout the year. Surveys of business and agriculture are conducted mainly by post, with some online data collection. The Office also compiles statistics from administrative sources (e.g. births, deaths and marriages) and intends to make increasing use of administrative data to reduce the burden on respondents and to compile new statistical analysis.

19.3 In November 2003, the CSO awarded a contract to Cognizant Technology Solutions (Ireland) Limited, to design, build and implement a new Data Management System (DMS).

19.4 The DMS project was the central component of the CSO's Information Technology Strategic Implementation Plan (ITSIP) formulated in March 2002. The ITSIP, developed with consultancy input from Cap Gemini Ernst & Young, was a strategic IT plan which took account of the existing IT environment within the CSO and the anticipated implications of foreseeable business challenges. It reflected the latest international thinking[169] on the statistical business process and supported the CSO's strategy of moving from a business silo based approach to a functional organisational model.[170]

19.5 The ITSIP proposed a programme of IT application and infrastructure projects to be undertaken by the CSO over the period 2002 to 2006, with the introduction of the DMS being the largest element. Other proposed projects included the deployment of updated versions of the existing statistical analysis and reporting package, a document management and workflow system, a new IT helpdesk system and an agriculture register system.

## *Features of the DMS*

19.6 The DMS project was designed to provide the CSO with a modern hardware platform and the capacity for greater information sharing on an integrated client-server environment. It was intended to replace the previous mainframe computing platform (VAX Open Virtual Memory System) which had been used by the CSO since the 1980s and was becoming obsolete.

19.7 The DMS includes a database facility which allows for all CSO data to be centrally stored and managed in a structured environment. Previously, the extent of data sharing had been limited, with separate elements of data being held on discrete systems throughout the Office.

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168 The CSO has around 100 live surveys and issues approximately 300 releases and publications on its website (www.cso.ie) each year, as well as detailed online statistical tables.

169 The CSO consulted with leading national statistical offices including Sweden, New Zealand and the Netherlands.

170 In the CSO context, this involved moving from a structure based on survey-specific business units to one based on larger units, each of which would perform a specific function (e.g. data collection, analysis, publication) for groups of related surveys.

19.8 With regard to survey processing, the aim was to install a suite of applications which would replace the variety of existing systems used by individual surveys, many of which had been developed by end users with no input from the IT Directorate. The DMS provides ten modular applications, each supporting a distinct stage in the statistical production process, i.e. collecting, processing, analysing and publishing. The use of common applications would also allow new features to be introduced without the need for separate modifications to multiple survey-specific systems.

19.9 Details of the individual applications within the DMS are provided at Annex A.

## Project Overview

19.10 The project to deliver the DMS within the CSO commenced with an analysis of survey and business process needs in order to develop a detailed requirement specification which would form the basis for a Request For Tender (RFT) document. The focus of this report is on the subsequent stage, which was to design, build and implement the new system.

### *Scope*

19.11 The scope of the project extended to all common survey processes within the CSO and included the design and implementation of the architecture to support the DMS. It also included the migration of existing survey processes and data to the DMS, the creation of interfaces with certain existing CSO applications and the importation of data from others.

19.12 Certain areas of CSO activity were specifically excluded from the project scope

- processing of the Census of Population and related support systems
- processing of the Balance of Payments surveys and related survey management systems
- initial processing of the industry data collection unit surveys
- systems supporting the CSO Administration Division.

### *Interface with Existing Systems*

19.13 The DMS provides interfaces to two other IT applications used within the CSO

- The Central Business Register (CBR) holds information on all types of businesses engaged in economic activity in the State. It provides statistics on business demography and is used as a sampling frame for many business surveys conducted by the CSO.
- The Classification and Related Standards (CARS) database is the CSO’s central repository for all classifications, concordances and coding indexes. It reduces the resources required to develop new surveys and contributes to improved data quality by supporting the use of standard classifications.

19.14 For a number of other applications, no specific interface was planned with the DMS, but it was envisaged that data could be transferred by a combination of export facilities within the applications themselves and import facilities within the DMS.

### *Business Objectives*

19.15 The business objectives of the DMS project arose out of the goals of the CSO's Statement of Strategy (2001 – 2003) and its IT Strategy[171] which were driven by the need to address the fact that existing technology was becoming obsolete and that discrete islands of data and processing were the norm throughout the Office. The objectives included

- to replace the existing legacy hardware platform with an integrated and fully operational client-server environment and to migrate all surveys to that environment
- to provide a survey processing system that would link to multi-channel data collection and dissemination systems and would cater for new surveys and extensions to existing surveys
- to deliver a data architecture to support the applications and a technology infrastructure which would make applications available to all members of staff.

## Chapter Focus

The chapter set out to review

- the adequacy of the project appraisal carried out in advance of project approval
- the adequacy of the project governance and project management procedures in place
- whether the requirements were appropriately specified
- the effectiveness of contract management arrangements in the areas of procurement, change control, variation and price changes
- project performance against targets in terms of time, cost and delivery on business objectives
- the extent to which the new system is actually being used
- the extent of post project evaluation that has taken place.

## Project Appraisal

19.16 Any appraisal that took place was undertaken in the context of the wider ITSIP programme rather than in respect of the DMS project in isolation.

### *Business Need*

19.17 Following an examination of the existing IT environment within the CSO, the ITSIP highlighted two main issues which needed to be addressed

- most of the CSO's central processing systems and data holdings resided on a legacy server platform, which was considered to be a sunset technology and was at a risk of obsolescence
- there was a need for significant change in CSO business processes to enable it to meet the changing requirements of the EU and the Irish Government, particularly those arising from e-Government initiatives.

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[171] CSO Information Technology Strategy 1999 – 2002 and Beyond, April 1999.

### *Expected Costs and Benefits*

19.18 The ITSIP provided a cost estimate of €13.05 million, including VAT, to complete all of the proposed IT application and infrastructure projects, €10.14 million of which related to the DMS project. The figures quoted excluded CSO personnel costs and all other internal costs.

19.19 The ITSIP did not separately identify the anticipated benefits for each proposed project. It outlined six categories of benefits expected to accrue from the entire programme of work

- support the CSO business strategy through facilitating e-Government initiatives, increasing demand for statistics, exploiting administrative records, reducing the burden on data providers and improving the timeliness and quality of outputs
- mitigate risks facing the CSO, including technical risks relating to the legacy IT platform, operational risks relating to the accuracy and timeliness of outputs and project management risks relating to the operation, resourcing and governance of projects
- improve accessibility, availability and integrity of data through the provision of integrated data, common data standards, common technologies, common maintenance policies and secure access for the entire organisation
- facilitate business process improvement through e-enabling and streamlining inter organisation processes (e.g. acquisition and synthesis of Revenue information), introducing common shared processes and implementing common standards across these processes
- increase operational efficiency through reductions in manual activity and duplication of tasks
- improve the service provided to users through the delivery of e-Government capability, utilisation of new technologies and implementation of new customer relationship management approaches.

## Conclusion - Project Appraisal

Project appraisals should identify the needs a project is designed to meet and the extent to which it aims to meet them and provide information on the expected costs and benefits of realistic alternative approaches to meeting the identified needs.

No separate appraisal or business case was drawn up in respect of the DMS, or the other individual projects proposed in the ITSIP. The ITSIP was effectively used by the CSO as the business case for its request to the Department of Finance for sanction to proceed with all of the proposed projects. Large projects that comprise discrete components, such as the DMS, should have separate business cases in order to identify viable alternatives to the specific solution proposed.

### *Views of the Accounting Officer*

19.20 The Accounting Officer stated that the DMS was the largest project within the ITSIP, representing almost 80% of the work programme. As such, it set out the broad business case for the DMS. It indicated that the DMS would need to be developed as a bespoke application. Since the CSO did not have the capacity to develop the application in-house, it was considered that there was no viable alternative to the approach adopted, which would address the CSO’s technological deficit and meet the strategic objective of introducing a centralised system.

## Project Governance Structure

19.21 The Project Initiation Document, agreed following the appointment of the prime contractor to design, build and implement the DMS, set out the project governance structure. The main elements are described at Annex B. Although business users were represented within the governance structure, they had no direct representation on either the project board or the project steering committee, which were the bodies that made the high-level decisions in relation to the project.

### *Quality Assurance*

19.22 The governance arrangements also included a quality assurance aspect, provided by an external consultant reporting directly to the programme manager. The role included developing a quality assurance plan, conducting regular audits, providing technical input to the project and providing quality control services in respect of project deliverables, document management and change management. It also involved independently assessing the quality assurance standards of the prime contractor.

## Conclusion - Project Governance Structure

In any project seeking to introduce a significant degree of change, it is important that the governance structure provides for the interests of all stakeholders to be represented at an appropriate level.

The DMS project sought to make fundamental changes to the way survey processing was carried out within the CSO. It does not appear that the business users of the DMS were represented at a sufficiently high level within the project governance structure established. Although the interests of business users were represented on the business analyst team, they had no direct representation on the project board or project steering committee and consequently had limited ability to influence the decision making process.

## Specification of Requirements

19.23 The first stage of the DMS project involved an analysis of CSO requirements and the preparation of detailed design specifications in relation to each survey and business process. It was carried out between October 2002 and April 2003 and involved extensive consultation with and contributions from over 100 business users within the CSO.

19.24 The requirements specification exercise was undertaken with consultancy support from Accenture. The role of Accenture included

- requirements analysis for existing CSO surveys in order to identify common processes which the DMS would need to support
- requirements analysis for corporate data management, including management information and information on survey compliance and data consistency for particular respondents
- consolidation of statistical surveys and processing thereof into a limited number of business process classes
- provision of functional specifications and high-level architectural design specifications for the overall data management infrastructure and for each of the business process classes identified
- investigation of the potential for use of the internet for the receipt and dissemination of statistical information
- definition and specification of the required interfaces to the CBR and CARS applications
- provision of a high-level data migration plan.

19.25 The specifications developed formed the basis for the RFT document which subsequently issued for the design, build and implementation of the DMS. The RFT was accompanied by a set of 132 specification documents providing potential tenderers with instructions in relation to all aspect of the project, including data migration, data management, logical database design, high-level architectural requirements and high-level functional designs for the individual DMS applications.

## Conclusion – Specification of Requirements

The CSO conducted a comprehensive requirement specification exercise, which included consultation with business users from across the Office. External technical assistance was procured to analyse the requirements and develop high-level specification documents for the overall solution.

## Contract Management

19.26 In November 2003, the CSO signed a contract with Cognizant for the detailed design, build and implementation of the new DMS for a fixed price sum of €5.96 million, including VAT. The agreed project plan showed a 42-month contract timeline, with the DMS scheduled to go live in May 2006 and the subsequent maintenance and support phase scheduled to expire in May 2007.

19.27 The timing of proposed payments in the contract payment schedule was linked to the acceptance of deliverables. In summary, the agreed contract deliverables were to

- design, build, test, deliver and install the DMS modular applications and operating environment and integrate them with existing CSO client server applications
- specify, install and test all required hardware and related software
- assist CSO staff to migrate over 100 existing statistical processing systems to the new client server environment
- support and maintain the DMS for the first year after implementation
- train CSO staff in the use and maintenance of the DMS.

### *Procurement Process*

19.28 The procurement of the prime contractor was conducted by way of the restricted procedure, which is a two-stage process whereby only those candidates who meet specified minimum requirements at the pre-qualification stage are invited to submit a comprehensive tender for the project in question.

19.29 Eleven responses were received at the pre-qualification stage, of which the top six scoring candidates were selected to proceed to the vendor evaluation stage. The six pre-qualified companies were furnished with RFT documents in early July 2003. Four tenders were submitted by the deadline, with no submissions being received from the remaining two companies.

19.30 Following the initial stage of the evaluation process, provisional scores were agreed and the three highest ranked candidates were invited for interview. The tender evaluation scores were re-examined on the basis of additional information provided at the interviews and final scores were agreed for each candidate.

19.31 Cognizant scored highest overall, achieving 77.8% of the maximum marks available.

## Conclusion - Procurement Process

The procurement process was compliant with Department of Finance and EU requirements.

## Project Cost and Change Control

19.32 The ITSIP provided a cost estimate of €10.14 million, including VAT, to design, build and implement the DMS. This figure excluded all costs associated with CSO personnel and any other internal costs.

19.33 The contract signed with Cognizant for the detailed design, build and implementation of the DMS was for a fixed price of €5.96 million. In the end, the total amount paid to Cognizant over the lifetime of the contract was €9.24 million, representing a 55% upward variance on the fixed price agreed. A breakdown of contract payments to Cognizant is provided at Figure 100.

**Figure 100 DMS Contract payments to Cognizant (VAT inclusive)**

| Milestone | Task | Contract Amount | Amount Paid | Variance |
|---|---|---|---|---|
| | | €m | €m | €m |
| **1** | Project Startup | 0.47 | 0.47 | — |
| **2** | System requirements and analysis | 0.47 | 0.47 | — |
| **3 – 5** | System Design and Build | 2.12 | 2.12 | — |
| **6** | System Testing and Delivery | 0.71 | 0.71 | — |
| **7** | Acceptance Testing | 0.94 | 0.94 | — |
| **8** | Maintenance and Support | 1.25 | 2.13 | 0.88 |
| - | Change Requests[a] | — | 2.40 | 2.40 |
| **Total** | | **5.96** | **9.24** | **3.28** |

Note: a Includes amounts totalling €0.29 million in respect of the commercial impact of delays to the project schedule.

19.34 Of the €3.28 million variance, €2.40 million related to agreed project changes and the remaining €0.88 million principally arose from the decision to extend the post go-live support and maintenance period from 12 months to 21 months, as allowed for in the RFT.

19.35 The other main categories of direct cost for the DMS project related to software, hardware, requirements specification and external quality assurance. A breakdown of the total direct project costs is shown at Figure 101.

**Figure 101 Direct Cost of DMS Project (VAT inclusive)**

| Cost Item | Amount Paid €m |
|---|---|
| Cognizant Contract | 9.24 |
| Software | 2.29 |
| Hardware | 0.63 |
| Requirements Specification Stage | 0.63 |
| External Quality Assurance | 0.31 |
| Other | 0.11 |
| **Total Direct Cost of DMS Project** | **13.21** |

Source: Comptroller and Auditor General analysis of project payments

19.36 In addition, the project costs shown in the closure reports prepared by the CSO in relation to the requirements specification stage (April 2003) and the design, build and implementation stage (April 2010) showed amounts totalling €5.01 million in respect of the attributable salary costs of CSO staff.

## Conclusion – Project Cost

Payments to external bodies in respect of the DMS project, including the requirements specification stage and the post-implementation maintenance and support period, totalled €13.21 million. This represents a 30% upward variance on the cost estimate in the ITSIP.

In-house costs were not included in the original estimate quoted in the ITSIP, but were tracked during the project. Including the attributable salary costs of €5.01 million, the final reported cost of the DMS project was €18.22 million.

### *Views of the Accounting Officer*

19.37 The Accounting Officer informed me that the original cost estimate was based on professional advice and reflected best practice in the public sector and prevailing market conditions. He stated that in a project of this scale, some variance is to be expected.

### *ITSIP Cost*

19.38 The DMS was one of five IT application and infrastructure projects proposed within the ITSIP. The cost estimate to complete all of the projects was €13.05 million. During the course of the examination, I requested details of the outturn in respect of the other ITSIP projects. The CSO informed me that much of the work on the other projects was carried out in-house. They provided a figure of €0.48 million for external payments made to end May 2011, with the only project still ongoing being the introduction of a document management and workflow system.

### *Change Control*

19.39 The Project Initiation Document, agreed in November 2003, specified the change control process that would apply in respect of proposed changes to the project.

19.40 Over the duration of the project, the CSO formally approved multiple batches of change requests in relation to a variety of issues. The total payments made to Cognizant in respect of implementing the agreed changes were €2.11 million, including VAT. The largest single approved change request, at a cost of €0.31 million, related to the development of a DMS e-learning package, which is an interactive training application now available to CSO staff.

19.41 In addition to the costs of implementing the agreed changes, the CSO made payments to Cognizant totalling €0.29 million in respect of the commercial impact of delays to the project schedule, arising from the volume of change requests. Including this amount, the total of all payments made to Cognizant in respect of agreed project changes was €2.40 million.

## Conclusion - Change Control Procedures

The extent of changes agreed over the duration of the project appears to indicate that the original specifications were not as comprehensive as they might have been. The changes related to a range of issues including additional training, data migration and metadata[172] migration. Payments in respect of agreed project changes (€2.40 million) represent an increase of over 40% on the original fixed price sum in the contract (€5.96 million).

### *Views of the Accounting Officer*

19.42 The Accounting Officer stated that the DMS project was split into two stages, the first being an extensive analysis of requirements, which provided a strong basis for the second stage to build the DMS. The contract was for a fixed price, which allowed the CSO to exercise greater control over the final project cost. Given the complex nature of the project, it was anticipated that additional needs would arise during project implementation. All change requests were subject to an approval process and were rigorously negotiated with the service provider. The CSO is satisfied that the approach adopted delivered a cost effective solution.

## Project Timescale

19.43 The contract with Cognizant provided for a start date in November 2003, with an expected system go-live in May 2006, followed by a period of maintenance and support for the DMS application until May 2007. In the end, the DMS went live in the CSO in September 2007, which represents a 16-month time overrun on the original schedule.

19.44 A project closure report prepared by the CSO, in respect of the design, build and implementation stage, cited two reasons for the time overrun

- approximately ten months of the delay was due to an underestimation of the time required to fully prototype and test the new system

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172 Metadata is essentially data about data, e.g. details of how, when and by whom the data was collected.

- a further six months was due to the need for Cognizant to address a number of software quality issues, which had been identified in a quality review undertaken by the CSO.

19.45 Since the timing of payments was linked to the acceptance of deliverables, several scheduled payments under the Cognizant contract were deferred as a result of project delays. Maintenance and support for the DMS application continued to be drawn down from Cognizant until May 2009.

## Conclusion – Project Timescale

There was a 16-month overrun on the original 30-month contract schedule.

### *Views of the Accounting Officer*

19.46 The Accounting Officer informed me that the time taken to complete the project was reflective of the need to prioritise the quality of the DMS in order to ensure its reliability in the long-term. The CSO is satisfied that the additional effort has achieved this goal.

## Project Delivery

19.47 A project closure report, compiled by the CSO in April 2010, assessed the outcome of the project, with reference to the extent to which the business objectives have been achieved. Leaving aside the usage issues which are dealt with in the next section, the following progress was reported

- in relation to the objective of replacing the existing hardware environment with an integrated and fully operational client server environment, the closure report stated that all legacy systems and applications had been closed and the DMS was available on the CSO network to all authorised survey staff
- in relation to the objective of providing a survey processing system capable of catering for new surveys and extensions to existing surveys, the closure report stated that this had been achieved and it noted that the DMS was built to accommodate increases in the volume and frequency of CSO surveys, with security rules in place to control who could add a new survey or amend an existing one
- in relation to the objective of making the system available within the CSO's client server environment, the closure report stated that the system had been available to all authorised users since its launch in September 2007.

## Conclusion - Project Delivery

The DMS achieved its core objectives by delivering a modern hardware platform and operating environment, centralised databases for data storage and management and a suite of survey processing applications available for use on all surveys. However, the extent to which the full potential benefits are being exploited by the CSO is dependent on the level of engagement with the DMS by survey teams. This issue is dealt with in the section that follows.

### *Views of the Accounting Officer*

19.48 The Accounting Officer stated that the DMS project had achieved its critical objective of modernising the CSO's IT environment. IT staff within the CSO maintain and develop the DMS without any external consultancy costs. He stated that the DMS had delivered real and substantial benefits for the CSO, including the provision of support for the organisation's transition to a functional model and enabling the rapid introduction of new surveys, which would previously have required the development of bespoke IT systems.

## Use of DMS

19.49 Two significant issues have arisen since the DMS went live in the CSO in September 2007

- the rate of migration of surveys to the DMS has been slower than anticipated
- the level of usage for certain applications has been relatively low.

### *Migration to DMS*

19.50 At the outset of the project to design, build and implement the DMS, there were 101 live surveys being produced by the CSO. The project scope document highlighted certain existing CSO surveys which would not be migrating to the new DMS, but it did not specify how many surveys it was envisaged would be processed using the DMS applications.

19.51 It was initially planned that the migration of all relevant surveys would occur in a short time frame following the go-live date. Where individual survey teams did not wish to migrate their surveys to the DMS, they had to apply to the project board for approval to be exempt.

19.52 The CSO informed me that there were a variety of reasons why some survey teams did not wish to migrate to the DMS

- due to the volume of change requests received following user acceptance testing, many were deferred for a period of time, with the result that survey owners were unwilling to go-live with a system that did not fully meet their requirements
- the need for a code review and other project delays had resulted in a loss of momentum and to some extent a loss of confidence, among users, in the system
- there was a reluctance among some survey teams to move from their own survey-specific systems that had been developed over time to a generic system which did not offer some of the customised features.

19.53 Following go-live of the DMS in September 2007, the rate of migration of surveys to the new system was slower than anticipated. In June 2008, a subgroup of the CSO Senior Management Committee carried out a review of the issues affecting migration and made a number of recommendations for amendments to the DMS - these were submitted as further project change requests.

19.54 In light of continued migration issues, a further internal review was commissioned in November 2008. The review considered the extent to which the DMS had delivered the targeted functionality, the uptake by survey area and by application and issues affecting migration. It was completed in March 2009.

19.55 Following the review, the CSO changed to a slower more targeted migration approach, focussing on medium and large scale surveys, where the most efficiency gains could be made through migration to DMS. Figure 102 presents information provided by the CSO on the current status of survey migration to the DMS.

**Figure 102 Status of Migration of Surveys to DMS, at 1 June 2011**

| Survey Size | Surveys Using the DMS | Surveys in process of Migration | Migration Date Scheduled | No Migration Scheduled | Total |
|---|---|---|---|---|---|
| Large | 13 | 4 | 2 | 7 | **26** |
| Medium | 13 | 2 | 1 | 2 | **18** |
| Small | 4 | 2 | 3 | 20 | **29** |
| **Total** | **30** | **8** | **6** | **29** | **73** |

Source: Central Statistics Office

19.56 At 1 June 2011, there were 73 live surveys[173] being produced by the CSO that had either been in the original scope of the DMS project or had been added since. Of these, 30 were being processed using the DMS and a further 14 were scheduled for migration before the end of 2012. There was no migration date scheduled for the remaining 29 surveys.

### *Use of DMS Applications*

19.57 The internal CSO review of migration issues, completed in March 2009, found that for those surveys that had migrated to the DMS, the use was concentrated on the seven applications within the survey administration, data collection and processing stages of the survey lifecycle (see Annex A). The remaining three applications were being used only to a limited extent or not at all.

19.58 Following the internal review, the CSO decided that future use and support of the DMS would primarily focus on the seven applications that had been identified as having the highest usage. In November 2009, the Seasonal Adjustment, Imputation and Dissemination applications were removed from the primary DMS menu. The underlying code for these applications is still available should it be required at a future stage.

## Conclusion – Use of DMS

One of the principle objectives of the DMS was to introduce generic systems for CSO work processes. However, given that many surveys have yet to migrate to the new system, there is still a requirement for parallel running of pre-existing systems that have overlapping functionality with the DMS and consequent support costs.

The original DMS concept was for an end-to-end statistical processing system, covering each step from data capture to the dissemination of results. The decision to discontinue use of three of the applications and to focus principally on the earlier stages in the survey processing lifecycle would appear to be inconsistent with the original vision.

[173] The total number of live surveys, at 1 June 2011, was 101, but 28 of these were not within the scope of the DMS project.

### *Views of the Accounting Officer*

19.59 The Accounting Officer stated that the DMS project had set out an ambitious vision and it is the view of the CSO that the major part of this vision has been achieved. He informed me that the CSO's strategy for the use and development of the DMS is to concentrate on those surveys and processes where its usage can be maximised. This is achieved by concentrating migration efforts on large and medium sized surveys. The surveys that have yet to migrate are generally small and non-complex and have a limited impact in terms of parallel running. The provision of data capture and processing functionality in the DMS, which is being widely used by the large and medium sized surveys, is consistent with the original vision for the DMS.

## Post Project Evaluation

19.60 The CSO completed a closure report that sets out the high-level lessons that have been learned from the project. It states that these lessons have informed the preparation of its IT Strategy for 2010 to 2012. It reported this learning over the following categories

### *Scale of Project*

19.61 DMS was a major project, involving the implementation of a complex and comprehensive vision and significant organisational change. Delays and technical problems experienced during the implementation phase resulted in a degree of pessimism and doubt among users as to the achievability of the project. Matters identified included the importance of

- taking an incremental approach to new developments
- delivery via small-scale projects
- early realisation of benefits from IT investments
- the close alignment of IT developments with business plans and strategy.

### *Scope of Requirements*

19.62 The DMS project aimed to satisfy the full survey processing needs of a wide range of survey types. The need to provide a generic solution for business and household surveys added to the complexity. A decision was taken early in the project to base the survey requirement specification on the 'as is' rather than 'to be' situation – this had the benefit of stabilising requirements but meant that new or changing aspects were not covered. The implications included the need for

- future development of DMS in line with survey area requirements
- scoping of IT projects to separately develop household and business surveys
- further retirement of legacy applications and migration to DMS
- development of corporate dissemination applications and communications and support processes between IT and business areas.

### *Quality Control and Capability*

19.63 At the outset of the project, the CSO's processing applications were based on old technologies and its skills base reflected this. It was decided to outsource project delivery in order to procure skills not available within the organisation. As the CSO acquired further knowledge and skills during project implementation, it was able to build on its own quality assurance processes. It was a software quality review carried out by the CSO that identified the need for major code rework during project implementation. Matters identified included the need for

- a skills and sourcing policy
- outside recruitment of IT skills where necessary
- in-house IT development where possible
- training for end users and encouragement of learning and research by IT staff.

### *Business Engagement and Culture*

19.64 A feature of the project management structure was the strong commitment of senior management. The closure report acknowledges that the loss of engagement by business users during the migration phase was related to the quality of the communication of corporate objectives. Matters identified included the need for

- more active communications by IT staff
- simpler governance and decision making processes with strong emphasis on adherence
- support for end-user computing
- emphasis on a business process model to reinforce alignment between business and IT objectives
- development of DMS in line with business requirements.

### *CSO IT Strategy 2010 - 2012*

19.65 The CSO informed me that its current IT strategy was strongly influenced by the experiences of the DMS project. The strategy has consolidated the applications and software architecture for CSO statistical processing, which includes the DMS. The following are its key points

- the DMS is a core strategic application, fully supported in-house, used for data capture and processing - functionality will be added to support its use by a greater number of surveys
- development of DMS reflects business requirements in the CSO's Plan for Business and Organisational Development[174], including support for a functional organisation structure and a reduction in the burden on survey respondents
- the retirement of legacy IT systems which were considered out of scope for the original project and their migration onto DMS by the end of 2012
- the re-engineering of the National Accounts data system (outside scope of original DMS project) which will use the database and data management features of the DMS
- the approach to applications development will focus on small-scale projects developed in-house, with an emphasis on the early realisation of benefits and the re-usability and inter-operability of functions.

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174 The CSO's Plan for Business and Organisational Development, issued in May 2009, recommends a new organisational structure for the Office.

## Conclusion – Post Project Evaluation

The CSO completed a comprehensive post project evaluation. Given the fact that the types of issues experienced by the CSO commonly recur in respect of other large public sector IT projects, there is a need at central level to distil the lessons identified and put gateway controls in place to guide the development and delivery of future large scale IT projects.

## Conclusion

The DMS project delivered on its core objectives of modernising the CSO IT environment, facilitating centralised data storage and providing a set of survey processing applications available for use on all surveys.

However, issues relating to the use of the DMS have impacted on the extent to which the original vision has been realised

- a decision was taken to discontinue use of three of the ten DMS applications delivered, which is inconsistent with the original concept of an end-to-end statistical processing system
- although the DMS introduced generic systems for common work processes, the fact that many surveys have yet to migrate to it means that there is a continuing need for parallel running of some pre-existing systems which have overlapping functionality with the DMS.

From a project appraisal viewpoint, no detailed consideration of potential alternative approaches was documented.

From a budgetary perspective, payments to external bodies totalled €13.21 million, which represented a 30% upward variance on the cost estimate in the ITSIP. As regards the prime contractor, although adequate change control procedures were in place, the changes agreed added 40% to the original fixed price sum, which indicates that the original specification exercise was not comprehensive.

In terms of post project evaluation, the CSO carried out a detailed exercise, which identified issues encountered on the DMS project and documented the lessons learned. These lessons may have application for future large scale IT projects in all public sector organisations.

# Annex A DMS Applications

The DMS provides ten modular applications which were intended to cater for the survey processing needs of most surveys.

| Stage in Survey Processing Life Cycle | Application | Description |
|---|---|---|
| Survey Administration and Data Collection | Register Management | Provides the functionality required to maintain a register, which is a list of units that may be selected for a survey. |
| | Sample Selection | Supports the selection of a sample from a CSO register, stored in either the CBR or DMS Register Management application. |
| | Survey Management | Supports the administrative functions surrounding the issue of questionnaires and ensuring their timely return. |
| | Respondent Management | Provides a cross-survey view on survey compliance and data consistency across surveys for a particular respondent. |
| | Data Capture | Provides functionality to capture unit record data from returned questionnaires and perform subsequent editing on this data. |
| Processing | Imputation | Where there is no response to some or all parts of a questionnaire, the imputation application allows substitute imputed values to be determined based on a series of user-defined rules. |
| Analysis | Aggregation | Allows unit level data to be summed and averaged, weighting factors applied and indices produced. |
| | Seasonal Adjustment | Allows a user to select a time series of data from a database and apply seasonal adjustment factors to this data. |
| Publication | Dissemination | Provides the functionality required to set up tables within a database which may subsequently be populated with results produced in the aggregate database. |
| All | Security | Controls user access to data and access to functionality within the DMS. |

## Annex B – Project Governance

The main elements of the project governance structure were

- A Project Board whose role was to approve changes to the overall project scope, source any additional funding required and make decisions in relation to resource allocation and competing business priorities. Its membership included CSO staff at senior management level and a representative from the Centre for Management and Organisation Development, in the Department of Finance.
- A Project Steering Committee whose role was to review project deliverables, consider issues referred by the programme manager, monitor progress, initiate any necessary corrective action and ensure the smooth running of the overall project. It reported directly to the project board and its membership included senior staff from both the CSO and the prime contractor.
- A Programme Manager who was also a member of the project steering committee. The role included accepting project deliverables on behalf of the CSO, arranging project payments, disposing of issues and changing requests escalated, ensuring adherence to business objectives and discussing progress with the prime contractor. The programme manager was also required to execute formal project reviews and make regular presentations to the project board.
- A CSO Project Management Team which was responsible for day-to-day management issues. Its main duties were to plan the project, monitor progress, highlight project drift or slippage and resolve any design issues, technical issues or change requests. It was also the owner of the change management and risk management processes and it was responsible for the co-ordination of interactions between the CSO and the prime contractor.
- A Business Analyst Team whose role was to represent the interests of CSO business users. Its responsibilities included participation in the finalisation of requirements validation, signing off on business decisions for the project and providing the prime contractor with specialist expertise in CSO business areas and statistical processes. In relation to the migration of surveys, its role included facilitating end users to identify data to be migrated and then undertake the logical translation and transfer of data into the DMS.
- A Test Team comprising senior CSO staff which was responsible for agreeing test strategy with the prime contractor. In addition to inspecting the results of tests carried out by the prime contractor, its role included undertaking its own technical, functional and operational readiness testing of DMS applications.

# Chapter 20

# Financial Control and Governance

# Financial Control and Governance

20.1 Government departments and offices must ensure that an effective system of internal control is established and maintained. This is the primary means of ensuring that financial transactions are duly processed, authorised and recorded and that material errors or irregularities are either prevented or would be detected in a timely manner.

## Chapter Focus

This chapter reports certain deficiencies in the control and associated governance arrangements operated by the Valuation Office during 2010 together with the response of the Accounting Officer to the audit findings.

## Deficiencies in Control Systems

20.2 In the course of the audit of the 2010 Appropriation Account it was noted that there were significant shortcomings in the Valuation Office's financial control system. These included the following

- Monthly reconciliations between the accounting records and the banking records had not been performed throughout the year. Regular reconciliations of this kind are important to help detect errors or irregularities in a timely manner and align the books of account with the banking records.
- A system was not in place to ensure that all accounting entries were properly authorised and an appropriate accounting trail maintained. The absence of these controls could expose the Office to accounting errors.
- There was an unsatisfactory level of erroneous and incorrectly processed accounting entries which had not been detected in a timely manner. This was due to a lack of comprehensive review of accounting entries which is a fundamental means of ensuring that processing is complete and accurate.
- The Office had not maintained an accurate register of assets and controls were not in place to ensure that assets were only disposed of or scrapped after due authorisation.

20.3 A new accounting system was introduced in early 2010. The migration of data to the new system was a protracted process which was not completed until well into 2011. A controlled and documented process, sufficient to provide assurance that the migration had been accurately effected, was not employed. This gave rise to extended audit procedures to validate the books of account.

## Deficiencies in Governance

20.4 Shortcomings in governance identified in the course of the audit included the following

- Periodic financial reports were not reviewed by the Office's Management Committee on a regular basis. Such reviews are necessary in order to provide an acceptable level of oversight over the Office's financial performance.
- The Office's internally resourced part-time internal audit unit did not have an audit programme drawn up on the basis of an assessment of the risks facing the Office. No internal audit reports were produced in 2010.
- The Office has an Audit Committee which met on five occasions in 2010. A review of the minutes of its meetings indicates that it endeavoured to review the range of risks facing the Office and to follow up on actions that management had agreed to take. However, the effectiveness of its work was reduced by the lack of appropriate internal audit arrangements. The Committee had only one external member in 2010, whereas at least two external members is recommended in the Report of the Working Group on Accountability of Secretaries General and Accounting Officers.[175]

## Response of the Accounting Officer

20.5 The Accounting Officer has indicated that the position in 2010 was complicated by the switch to a new accounting system. Nevertheless, he has acknowledged that there were significant shortcomings in control and governance arrangements during the year. He has indicated that he has taken or put in train the following actions to deal with those shortcomings

- Following a review, he has arranged to outsource specific internal audit functions to a firm of accountants who will report to the Head of internal audit.
- The Audit Committee has been reconstituted to include two external members and with a more specific Charter.
- A comprehensive review of internal financial controls has commenced under the new internal audit arrangements.
- An inventory of all assets has been undertaken, the assets identified have been incorporated into a new register of assets and an instruction has issued that disposals are to be documented and approved by the Office's Finance Officer in advance.
- A revised procedure for regular reconciliation of transactions as processed by the Office and its banker (the PMG) and of payroll suspense accounts is being put in place.
- Arrangements to ensure that public procurement requirements and guidelines are fully complied with have been strengthened.
- There will be regular discussion of financial and risk matters at the Management Committee.

[175] Chapter 6 of the Report of the Working Group on the Accountability of Secretaries General and Accounting Officers, July 2002.

## Conclusion

There were considerable shortcomings in control and governance arrangements operated by the Office in 2010. A fully effective control process informed by a comprehensive risk assessment is necessary to help ensure that financial transactions are duly processed and recorded.

Regular reconciliation of banking transactions is also necessary in order to identify errors, adjust for items not recorded in the financial records and prove the accuracy of the Office's books of account.

Feedback based on internal audit arrangements appropriate to the size of the organisation and to the complexity of its operations are important in supporting a strong financial control environment and in providing a source of assurance to the Accounting Officer and the Audit Committee of the Office. Where this process is not focused and based on a risk assessment there is an increased risk of control failure and potential financial loss.

Notwithstanding the foregoing, and based on the testing completed as part of the audit and following the adjustments made as a result, I am satisfied that the Appropriation Account of the Office properly presents its transactions for 2010 and that the measures being taken should strengthen the Office's financial management.

# Chapter 21

# Fingerprint Systems

**Vote 19 Justice and Law Reform**

**and**

**Vote 20 Garda Síochána**

# Fingerprint Systems

21.1 In November 2006, the Irish Naturalisation and Immigration Service (INIS)[176] and An Garda Síochána awarded a contract to an international consortium, led by Accenture, to design and implement a new automated fingerprint identification system (AFIS) for use in both organisations.

21.2 The project principally involved the introduction of a new Printrak biometric information system, which was designed to replace an existing system (AFIS 2000) that was in operation in the Garda Technical Bureau (GTB) and enhance a manual fingerprinting system used in the administration of asylum applications in the Office of the Refugee Applications Commissioner.

21.3 The enhancements envisaged included

- improved matching algorithms resulting in an increased 'hit rate' (matching new fingerprints with historic marks and fingerprints stored on the AFIS database)
- remote electronic capture of fingerprints and immediate transmission and search against the central AFIS database, providing near real-time information to agencies and field officers
- enabling all users to capture, store, search and match fingerprints on the AFIS database for their own business purposes[177]
- interconnection between the system and other existing or future Garda systems including PULSE and the Garda National Immigration Bureau Information System and external fingerprint databases including those of Eurodac, Interpol and the Police Service of Northern Ireland
- allowing for exchange of data with external agencies through an integration framework.

## The Change being Implemented

21.4 The previous AFIS computer system, introduced in 1996, had become obsolete by the end of 2006. Under the new AFIS, fingerprints can either be captured manually using the traditional 'wet ink' method or electronically using a livescan machine. Fingerprints captured using a livescan machine can immediately be transmitted for search against a central database. Where fingerprints are captured using wet ink, an additional step is required, which involves scanning the prints onto the system before a search can take place. While the previous system also facilitated electronic fingerprints capture via livescan machines, the devices were not as mechanically reliable as newer models and were not fully integrated.

21.5 Under the previous system, there were three livescan machines in operation, including one used by the Irish Prison Service and located in Mountjoy Prison. These machines enabled the digital capture of fingerprints, but most prints were captured using the standard wet ink based process. Moving data from the previous AFIS database involved

- rescanning a selected number of wet ink cards, in respect of active investigations, to ensure that the images in the new AFIS were stored at the highest resolution available[178]
- cleansing and verifying data, prior to transferring it to the new system.

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[176] INIS is an executive office within the Department of Justice and Equality, with responsibility for the administrative functions of the Minister in relation to asylum, immigration (including Visas) and citizenship matters.

[177] Previously, the Garda Technical Bureau had to carry out these functions on behalf of other bodies.

[178] AFIS is capable of storing images at a resolution of up to 1,000 dots per inch.

21.6 The project also involved the development and implementation of an integration framework and the integration of the new AFIS with additional agencies and systems, including

- the Garda National Immigration Bureau (GNIB)
- the Office of the Refugee Applications Commissioner (ORAC)
- the PULSE Information System, which is the main system used by An Garda Síochána to manage the lifecycle of relevant incidents
- the Schengen Information System[179], which is a cross-border system that allows participating countries to share information on certain categories of persons and property
- Eurodac, which is the official fingerprint database of asylum applicants and certain categories of illegal immigrants within the EU
- Interpol.

21.7 The aim of the integration framework was to facilitate communication between AFIS and existing and future Garda IT systems and those of external agencies.

21.8 The overall aim of the project was to introduce modern biometric technology to assist An Garda Síochána and the immigration authorities to carry out their work more effectively in areas such as crime detection, border management and identity validation generally.

## Project Delivery

21.9 The project was to be delivered over four phases. These phases are outlined in Figure 103 beneath.

**Figure 103 AFIS Project Phases**

| Phase | Principal elements |
|---|---|
| **1** | Replacement of existing AFIS in the GTB and upgrade of existing livescan units at Mountjoy Prison, Store Street Garda Station in Dublin and the Bridewell Garda Station in Cork. All fingerprint data from the previous system was converted to the new format. A link to Eurodac was also provided from the livescan stations located in ORAC. |
| **2** | Introduction of an integration framework (Garda Broker), integration of AFIS with the GNIB Information System, implementation of mobile AFIS capability and deployment of scanning equipment for the electronic capture of fingerprints of foreign nationals at selected ports of entry. |
| **3** | Integration of AFIS with the PULSE system. |
| **4** | Integration of AFIS with the fingerprint databases of Interpol and the Police Service of Northern Ireland. |

Source: An Garda Síochána.

21.10 In addition, the project included a six-month pilot E-Visa biometrics project that commenced in March 2010, on foot of a formal submission from INIS in relation to the significantly increased volume of Irish visa applications being made in Nigeria.

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179 It is envisaged that Ireland will join the Schengen Information System in 2013, when the EU Commission have released an updated version of the system. Consequently, the integration of AFIS with the Schengen system was not carried out as part of the project.

## Chapter Focus

This chapter reviews the financial outcome of the project and whether

- there was adequate pre-contract appraisal of the project
- a suitable project management structure was established
- project costs and commitments were adequately controlled
- the system has been brought into use and fully exploited.

## Project Appraisal

21.11 The procurement process began in 2004. However, An Garda Síochána did not complete a business case for the project until 2006. In reality, the business case conducted was more in the nature of a post-hoc justification, conducted as part of a peer review process that began in early 2006. It noted that the supplier of the existing system (Motorola) had indicated it would be withdrawing support with effect from 31 December 2006 and that there was a requirement to commence the relevant provisions of the Immigration Act 2004. In addition, it noted that the new generation of AFIS solutions available offered an opportunity to improve detection rates through the implementation of a significantly enhanced and integrated solution.

21.12 Ultimately, the business case recommended replacing the existing system with one that would integrate AFIS with national systems such as PULSE and the GNIB Information System as well as international systems such as Eurodac and the Schengen Information System. It noted that this option would also allow An Garda Síochána to integrate future systems at lower cost and ensure full interoperability between AFIS and those systems.

21.13 The retrospective business case set out the advantages and disadvantages of four potential options, but only in the case of the option that was actually selected did it outline the anticipated implementation costs and the expected benefits, in terms of effectiveness, that would be realised post-implementation. The principal enhancements to effectiveness were identified as follows

- the system would provide An Garda Síochána and other agencies with access to the latest in fingerprint technology and thereby improve crime detection rates and enable electronic fingerprinting of all non-EEA[180] nationals and asylum seekers, as provided for under national and EU legislation
- it would assist in tackling immigration abuses arising from, *inter alia*, multiple identities with consequent benefits for welfare fraud detection and national security and anti-terrorism initiatives
- it would enable agencies such as GNIB and ORAC to carry out remote searches against the AFIS database and other international fingerprint repositories
- it would facilitate integration with existing Garda systems such as PULSE and external police agencies such as Interpol and Europol, whilst also providing a framework to allow easy integration with future systems.

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[180] The European Economic Area (EEA) consists of the 27 EU Member States, Iceland, Norway and Liechtenstein.

### *Project Budget*

21.14 The business case estimated that it would cost approximately €18 million[181] to fully implement the project, but no breakdown of this overall figure was provided.

21.15 The Garda authorities stated that the indicative budget was based on examining the market, discussions with other countries which had installed an AFIS system and previous experience of developing, testing and commissioning large IT systems.

### *Peer Review Process*

21.16 A peer review was conducted by a four-person group comprising senior officials from the Property Registration Authority, the Department of Social Protection and the Department of Finance and a retired senior official from the Department of Defence. The review commenced in early 2006. It had three elements

- a business case review
- a business systems selection review
- a governance, capacity and planning review.

21.17 In effect, the first two peer review stages were carried out retrospectively, since the preferred business option had already been selected. However, the review noted that a structured approach had been taken to system selection.

## Conclusion – Project Appraisal

A project budget, sufficient to inform cost benefit analysis and detail the cost of each project element, was not formulated.

The business case was finalised in early 2006 as part of the Peer Review Process, even though the procurement process for the preferred option had actually commenced in December 2004. Consequently, the business case apparently served to justify a decision that had already been made rather than to inform the decision-making process. However, the peer review process, which was also retrospective, was satisfied that the business case and system selection was sound.

21.18 In relation to the project budget, the Accounting Officers[182] stated it had not been possible to specify a detailed budget in advance because the cost of each project element could not be defined until the final contract had been negotiated.

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181 The business case did not specify whether or not this figure was inclusive of VAT.

182 As the project was jointly funded under Vote 19: Office of the Minister for Justice, Equality and Law Reform and Vote 20: Garda Síochána, a joint response was received from both Accounting Officers.

21.19 In relation to project appraisal, the Accounting Officers informed me that a strategy document was prepared in late 2003, which analysed national requirements in respect of automated fingerprinting and defined options to meet those requirements. The strategy document highlighted the specialist nature of automated fingerprinting and the limited number of service providers. It also recognised the existing situation whereby the GTB was responsible for providing a centralised service for all fingerprint processing within the State, whether obtained for criminal, asylum or immigration purposes. Although a multi-criteria analysis was not undertaken, the preferred solution was selected in view of the constraints identified in the strategy document and the fact that support for the existing AFIS would soon be unavailable.

## Project Management

21.20 In order to develop and deliver a project of this scale, it would be necessary to have well defined and functioning systems, practices and structures for project management and governance.

21.21 The project management system employed was the PRINCE[183] methodology, as recommended by the Department of Finance. The governance structure included a project board which was the overall sponsor of the project, a project directorate which provided day-to-day leadership and project teams which carried out work assigned by the project manager. There was also a risk management system in place to identify potential obstacles and agree any necessary mitigating actions.

## Conclusion – Project Management

The project board established to oversee programme direction, project delivery and governance included representation, at senior management level, from all key stakeholders in the project. The project management structure included appropriate lines of decision-making and progress reporting through all levels from the project teams to the project manager, project directorate and project board. The risk management procedures in place were adequate to ensure that all major risks were identified, understood, evaluated and managed.

## Commitment and Cost Control

21.22 In order to manage the project in a cost effective manner, it would be desirable to have

- a focus on selection of the most economically advantageous offering
- a system to control project changes.

### *Procurement of the Services*

21.23 The process to procure the prime contractor was conducted by way of the restricted procedure[184], commencing on 16 December 2004.

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183 PRINCE (Projects In Controlled Environments) is a process-based method for effective project management.

184 Restricted procedure is a two-stage process, permitted under the revised EU Public Sector Directives, whereby only those candidates who meet minimum requirements in areas such as technical capability, experience and financial capacity are invited to submit a comprehensive tender for the project in question.

## *Pre-qualification Stage*

21.24 The project board appointed an evaluation team to assess expressions of interest received, in response to a contract notice published on the eTenders website. Submissions were received from five companies prior to the stated deadline of 4 February 2005. At its meeting of 22 February 2005, the project board accepted the recommendation of the evaluation team that all bidders should progress to the second stage of the procurement process.

## *Vendor Evaluation Stage*

21.25 A separate evaluation team, appointed by the project board, evaluated the four tender responses received prior to the stated deadline of 9 May 2005.

21.26 The evaluation process, included a desk-based examination of proposals submitted, presentations from vendors (including responses to clarification questions) and site visits to the highest-ranking vendor. One of the vendors withdrew from the process prior to the vendor presentation stage, so only three vendors received scores following the evaluation process.

21.27 The Accenture consortium scored highest overall, achieving 92.59% of the maximum marks available. In terms of the individual evaluation criteria, Accenture achieved the highest mark under four out of the five headings and the second highest mark under the cost criterion.

21.28 At its meeting of 7 February 2006, the project board unanimously accepted the report of the evaluation team and it was agreed to give preferential bidder status to the Accenture consortium.

## *Evaluation of Cost*

21.29 Cost was the second most heavily weighted evaluation criterion, being worth 25% of the overall marks available. The model used to evaluate the costs of the proposed AFIS implementation for each tender was the Total Cost of Ownership (TCO)[185] over three years.

21.30 For the purposes of evaluation and in the interests of fairness and transparency, the evaluation team constructed a likely rollout scenario, which was used to derive a TCO figure for each vendor's solution.

21.31 TCO was scored on a relative basis with the lowest cost bid receiving the maximum score and the other bids being marked proportionately. The following are the actual TCO monetary values per proposal (adjusted to include VAT at 21%), calculated by the evaluation team on the basis of the rollout scenario used to generate the marks awarded under the TCO criterion

- **Accenture** – €16.05 million
- **Bidder B** – €12.01 million
- **Bidder C** – €18.22 million.

185 TCO is used to calculate the total cost of IT projects that include a combination of upfront costs such as hardware and software and ongoing costs such as licensing, support and maintenance.

21.32 Under the scenario used for the TCO calculation, the cost of the tender submitted by Accenture is considerably (34%) more expensive than that submitted by Bidder B. Although Bidder B achieved the highest mark under the TCO criterion, it received the lowest mark under the other four criteria. In fact, if the TCO mark was disregarded, Bidder B would have finished third, being over 10 points behind Bidder A and over 6 points behind Bidder C.

21.33 The Evaluation Report concluded that the cost keenness of Bidder B's proposal was outweighed by the fact that

- the approach to integration proposed by Bidder B wasn't seamless and it would require modifications before any client could access services through the framework
- the approach to security proposed by Bidder B was not considered to be sufficient, as it relied on the security of the client workstations for access to services and could be circumvented
- there were no facilities for the centralised management of users, which would add greatly to the administrative overhead and operating costs of the system.

### *Pricing of the Services*

21.34 As instructed in the invitation to tender (ITT), the proposal submitted by Accenture included a pricing schedule, which set out full details of each constituent element within the overall price quoted. In relation to each hardware item, Accenture quoted a baseline unit price and also a range of alternative unit prices, which would apply for different volumes actually purchased. In addition, the proposal provided that should an unforeseen item of equipment be required, the cost would be agreed in advance of procurement, together with a 5% handling charge for Accenture.

21.35 In relation to software, Accenture provided a comprehensive list of every software item required for the project and quoted a license/purchase price for each. In relation to the various professional services required for the project (including design, development, configuration, testing, implementation, training and project management), Acccenture quoted a fixed price for each service, supported by a schedule providing the name, role and daily rates for all consultants proposed. In relation to the post-implementation support phase, Accenture quoted a fixed price to cover business hours and a call out rate to ensure full 24-hour coverage, seven days a week.

## Conclusion – Procurement of the Services

Although the proposal submitted by Accenture was not the lowest price proposal, the evaluation process found that it represented the best value for money.

While the Accenture contract stated that the overall project was based on a fixed price, in reality, only the price for professional services was fixed. For the hardware, software and maintenance support elements, contract prices were unit based and the final outturn was dependent on volumes actually required. For common hardware items (e.g. workstations, printers and scanners), lower unit prices were available as the number of units purchased increased.

### ***Procurement of Technical Advice***

21.36 BearingPoint Ireland Ltd was initially engaged by An Garda Síochána, in September 2004, to provide consultancy support in relation to the procurement of the AFIS prime contractor. The letter of engagement stated that services would be provided under the terms, conditions and rates specified in a drawdown contract agreed with An Garda Síochána in 2003. During the course of this examination, the Garda authorities were unable to supply any documentation in relation to the drawdown contract referred to.

21.37 The September 2004 letter of engagement quoted a VAT inclusive fee of €151,250, excluding expenses, in return for the following deliverables

- creation of a briefing document (setting out a technical overview of the future solution required) to accompany the contract notice in the EU Journal
- development of a scoring matrix for evaluation of responses at the pre-qualification stage
- creation of comprehensive ITT documentation, including a detailed requirement specification for the overall solution, for circulation to short-listed contractors
- development of a scoring matrix for evaluation of responses to the ITT
- assistance with the technical evaluation of responses.

### *Framework Service Contract*

21.38 At its meeting of 27 September 2004, the project board decided to undertake a public procurement process for the provision of technical advice and quality assurance services to An Garda Síochána during the project implementation period, following the selection of the AFIS prime contractor. The procurement was progressed as part of a wider process to establish a framework service contract, from which An Garda Síochána could draw down such services, as required, for other large scale IT projects.

21.39 The request for tenders (RFT) invited bidders to apply for two initial lots, consisting of the AFIS project and a Schengen Information System (SIS) project, but indicated that services might be drawn down in respect of other large scale IT systems implementation projects over the two-year duration of the framework. Bidders were invited to apply for either of the initial lots, or both if they wished. In order to ensure that bids received would be comparable, the RFT requested respondents to submit a price for estimated consultancy requirements of 930 days on the AFIS project and 850 days on the SIS project.

21.40 BearingPoint received the highest evaluation score in respect of each lot. A framework service contract (titled ‘Master Services Agreement’) was signed with BearingPoint in September 2005, containing an agreed schedule of daily rates for a range of consultant roles, to be applied in respect of any services purchased under the agreement.

21.41 The proposal submitted by BearingPoint quoted a VAT inclusive price of €1.43 million for the estimated 930 day consultancy requirement on the AFIS project. In the end, BearingPoint was engaged under the framework to provide a total of 2,179 days consulting in respect of AFIS. The fee for each deliverable was calculated by estimating the number of days required and applying the daily rates contained in the framework. The total agreed fee was €3.12 million, comprising

- €1.57 million to review all document deliverables prepared during each project phase by the prime contractor, for technical completeness and accuracy (1,148 days)
- €0.67 million to support and review the development of new business processes, support all testing conducted and carry out specific expert reviews of key project aspects (462 days)
- €0.57 million to review test scripts and test closure documentation for each phase and provide support for the identification and resolution of operational issues arising in the period immediately after ‘go-live’ (382 days)
- €0.23 million to prepare documentation for each phase of the evaluation process for responses to the ITT (142 days)
- €0.08 million to assist with reference site visits to Swiss Police facilities in Berne and preparations for the peer review process (45 days).

21.42 The payments made to BearingPoint in respect of these deliverables totalled €3.3 million. It was not clear from the payment documentation examined during the review what proportion of the excess related to expenses and what proportion related to the number of consultancy days required being more than was anticipated.

21.43 While the initial framework made reference to two projects (AFIS and SIS) and BearingPoint's proposal in respect of those projects totalled €2.75 million, it was subsequently contracted under the framework to provide consultancy services in respect of 16 additional Garda IT projects, bringing the total amount paid over the lifetime of the framework to €15.16 million.

## Conclusion – Procurement of Technical Advice

Although the Garda authorities stated that BearingPoint was initially engaged, in September 2004, to provide consultancy support for the early stages of the AFIS project under the terms of an existing drawdown contract, they were unable to supply any documentation relating to the drawdown contract during the course of the examination. The price agreed for these services amounted to €151,250.

In relation to the framework services contract signed in 2005, the RFT set out estimated requirements for an initial two projects, but neither the tender documentation nor the agreement itself provided any estimate of the likely scale or value of services to be drawn down over the two-year duration. In the end, BearingPoint was engaged under the new framework to provide services in respect of 16 additional Garda IT projects. The total amount paid to BearingPoint in respect of services contracted under the framework was €15.16 million.

It is desirable from the viewpoint of vouching expenditure that State bodies be in a position to demonstrate that payments made are in accordance with the rates quoted for individual service components at procurement stage.

21.44 With regard to the technical advice and quality assurance services provided in respect of 16 additional Garda IT projects, the Accounting Officers stated that all services supplied were covered by the scope of the framework service contract.

### *Change Control and Cost Management*

21.45 Once a contract is developed, cost control is exercised by ensuring that variations are authorised in advance and that the cost of both the original and additional elements are priced in accordance with its terms.

#### *Contract Development*

21.46 Having obtained Department of Finance approval, the project team informed Accenture in April 2006 of their preferred bidder status. The Chief State Solicitor's Office (CSSO) agreed to provide assistance to the project team in relation to the drafting of the contract. At its meeting of 25 April 2006, the project board indicated that it expected the contract to be finalised quickly and the first phase of the work to commence before the end of May 2006. However, the draft contract was not actually received from the CSSO and sent to Accenture until early July 2006. Over the following months, representatives from the Department of Justice and Equality, An Garda Síochána, BearingPoint, the Attorney General's Office and the CSSO took part in the contract negotiations with Accenture. The contract was signed on 17 November 2006.

## *Contract Deliverables*

21.47 The contract included details of the objectives, timeframe and key deliverables associated with each of the implementation phases. In addition, it set out details of specific deliverables for each phase under the headings of system functionality, hardware, servers and infrastructure, software, service and project documentation.

21.48 However, the contract also provided that the scheduled list of deliverables would be superseded by a Project Initiation Document (PID), to be prepared and agreed at the outset of each phase of the project. The purpose of the agreed PIDs was to define the deliverables to be produced during each phase. For each deliverable defined in the PIDs, the details specified included a target completion date, the arrangements for review and the quality criteria against which delivery would be assessed.

## *Specification of Timelines*

21.49 The contract provided for an 18-month project implementation plan, as had been presented in the original proposal submitted by Accenture in May 2005. Based on the actual project start date in November 2006, the implementation plan envisaged the completion of all project phases by the end of April 2008.

21.50 Although the target completion dates in the PID were slightly different for some phases to those in the original implementation plan, the planned completion date for the project was unchanged at April 2008.

## *Contract Charges*

21.51 The contract provided that the overall project was based on a fixed price contract, subject to agreeing variable charges in respect of the final required number of peripherals e.g. livescan units. On the basis of the volumes assumed in the contract, the final cost was expected to be €17.52 million, inclusive of VAT.

## *Contract Change Authorisation*

21.52 The contract provided for a change control process. In addition, the agreed PID set out details of the control mechanism to be employed to manage the implications of requests to change any part of the contractual agreement.

21.53 Over the lifetime of the contract, An Garda Síochána formally accepted 11 cost-increasing change control notices (CCNs) at a total value of €2.01 million, which represented an 11% increase on the sum specified in the contract.

- In six of these cases, priced at €1.71 million, changes were costed in accordance with rates agreed under the contract. Documentation in respect of the largest of these CCNs, priced at €1.35 million, was inspected during the examination. The CCN related to a requirement for enhanced AFIS hardware at some locations, due to organisational changes within An Garda Síochána introduced under a new policing plan in 2008. Given the scale of the proposed change, a separate business case was prepared and sanction was obtained from the Department of Finance for the additional project expenditure.

- In the other five cases, priced at €0.3 million, there was no equivalent price available under the contract. An Garda Síochána stated that in these instances, it requested Accenture to submit costings, which were then checked to ensure that no cheaper price was available elsewhere. Documentation was inspected in respect of two CCNs, priced at €0.18 million. They related to a training course that had been specifically tailored for An Garda Síochána and the provision of an enhanced storage solution for the project. The CCNs were prepared and approved at an appropriate level but did not provide details of any price checks undertaken.

### *E-Visa Biometrics Pilot Project*

21.54 In addition to the contract variations approved through the CCN process, it was agreed to extend the contract to include a pilot biometrics project in respect of visa applications originating in Nigeria. The cost of the proposal submitted by Accenture for the E-Visa pilot was based on the daily rates used in the original contract and came to €1.51 million. Discounts totalling €0.18 million were agreed during subsequent negotiations between Accenture and the Department of Justice and Equality, bringing the final agreed sum to €1.33 million.

21.55 A separate business case was prepared in respect of the E-Visa pilot and Department of Finance sanctions totalling €1.33 million were obtained in June 2009 and February 2010.

21.56 The context for the E-Visa pilot proposal was a very significant increase in the volume of Irish visa applications being made in Nigeria. The annual number of applications received had risen from approximately 4,000 in 2006 to in excess of 11,000 in 2008, representing a rate of increase far in excess of that being experienced elsewhere. It was considered that the increase in applications for Irish visas was related to the decision of the UK authorities to introduce fingerprinting for visa applicants in Nigeria, with effect from mid-2007.

21.57 The six-month E-Visa pilot project commenced in March 2010. It involved the introduction of two additional steps into the visa administration process

- fingerprints of applicants to be captured during the application process at two locations (Abuja and Lagos) in Nigeria
- fingerprint verification at Dublin Airport to confirm the identity of visa holders, when entering the country.

21.58 Fingerprints captured during the application process were compared against the AFIS database to check whether the applicant had an existing immigration, asylum or criminal history. The search results were returned to the Visa Office of the Irish Embassy in Nigeria within 24 hours and were given consideration as part of the decision making process on the visa application.

21.59 An in-house evaluation of the E-Visa pilot project has been accepted by the AFIS project board. The aim of the evaluation was to review the operation of the pilot scheme and to make recommendations as to how INIS and An Garda Síochána should proceed in relation to the future use of biometrics in the visa regime. The evaluation report noted a significant decrease in the volume of visa applications submitted during the pilot period. It also identified a reduction in the number of asylum applications from Nigerian nationals and highlighted the detection of a number of individuals seeking to re-enter Ireland, having previously been deported.

## Conclusion – Change Control and Cost Management

The contract development and negotiation phase took longer than envisaged by the Project Board and the project start date was consequently delayed for approximately six months. The change control procedures applied to the Accenture contract ensured that all contract changes were adequately specified and approved at an appropriate level.

Over two thirds of the value of agreed contract changes related to additional hardware requirements, which arose from organisational changes introduced in An Garda Síochána under a new policing plan in 2008. The remaining contract changes related to a variety of issues including software changes, additional testing and additional training.

Overall, the changes increased the contract cost by 11%.

21.60 The Accounting Officers stated that some of the authorised contract changes related to the realignment of Garda divisional structures and could not have been envisaged at the outset of the project, so had to be accommodated under the change control process.

## Project Cost, Timescale and Delivery

21.61 The business case set out a cost estimate of €18 million to fully implement the new AFIS system and integration framework, but there was no indication as to whether or not this figure was inclusive of VAT. This figure was intended to include payments to external contractors, internal costs such as staff salaries and training initiatives as well as ongoing costs including user support and maintenance.

21.62 As Figure 104 indicates, €23.13 million was ultimately paid out on externally contracted services. The cost of internal resources was not tracked.

**Figure 104 AFIS Project Payments**

| Element | Amount Paid €m |
|---|---|
| Accenture contract | 16.32 |
| Agreed CCNs under Accenture contract | 1.97 |
| E-Visa pilot | 1.33 |
| BearingPoint letter of engagement (Sept 2004) | 0.21 |
| BearingPoint framework contract (Sept 2005) | 3.30 |
| **Project total** | **23.13** |

21.63 The cost of the Accenture contract came in at €1.20 million below the projected amount due to savings of €1.27 million on software and €0.57 million on hardware, partially offset by an excess of €0.64 million on maintenance and support services.

21.64 In relation to the savings achieved, the Accounting Officers informed me that

- some of the required third party software for the AFIS solution was covered by an existing corporate licence agreement held by An Garda Síochána
- mobile AFIS hardware was not drawn down as a result of delays in the enactment of the Immigration, Residence and Protection Bill.

21.65 The excess in respect of maintenance and support services relates to the decision to extend the support period for the entire system to the end of December 2010. This decision was taken in light of delays experienced with project implementation and in order to avoid a situation where the warranty period for the first phase would expire before the final phase had been accepted.

21.66 The September 2004 engagement letter for BearingPoint's work on the early stages of the AFIS project quoted a price of €151,250. The total payments subsequently made in respect of that engagement were €210,136, which represents a 39% excess.

21.67 Payments to BearingPoint in respect of AFIS project work contracted under the framework service agreement totalled €3.3 million, which represents a 6% excess on the figure agreed.

## Conclusion – Project Cost

The business case set out a cost estimate of €18 million. This estimate encompassed all anticipated project costs including payments to external contractors, internal project management and support costs and ongoing costs such as workstations, licenses and computer supplies. In the end, €23.13 million was paid under contracts with two suppliers working on the project, including €1.33 million in respect of a project extension to trial the use of biometrics in the visa regime. No detailed records of in-house project management and support costs or ongoing project costs were maintained.

At a process level, the external costs incurred were controlled to an acceptable standard.

### *Project Timescale*

21.68 The implementation plans contained in the Accenture contract and the subsequently agreed PID envisaged the completion of all project phases by the end of April 2008. During project implementation, the project board decided to defer the rollout date for Phase 3 (integration of AFIS with PULSE) until after the release of an updated version of the PULSE system. Ultimately, the project board accepted the final phase of the project in October 2009.

## Conclusion – Timescale

At an overall project level, by the time of completion of the final phase in October 2009, an 18-month time overrun on the initial project implementation plan had occurred.

21.69 The Accounting Officers stated that the overrun on the project timescale was due to factors outside the project board's control and was attributed mainly to a delay in the enactment of the Immigration, Residence and Protection Bill and the requirement to deploy a new version of the PULSE system.

### *Project Delivery*

21.70 It appears that the project has substantially delivered the anticipated benefits but it is difficult to make a definitive assessment, since many of the expected benefits are too general to verify. For example, in some cases the benefits were framed as being to improve on certain areas (e.g. improve public confidence, improve technologies), without any quantification of the scale of improvement that was envisaged. In other cases, the anticipated benefits quoted were already being delivered to some extent by the previous AFIS system (e.g. solve crimes using fingerprint data, fingerprint all asylum seekers).

21.71 On the basis of an analysis of data over the period 2004 to 2009, An Garda Síochána has reported a 94% improvement in the 'hit rate' for fingerprint matches, since the introduction of the new system.

21.72 An AFIS Project Closure Report assessed the extent to which the required functionality and anticipated benefits have been delivered. It also reviewed project timelines, considered what aspects of the project were successful and set out the lessons learned that can be applied to future projects.

21.73 The closure report identified the following opportunities for improvement in the context of implementation of future projects

- All stakeholders should be engaged as early as possible in the process – it found that the Garda Telecommunications Division and the Office of Public Works could have been engaged at an earlier stage.
- Project schedules should be issued and communicated clearly – it noted that this had not been achieved during Phase 2 in particular.
- Ad hoc testing should be a significant element of user acceptance testing and the test team should receive training on how to conduct a robust user acceptance testing cycle. For AFIS, ad hoc testing was not integrated into the process for Phase 1, but was implemented for the second, third and fourth project phases.
- Test environments should mirror the live production environment to the greatest extent possible, in light of budget considerations. On the AFIS project, instances occurred where solutions had performed well in the test environment but failed in production.

## Conclusion – Project Delivery

The general benefits outlined, while clearly important, are difficult to capture in measurable form. There would be merit in future projects in attempting to identify distinctive benefits of new generation projects in quantifiable terms.

A closure report was completed and identified opportunities for improvement.

From the viewpoint of functionality, the 94% improvement in the 'hit rate' is a tangible measure of the improvement in the core capability of An Garda Síochána to match prints and solve crimes.

21.74 In terms of project delivery, the Accounting Officers expressed their view that the system has been successfully implemented and has delivered the key business benefits identified for both the immigration and criminal related aspects. They highlighted specific outcomes arising from the AFIS project, including

- a significantly lower processing time for asylum applications, due to the use of livescan machines for fingerprinting and the immediate search of the Eurodac system
- increased detection of immigration and asylum abuses, such as attempts to gain access to the State under a false identity.

## Commissioning and Use

21.75 While all elements of the project have been delivered, some issues relating to the timing and extent of the deployment of the technology remain.

### *Industrial Relations Issue in the GNIB*

21.76 In preparation for AFIS implementation, single finger scanners were installed in GNIB offices to enable the capture and storage of fingerprint data on GNIB Cards[186] and livescan machines were installed to enable the capture of full sets of fingerprints and searches against the AFIS database. Due to an industrial relations issue concerning the respective roles of immigration officers and GNIB civilian staff, the five livescan machines installed in Burgh Quay in August 2008 have never been used. Initially, civilian staff did use the single finger scanners so it was possible to save fingerprint data on the GNIB Card, even though a search of the AFIS database was not possible. However since September 2009, no fingerprints are being taken as part of the registration process in Burgh Quay, so GNIB Cards are issued with no fingerprint data. There is a similar industrial relations issue with GNIB civilian staff in the Anglesea Street offices in Cork, but Garda personnel have been available there to take fingerprints and ensure that the system remains fully operational, during the dispute.

21.77 The industrial relations issue is confined to these two locations, so fingerprints are being taken as part of the registration process in all other GNIB offices. Since the beginning of the dispute in August 2008, the GNIB has met regularly with CPSU[187] representatives and made significant efforts to resolve the situation. A working group was established in December 2008, consisting of GNIB management and CPSU representatives, with the aim of resolving the issues of concern. In addition, GNIB has received advice from both the Offices of the Attorney General and the Chief State Solicitor, while the Director of the Garda Civilian Human Resources Unit has undertaken an evaluation of the work carried out by civilian personnel.

21.78 When a resolution to the industrial relations situation is achieved, it is estimated that a lead-in time of approximately five weeks would be required prior to ‘go-live’ in Burgh Quay. It is estimated that three people will be required to carry out training and related work at a cost of approximately €0.06 million.

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[186] The GNIB card is the common name for the Certificate of Registration issued, under the Immigration Act 2004, to legally resident non-EEA nationals.

[187] Members of the Civil Public and Services Union (CPSU) comprise clerical and administrative grades in the civil service, including the GNIB staff involved in the current dispute.

### *Immigration, Residence and Protection Bill*

21.79 The ability to deploy certain elements of the new system was dependent on changes to existing immigration legislation. After the timetable for enactment of the legislation had been put back several times, the project board decided in May 2008 to proceed with the rollout of the system, without the functionality that was dependent on the new legislation.

21.80 Consequently, the following elements have been scoped, designed and delivered as part of the AFIS project but cannot be deployed until the new legislation is enacted

- capture of palm prints during GNIB and ORAC registration processes
- capture of fingerprints for those refused leave to land[188] at ports/airports of entry
- use of mobile AFIS equipment to allow GNIB field officers to capture fingerprints and to perform remote searches against the AFIS database.

21.81 The current position is that the Immigration, Residence and Protection Bill 2008 was withdrawn in May 2010 and a new version was published in July 2010.

### *Other Commissioning Issues*

21.82 Additional matters which need to be addressed in order to ensure maximum efficiency in implementation include

- the present version of the AFIS system does not fully meet the current requirements of the GTB in respect of the preparation of fingerprint evidence for court cases, but a new process has been introduced to solve the problem and the required functionality will be available in a subsequent version
- the maximum potential benefits of the new technology are not being derived, because there are still a significant number of fingerprints being taken by An Garda Síochána using the previous ‘wet ink’ system[189]
- the six-month pilot period for the E-Visa biometrics project is complete but no decision has been made on the future use of biometrics in the visa regime.[190]

21.83 While the time taken to process latent marks using the latent entry application was regarded as excessive by An Garda Síochána, it has stated that this issue was resolved in March 2011.

## Conclusion – Commissioning and Use

The systems have been accepted and brought into use, except for instances where industrial relations disputes have hindered their full deployment. Certain operational issues militated against exploiting the full benefits of the new system, including the continued use by An Garda Síochána of the traditional wet ink method to take fingerprints at some locations and delays, up to March 2011, in the processing of latent marks on the latent entry application.

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188 Refused leave to land refers to people being refused permission to enter Ireland at a port/airport for various reasons e.g. no passport/visa or no means of support.

189 Figures received from An Garda Síochána in respect of June 2011 indicate that almost 33% of fingerprints taken were obtained by the wet ink method.

190 An evaluation report, containing recommendations in relation to the future use of biometrics in the visa regime, was accepted by the AFIS Project Board in July 2011.

21.84 With regard to the industrial action in the GNIB, the Accounting Officers informed me that a meeting took place recently between senior officials from the Civilian Human Resources Directorate in An Garda Síochána, the Department of Finance and the CPSU. A potential solution to the issue was identified and is currently being pursued. In relation to the Immigration, Residence and Protection Bill, the Accounting Officers informed me that the Minister for Justice and Equality expects it to be progressed in the near future.

21.85 In relation to the residual commissioning issues identified in the report, a Fingerprint Working Group has been established within An Garda Síochána to ensure that fingerprints are taken using livescan machines, wherever possible. In relation to the E-Visa pilot project, the Department of Justice and Equality is satisfied that the technological approach has been successfully tested. The Accounting Officers outlined other benefits derived from the pilot project including increased detection of abuses of the visa and asylum processes and the associated deterrent effect on potential future abuses.

## Conclusion

A new automated fingerprint identification system has been delivered and is being used within the immigration, asylum and policing regimes.

Although the system delivered provides the enhanced features originally envisaged, challenges remain in respect of its commissioning and use, which will need to be addressed before the full benefits of the system can be realised

- due to ongoing industrial action in the GNIB offices at Burgh Quay, the new system is not being used in the registration process for non-EEA nationals, with the effect that registration cards are being issued without fingerprint data
- at some locations, there are still a significant number of fingerprints being taken by An Garda Síochána using the manual ‘wet ink’ system
- the new system delivered all of the functionality originally specified, while additional requirements to assist with the preparation of fingerprint exhibits for court cases, subsequently identified within the GTB, are envisaged under a further system update
- the E-Visa pilot successfully tested the technological approach to the use of biometrics within the visa regime, but a decision has yet to be made on its future deployment
- some of the functionality which has been delivered by the new system cannot be deployed until legislation is enacted.

From a planning perspective, the business case was completed post-hoc, as was a peer review. In that respect, both exercises served to justify a decision that had already been made, rather than to inform the decision-making process.

From a control viewpoint, the procedures in place ensured that project changes were approved at an appropriate level. The changes added 11% to the project cost.

From a project delivery point of view, the overall project management arrangements were sufficient to ensure that the system was delivered to the desired specification.

# Chapter 22

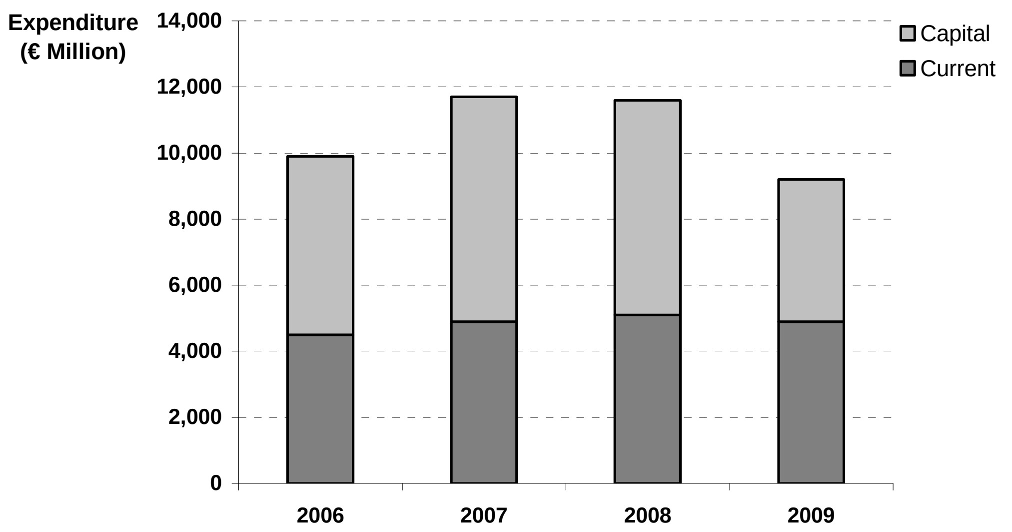
# Central Government Funding of Local Authorities

# Central Government Funding of Local Authorities

22.1 Aggregate expenditure by local authorities in 2009, the last year for which detailed information is available, is estimated at €9.2 billion. This comprised around €4.3 billion in capital expenditure, and around €4.9 billion in current expenditure.

22.2 Figure 105 shows how expenditure by local authorities changed over the period 2006 to 2009[191].

**Figure 105 Expenditure by local authorities by type, 2006 to 2009**




Source: Department of the Environment, Community and Local Government

22.3 Local Authority capital spending results in the creation or acquisiton by a local authority of an asset that has a use beyond the year in which that asset is provided e.g. road construction, building or purchase of houses, swimming pool, library, etc. Local authority capital programmes are financed largely by State grants from a variety of sources, with some funding from development levies, borrowings, own internal resources and property sales.

22.4 Current expenditure by Local Authorities, sometimes referred to as revenue expenditure, covers the day-to-day running of local authorities, including staff salaries, housing maintenance, pensions, operational costs of treatment plants, etc. Current expenditure is funded from a variety of sources, including Exchequer and Local Government Fund grants (about 43% of the total in 2009), local authority rates (about 29%) and charges for goods and services such as commercial water charges, housing rents, parking charges, etc (about 28%). The Non Principal Private Residence charge (€200 per dwelling) was introduced in 2009 to broaden the revenue base of local authorities.[192]

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191 Collation of local authority expenditure outturns for 2010 had not been finalised by the Department of the Environment, Community and Local Government at the time of this Report.

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

## Chapter Focus

The objective of this chapter is to provide an overview of the funds flowing from and through central Government sources to local authorities, and of the purposes for which the funds have been provided.

Relevant and timely programme measures and indicators for each national programme can help in making allocation decisions and in supporting efficient and effective service delivery and accountability. This report reviews the indicators in the area of water services.

The chapter also examines recent developments aimed at reducing local authority indebtedness for past acquisitions of land for social and affordable housing.

## Sources of Central Government Transfers

22.5 Transfers of funding from central Government sources to local authorities in 2010 totalled almost €4.5 billion. Around 86% of this originated as Exchequer funding provided through the Votes for government departments. The non-Exchequer sourced funding (14% of the total) was provided from the Local Government Fund and the Environment Fund.

22.6 The Local Government Fund was established in 1999 under the Local Government Act 1998. It is financed by the proceeds of motor tax and an annual Exchequer contribution paid into the Fund from Vote 25. The resources in the Fund are used mainly to provide local authorities with funding for their day-to-day activities and for the upkeep of non-national roads.[193] A small amount of the Fund is used to support certain other local government initiatives.

22.7 The Environment Fund is used primarily to support environmentally-oriented initiatives, campaigns and programmes organised at local or regional level under the auspices of local authorities. The proceeds of the plastic bag levy collected from retailers by the Revenue Commissioners are paid into the Fund. Levies paid by landfill operators to local authorities are also paid into the Fund. Disbursements from the Fund are used to assist projects on the basis of their capacity to protect or enhance the environment.

22.8 Figure 106 sets out the sources of funding for expenditures from central Government sources to local authorities each year from 2007 to 2010.

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

**Figure 106 Sources of Central Government Financing for Local Authorities, 2007-2010**

| Source of funds | 2007 | 2008 | 2009 | 2010 |
|---|---|---|---|---|
| | €m | €m | €m | €m |
| ***Exchequer funds***[a] | | | | |
| Vote 25 — Environment, Heritage and Local Government | 2,584 | 2,804 | 2,401 | 1,828 |
| Vote 26 — Education and Skills | 272 | 301 | 379 | 389 |
| Vote 27 — Community, Equality and Gaeltacht Affairs | 49 | 64 | 36 | 22 |
| Vote 32 — Transport | 1,476 | 1,374 | 1,488 | 1,577 |
| Vote 35 — Tourism, Culture and Sport | 32 | 26 | 17 | 19 |
| Vote 41 — Office of the Minister for Children and Youth Affairs | — | — | 5 | 4 |
| | 4,413 | 4,569 | 4,326 | 3,839 |
| ***Other funding sources*** [b] | | | | |
| Local Government Fund (non Exchequer element)[c] | 1,049 | 1,102 | 897 | 575 |
| Environment Fund [d] | 40 | 39 | 30 | 37 |
| | 1,089 | 1,141 | 927 | 612 |
| **Funding from all central Government sources** | **5,502** | **5,710** | **5,253** | **4,451** |

Source: OCAG Annual Report 2009, Department of the Environment, Community and Local Government, Department of Education And Skills, Department of Transport, Tourism and Sport, Department of Arts, Heritage and Gaeltacht Affairs, Department of Children and Youth Affairs.

Notes:
a For consistency of approach in presenting historic data, Vote titles are those that applied in 2010.
b The accounts for the Local Government Fund 2010 and the Environment Fund 2010 are unaudited.
c Comprises mainly motor tax receipts, and interest earned. The Exchequer contribution to the Fund is included in the Vote 25 expenditure reported above.
d Includes plastic bag levy and landfill levy receipts, and interest earned.

## Application of Funding

22.9 Most of the funding sourced from central Government and provided to local authorities must be used for specific local authority services. These can be grouped into six broad programme categories.

- **Housing and Urban Regeneration** – The bulk of funding for housing and urban regeneration is provided directly to local authorities by the Department of the Environment, Community and Local Government. The funding is used by local authorities for the provision of local authority housing, regeneration and remedial work, Traveller accommodation, voluntary and cooperative housing, the Rental Accommodation Scheme, housing adaptation grants, and accommodation for homeless people.
- **Environmental Services** – Around 93% of the central funding provided to local authorities in support of environmental services is directed towards investment in water services, and is primarily funded by the Department of the Environment, Community and Local Government. The remaining funding for environmental services comes from the Department of Arts, Heritage and Gaeltacht Affairs, the Local Government Fund and the Environment Fund.

- **Road Improvement and Maintenance** – Improvement and maintenance of the national roads is the responsibility of the National Roads Authority (NRA), which operates under the aegis of the Department of Transport, Tourism and Sport. In carrying out its projects, the Authority normally uses local authorities as its agents, and channels its expenditure through them. An allocation of funds is made from the Local Government Fund to the Department of Transport, Tourism and Sport for the upkeep of regional and local roads. Grants for these purposes are paid to the NRA and, subsequently, to local authorities by that Department. Chapter 27 reviews aspects of administration of those funds.

- **Education Services** – The Department of Education and Skills reimburses the cost of higher education grants awarded by local authorities. The Department also reimburses local authorities the costs of providing superannuation benefits for retired staff of Vocational Education Committees and of Institutes of Technology who are members of the Vocational Teachers' Superannuation Scheme or the Education Sector Superannuation Scheme respectively.

- **Recreation and Other Local Services** – This comprises central government funding for local authority services such as library and archive services, swimming pool construction and maintenance and other public amenity and cultural projects, as well as fire and emergency services, and services for the disabled.

- **General Purposes Grants** – Through the Local Government Fund, the Department of the Environment, Community and Local Government provides a contribution to the local authorities to assist them bridge the gap between their other income sources and the cost of the local services they provide.

22.10 Figure 107 presents a more detailed breakdown of the fund transfers to local authorities for 2007, 2008, 2009 and 2010, showing the programme and the schemes being supported. This indicates that just over one third of the total provision was in respect of road improvements and maintenance work. Just under one quarter was provided for housing and urban regeneration programmes. General purposes funding accounted for 17% of the total amount provided.

## Conclusion – Central Government Funding of Local Authorities

Funds flowing from central Government sources to local authorities in the period 2007 – 2009 averaged almost €5.5 billion per year. The €4.5 billion provided in 2010 represents a reduction of 22% by comparison with the 2008 level and 15% when compared with 2009.

**Figure 107 Central Government Transfers to Local Authorities, by Expenditure Programme, 2007 – 2010**

| Expenditure Category | 2007 €m | 2008 €m | 2009 €m | 2010 €m |
|---|---|---|---|---|
| ***Housing and urban regeneration*** | | | | |
| Social housing provision | 1,382 | 1,571 | 1,297 | 961 |
| Affordable housing etc | 64 | 89 | 94 | 84 |
| Other housing supports | 6 | 7 | 4 | 6 |
| Urban regeneration | 20 | 5 | 1 | — |
| | **1,472** | **1,672** | **1,396** | **1,051** |
| ***Environmental services*** | | | | |
| Water and sanitary services | 529 | 544 | 558 | 535 |
| Waste management | 28 | 27 | 8 | 11 |
| Recycling | 12 | 22 | 14 | 14 |
| Other environmental measures | 11 | 15 | 29 | 16 |
| | **580** | **608** | **609** | **576** |
| ***Road improvement and maintenance*** | | | | |
| National roads | 1,476 | 1,374 | 1,488 | 1,166 |
| Non-national roads | 623 | 616 | 455 | 412 |
| | **2,099** | **1,990** | **1,943** | **1,578** |
| ***Education services*** | | | | |
| Higher education grants | 126 | 137 | 160 | 172 |
| Superannuation of retired staff | 146 | 164 | 219 | 217 |
| | **272** | **301** | **379** | **389** |
| ***Recreation and other local services*** | | | | |
| Swimming pools | 25 | 20 | 11 | 3 |
| Library service | 17 | 15 | 9 | 6 |
| Sports grants, playgrounds and cultural projects | 9 | 7 | 10 | 21 |
| Fire and emergency services | 24 | 24 | 20 | 19 |
| Heritage services (architectural heritage) | 7 | 8 | 6 | 5 |
| Disability services | 15 | 15 | 12 | 7 |
| Miscellaneous capital services | 19 | 31 | 2 | 12 |
| Miscellaneous services | 15 | 20 | 6 | 7 |
| | **131** | **140** | **76** | **80** |
| ***General purpose grants*** [a] | 948 | 999 | 850 | 777 |
| **Total funding provided to local authorities** | **5,502** | **5,710** | **5,253** | **4,451** |

Source: OCAG Annual Report 2009, Department of the Environment, Community and Local Government, Department of Education And Skills, Department of Transport, Tourism and Sport, Department of Arts, Heritage and Gaeltacht Affairs, Department of Children and Youth Affairs.

Note: a Includes funding in respect of severe winter weather for 2009 and 2010.

## Water Services Effectiveness

22.11 Funding for the provision of infrastructure for the supply of drinking water is provided by the Department of the Environment, Community and Local Government under two programmes. Major water supply schemes are included in the rolling three-year Water Services Investment Programme (WSIP). These schemes focus on the larger concentrations of population in urban areas. Annual Rural Water Programmes (RWP) provide the bulk of funding for the construction of group water schemes and small public schemes in rural areas.

22.12 Over the period 2000 – 2010, €5.2 billion of Exchequer resources have been invested in the upgrading and provision of new water services infrastructure, of which €4.2 billion was spent on WSIP and €0.99 billion was spent on RWP. Overall expenditure includes investment of over €1 billion on public water supply and networks and €168 million on water conservation[194]. There are two key indicators of the effectiveness of expenditure on water supply and conservation

- the quality of drinking water
- the extent to which treated water reaches the consumer.

### *Water Quality Indicators*

22.13 Local authority performance in the delivery of quality water is measured by the percentage of drinking water sampled in the local authority that is in compliance with statutory requirements. The Environmental Protection Agency (EPA) reports publicly the results of water quality monitoring carried out by local authorities.

22.14 There has been considerable delay in reporting the results of quality monitoring with no reporting of 2009 results to date. The Local Government Management Services Board (LGMSB) which compiles the information depends, in turn, on the EPA to provide it with the data to prepare the indicators. The EPA is reliant on the timely submission by local authorities of monitoring data which it must also validate before transmitting it to the LGMSB. Figure 108 sets out the water quality indicators for the years 2004 – 2008.

22.15 The test data for 2009 was not available in time for publication of the EPA report for that year (February 2011) and thus the indicators were excluded from the publication. The data however became available at the end of February 2011. In conjunction with the LGMSB, my Office compiled the lead indicator for 2009 – the median average. The result at 99.06% for public water supply and 97.10% for private water supply shows an improvement for both public and private water supply over 2008.

22.16 The LGMSB have confirmed that it intends to include the 2010 indicators in the 2010 report (providing the data is available). It will not report 2009 data.

[194] The WSIP expenditure also includes €889 million relating mainly to the group water sector under the rural water programme.

**Figure 108 Water Supply Quality Compliance 2004 – 2008**

| | | 2004 | 2005 | 2006 | 2007 | 2008 | Net Change 2004 - 2008 |
|---|---|---|---|---|---|---|---|
| | | % | % | % | % | % | % |
| **Public water supply** | | | | | | | |
| Median average | | 97.60 | 97.88 | 98.00 | 97.94 | 97.67 | + 0.07 |
| Top 25% range | From | 99.60 | 99.35 | 99.40 | 99.56 | 99.39 | - 0.21 |
| | To | 99.03 | 98.84 | 98.78 | 98.79 | 98.79 | - 0.24 |
| Lowest 25% range | From | 96.20 | 96.40 | 96.63 | 96.95 | 96.87 | + 0.67 |
| | To | 89.50 | 94.80 | 95.00 | 95.02 | 93.44 | + 3.94 |
| **Private water supply** | | | | | | | |
| Median average | | 92.70 | 92.75 | 93.59 | 95.00 | 94.99 | + 2.29 |
| Top 25% range | From | 98.10 | 99.47 | 99.38 | 99.32 | 98.69 | + 0.59 |
| | To | 95.20 | 97.14 | 96.21 | 96.11 | 96.24 | + 1.04 |
| Lowest 25% range | From | 89.30 | 88.46 | 90.81 | 91.04 | 91.89 | + 2.59 |
| | To | 84.50 | 81.46 | 80.00 | 85.87 | 88.10 | + 3.60 |

Source: LGMSB Service Indicator Reports 2004 - 2008

## Conclusion – Water Quality

It is important that the information on performance be reported on a consistent annual basis so as to inform decisions and track trends. There would be merit in reviewing the mechanisms for the compilation of the information so as to ensure that the indicators can be compiled in a timely way.

### *Effectiveness of Supply System*

22.17 Loss of output is a feature of all water distribution systems. Unaccounted for Water (UFW) is a measure that is used to track this loss. It is the difference between ‘net production’ which is the volume of water delivered into a network and ‘consumption’ measured in terms of the volume of water that can be accounted for by legitimate consumption.

22.18 Figure 109 shows UFW as a percentage of the net volume of water supplied for 2008 and 2009. It sets out the national average performance and the range across local authorities. Annex A contains the data on UFW for these two years for all county and city councils.

**Figure 109 Unaccounted for Water (UFW) as a percentage of Water Supplied, 2008 – 2009**

| | 2008 % | 2009 % |
|---|---|---|
| Highest UFW Rate | 58.60 | 58.50 |
| Lowest UFW Rate | 16.83 | 21.45 |
| **Average UFW Rate** | **41.20** | **41.48** |

Source: LGMSB Service Indicator Reports 2008, 2009

22.19 Overall, the average percentage of UFW was approximately 41.48% in 2009, which showed a marginal increase over 2008 (41.20%). Some 17 of the 34 authorities have seen an improvement in 2009, the most noticeable being a reduction in the percentage of water lost in Monaghan which was down by 27%, Cavan by 18% and Kilkenny by 15%. The other 17 local authorities reported a disimprovement in the amount of UFW for 2009, with Limerick County Council reporting losses of 35%, up from 17% in 2008. Fingal County Council, Limerick City Council, and Dublin City Council reported substantial increased leakage in 2009 over 2008 at 27%, 22% and 20% respectively.

### *Cost of Unaccounted for Water*

22.20 The cost of UFW is considerable for local authorities. However, since the LGMSB does not collate information on water production and associated costs the data is not available in the Department of the Environment, Community and Local Government. As a result, it is not possible in this report to provide an up-to-date estimate of the cost of UFW being experienced.

22.21 A value for money examination carried out in the mid-1990's on water production and distribution showed that the cost per cubic metre of water produced varied between €0.14 to €0.39[195]. The study found that overall water leakage level in the authorities surveyed at that time ranged from 27% to 40% of total water produced.

22.22 The results of the study were based on estimates since none of the authorities that were the subject of the value for money examination had the means to measure accurately the level of overall leakage.

22.23 Based on its results, the examination reported that, for five local authorities reviewed at that time, the estimated annual production cost of the water lost due to leakages was in the order of €3.5 million. Applying the Consumer Price Index to this value brings the cost to approximately €5.3 million in present-day terms.

22.24 As leakage is just one factor contributing to UFW, it appears from the losses now being recorded by local authorities that there has been little, if any, improvement in the situation despite the considerable State investment in water services in the interim.

### *Views of the Accounting Officer*

22.25 The Accounting Officer informed me that under the National Water Conservation Sub-Programme which commenced in 1996 the National Water Study undertook a comprehensive national water audit of all urban centres with populations exceeding 5,000 to determine the extent of UFW and leakage problems nationally. The National Water Study examined the reasons for UFW and set out recommendations to reduce the levels of UFW.

22.26 Arising from the findings of the National Water Study and pilot water conservation schemes undertaken in the main urban centres of Dublin, Cork, Galway, Waterford and Limerick, water conservation strategies and operational programmes were adopted which have been rolled out nationally since 2003.

22.27 The Dublin Region Water Conservation Programme, which was carried out between 1998 and 2002 as one of the pilot schemes under the National Water Conservation Sub-Programme, reduced regional leakage from 47% to 28%. UFW in the Dublin region now averages 30% which is amongst the lowest in the country.

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[195] 'Water Production and Distribution', a report by the Local Government Audit Service reviewing water systems and making recommendations for better management. Data in that report refers generally to the 1995 financial year.

22.28 Since the commencement of the water conservation sub-programme, substantial investment has been made in the fundamental infrastructure for water management, including the metering of supply input. Also, the methodology has been standardised. Arising from this, the reported figures now have an accuracy that the figures from earlier times could not have had.

22.29 By way of example, the Greater Dublin Water Supply Strategic Study (1996) estimated losses of 44% of total input, of which 39% was allocated to distribution losses and 5% allocated to customer losses. When the metering infrastructure was checked and upgraded during the water conservation project (around 2000) it was found that the original meter readings for flow into supply were incorrect, and that losses were actually higher than originally thought (giving the corrected estimate for that time of 42% distribution losses and 47% in total). Notwithstanding that the Dublin Region bulk metering infrastructure was considered reliable at the time, it was found to have inaccuracies that were subsequently corrected.

22.30 In terms of comparisons, the Accounting Officer pointed out that the Dublin supply is hugely significant, serving approximately one third of the population of the country. Consequently, the Dublin supply region reduction of distribution loss from 42% to 30% currently must reflect positively on the national average (and it is the corrected Dublin Region figure from 1995/96 that is most reliably reflective of the situation at that time).

22.31 A further observation by the Accounting Officer was that without investment the leakage situation will deteriorate as assets age. It follows that a certain level of investment is required even just to maintain the status quo.

22.32 The Accounting Officer stated that, outside of Dublin, most of the investment had been in water management systems, which while they had made a contribution to tackling leakage, were really the platform for the more intensive investment being rolled out for mains rehabilitation in the WSIP 2010 – 2012. She said that this investment in water management systems had contributed to greater efficiency in the supply system, which had been demonstrated during the two severe winters and flooding in Cork, when authorities had been better able to manage the rationing of supply and restoration of supply than they would have been a decade ago.

22.33 Finally, the Accounting Officer said that the need to focus on water conservation had been demonstrated through the development of service indicators, training in water conservation, development of guidance and work with the County and City Managers Association to streamline the approaches and accelerate work in this area.

## Conclusion – Effectiveness of Supply System

UFW arises from factors such as leakage, poor service connections and metering errors. Average UFW levels in Ireland appear to be at levels twice the OECD average of 20%. While some caution needs to be applied in interpreting the results of a limited examination of water leakage carried out over 15 years ago, present-day losses may be, in many local authorities, as high as those found in the mid-1990's notwithstanding an investment of over €1 billion in water supply and conservation in the last ten years.

In the light of the potential cost of UFW it is necessary that the factors that give rise to UFW be reviewed and strategies and operational programmes to address the underlying issues contributing to the problem be re-evaluated.

## Housing Finance

22.34 The Housing Finance Agency (HFA) was established as the provider of housing finance for local authorities, including finance for the purpose of land purchase by authorities for the development of social and affordable housing.

22.35 The Agency's function is to make loan finance available to local authorities and the voluntary housing sector, to be used by them for any purpose authorised by the Housing Acts, 1966 – 2009.

22.36 During 2010, the HFA was unable to secure financing on the international markets. The National Treasury Management Agency is now its principal provider of funds.

### *Loans by the Housing Finance Agency*

22.37 In the case of development projects, the funding model envisaged advancing funds to local authorities for a five-year term on an interest only or rolled-up interest basis. It was generally assumed that within the five-year period the authority would have built the proposed project and recouped the cost (including the cost of redeeming the loan) from the Department of the Environment, Community and Local Government (in the case of social housing projects) or from funds released by sales to purchasers or a combination of both. The total outstanding loan book at end-December 2010 was €4.44 billion[196].

**Figure 110 HFA outstanding loan balance, December 2010**

| **Loans** | **€000** |
|---|---|
| Loans approved before 27 May 1986 | 20,814 |
| Loans approved after 27 May 1986 | 4,428,123 |
| **Total** | **4,448,937** |

Source: HFA Annual Report 2010

### *Local Authority Debt*

22.38 The total value of loans advanced by the HFA at 31 December 2010 was €4.44 billion[197]. Included in these, are loans advanced to local authorities for purposes of land acquisition for social and affordable housing. The amounts owing by local authorities in respect of these two categories stood at €563 million at 31 December 2010, of which €421.9 million was in respect of social housing and €140.6 million in respect of affordable housing.

196 This was made up of loans that were approved before and after 1986. Loans to local authorities have been segregated into those approved pre and post 27 May 1986 as different credit risks applied to each. The vast bulk of loans are post 1986.

197 HFA Annual Report 2010.

### *Loans for Land Acquisition*

22.39 Between 1999 and 2010 loans to the value of €796 million were drawn by local authorities from the HFA for the acquisition of land of which €563 million was yet to mature at 31 December 2010.

22.40 Due to reduced demand for affordable homes and the shift towards more flexible forms of social housing delivery using existing residential stock, it is considered unlikely that all of the lands held by local authorities will be developed in the short to medium term.

22.41 In November 2009 the Department of the Environment, Community and Local Government proposed to the Department of Finance that, in view of the emerging problem with regard to the maturing of HFA loans for land acquisition taken out by housing authorities, a mechanism be put in place for the unwinding of the high level of such loans held by local authorities. This was to be effected through means of a Land Aggregation Scheme, the principal features of which would be

- The rolling over of matured or maturing loans in 2009 and 2010 into 2011 - €277 million of such loans existed.
- Identifying and mapping the lands held by each local authority, their potential for development, disposal or other use by the relevant local authority – this would be taken on by the National Building Agency (NBA) which was to be integrated with the Housing and Sustainable Communities Agency (HSCA).
- Initiation of a multi-year approach to unwinding the remaining loan book starting with a funding of €25 million in 2010 and approximately €50 million for each year thereafter. It was envisaged that this process was likely to extend considerably beyond 2016.

22.42 In February 2010, the Department of Finance approved this plan.

22.43 Under the Scheme, local authorities may, subject to approval from the Department of the Environment, Community and Local Government, transfer residential lands on which there are outstanding HFA loans to a new agency when the loans fall due for redemption and on the basis that there are no short to medium term plans for the development of the land.

### *Establishment of New Agency*

22.44 A limited company, Housing and Sustainable Communities Ltd (HSC Ltd), has been established as a subsidiary of the NBA. This company manages land transferred to it by local authorities under the Land Aggregation Scheme. Ultimately it is planned to establish a single housing agency – the Housing and Sustainable Communities Agency incorporating the functions of the NBA, the Affordable Homes Partnership and the Centre for Housing Research.

22.45 Where land is to be transferred to HSC Ltd it is intended that the local authority will redeem the HFA loan from voted funds in advance of the transfer. The scheme makes HSC Ltd responsible for the management and maintenance of lands transferred under the scheme. The full capital amount borrowed from the HFA together with the interest rolled up with the loan will be provided by the Department of the Environment, Community and Local Government.

22.46 Local authorities had applied to the Department to transfer land in respect of 100 sites to the HSC Ltd by May 2011. In loan value these applications totalled €210 million and related to 337 hectares of land. A further two sites had been proposed for transfer by the NBA with a loan value of €4.2 million and accounting for 5.5 hectares.

22.47 At 20 May 2011, the Department had approved and paid for just over €63 million of loan assets, including €170,300 in respect of administration costs for 21 of the sites. Two further sites, with a loan value of €8.5 million have been approved and placed on a waiting list pending availability of funds.

22.48 Four sites have transferred to the new agency which has taken full ownership of the properties. For the remaining 17 properties, the loans have been redeemed from the HFA and the process of transferring the land is underway. Following transfer of the land, the agency is required to prepare a report and implement a strategy for the management, utilisation and ultimate development of the land.

## Conclusion – Loans for Land Acquisition and Affordable Housing

€563 million is owing from the local authorities to the HFA in respect of loans to acquire land and housing. Much of this investment cannot be utilised in the short-term and the State has begun to make funds available from the vote for the Department of Environment, Community and Local Government towards eliminating local authority debt.

## Conclusion

The cost of public services provided by local authorities was €9.2 billion in 2009. Around 55% of the overall cost is provided annually from central Government transfers to those authorities.

In the period 2000 – 2010, over €2 billion, or 40% of the total water services investment programme of €5.6 billion in that time, has been applied to investment in water supply and conservation. Indications from sampling by local authorities shows that water quality is generally static or improving slightly in public water systems but is showing most improvement in the private water schemes. However, public water losses as a result of leaks, poor service connections and metering errors remain high. Such losses, running at twice the OECD average of 20%, have not been formally costed by local authorities.

The current economic climate has made it necessary for central Government to intervene in facilitating the orderly repayment and, ultimately, wind-down, of local authority borrowings for the acquisition of housing land. Outstanding loans amounted to €563 million at 31 December 2010. A new limited company has been established in which the property will be vested following the repayment of the debt by the Department of the Environment, Community and Local Government. It is planned that a State agency will be formed, incorporating the responsibilities of the various State housing bodies. In the meanwhile, a company has been established to manage property that is surplus to requirements. The company is 100% owned by the Minister for Finance. It is not audited by me. This has the consequence that its results do not come within the terms of reference of the Committee of Public Accounts.

There is likely to be considerable financial impairment of the related assets whether held by local authorities or the new vehicle established by the Department.

There is an apparent need to ensure that the financial impact is disclosed transparently and an accountable process established so that Dáil Éireann can be in a position to review this considerable emergent liability.

## Annex A Unaccounted for Water as a Percentage of Total Volume of Water Supplied 2008 and 2009

| | 2008 | 2009 | +/– | % change |
|---|---|---|---|---|
| | % | % | % | |
| Carlow County Council | 40.00 | 40.57 | -0.57 | -1.4 |
| Cavan County Council | 44.70 | 36.83 | 7.87 | 17.6 |
| Clare County Council | 35.47 | 38.11 | -2.64 | -7.4 |
| Cork City Council | 52.93 | 51.51 | 1.42 | 2.7 |
| Cork County Council | 44.40 | 47.40 | -3.00 | -6.8 |
| Donegal County Council | 43.34 | 45.50 | -2.16 | -5.0 |
| Dublin City Council | 36.00 | 43.05 | -7.05 | -19.6 |
| Dun Laoghaire Rathdown County Council | 29.00 | 29.25 | -0.25 | -0.9 |
| Fingal County Council | 21.61 | 27.35 | -5.74 | -26.6 |
| Galway City Council | 49.12 | 47.42 | 1.70 | 3.5 |
| Galway County Council | 49.46 | 47.87 | 1.59 | 3.2 |
| Kerry County Council | 47.98 | 48.72 | -0.74 | -1.5 |
| Kildare County Council | 26.37 | 26.60 | -0.23 | -0.9 |
| Kilkenny County Council | 56.79 | 48.22 | 8.57 | 15.1 |
| Laois County Council | 32.44 | 34.10 | -1.66 | -5.1 |
| Leitrim County Council | 36.51 | 35.69 | 0.82 | 2.2 |
| Limerick City Council | 47.89 | 58.50 | -10.61 | -22.2 |
| Limerick County Council | 16.83 | 34.85 | -18.02 | -107.1 |
| Longford County Council | 42.18 | 45.30 | -3.12 | -7.4 |
| Louth County Council | 44.19 | 47.14 | -2.95 | -6.7 |
| Mayo County Council | 43.00 | 45.88 | -2.88 | -6.7 |
| Meath County Council | 47.57 | 46.64 | 0.93 | 2.0 |
| Monaghan County Council | 43.27 | 31.75 | 11.52 | 26.6 |
| North Tipperary County Council | 49.52 | 48.18 | 1.34 | 2.7 |
| Offaly County Council | 50.87 | 48.84 | 2.03 | 4.0 |
| Roscommon County Council | 58.60 | 55.59 | 3.01 | 5.1 |
| Sligo County Council | 44.12 | 43.00 | 1.12 | 2.5 |
| South Dublin County Council | 19.79 | 21.45 | -1.66 | -8.4 |
| South Tipperary County Council | 55.43 | 53.47 | 1.96 | 3.5 |
| Waterford City Council | 43.60 | 46.58 | -2.98 | -6.8 |
| Waterford County Council | 31.83 | 29.03 | 2.80 | 8.8 |
| Westmeath County Council | 45.74 | 43.81 | 1.93 | 4.2 |
| Wexford County Council | 38.88 | 37.44 | 1.44 | 3.7 |
| Wicklow County Council | 31.34 | 24.84 | 6.50 | 20.7 |

# Chapter 23

# Global Irish Economic Forum

# Global Irish Economic Forum

23.1 A Global Irish Economic Forum[198] (the Forum) was held at Farmleigh[199], in Dublin, in September 2009. The Forum was organised and managed by the Department of Foreign Affairs and Trade (the Department), in co-operation with a number of other government departments and State agencies.

23.2 The initiative formed part of a strategy of engagement with Irish people living abroad and those of Irish ancestry. The Forum had two broad objectives

- to explore how Irish people at home and abroad, and others with a strong interest in Ireland, could work together and contribute to overall efforts aimed at economic recovery
- to examine ways in which Ireland and its global community could develop a more strategic relationship with each other, particularly in the economic sector.

23.3 The Forum was intended to complement the recommendations from the Ireland-United States Strategic Review (published in March 2009) which focused on Ireland's relationship with the US and identified areas where there is potential for mutual benefit. It was also aligned with the strategy for economic renewal outlined in 'Building Ireland's Smart Economy', which is a programme for medium-term economic recovery based around the concept of a smart economy.

23.4 Around 200 people attended the Forum. Participants included individuals identified by Ireland's network of diplomatic missions abroad and by the main State agencies in the economic sectors. Attendees also included members of the Government, secretaries general of government departments, CEOs of State agencies, as well as leading members of the Irish business, academic and cultural sectors.

## Chapter Focus

This chapter outlines

- the cost of hosting the Forum and where the charge has been borne
- the arrangements for translating the outcome of Forum activity into on-the-ground actions under specific agencies
- the general views of the Accounting Officer on the outcome of the Forum.

23.5 The total costs of holding the Forum were €330,000, of which €233,000 was met from the Emigrant Support Programme in Vote 28: Foreign Affairs (Subhead C). The balance, mainly consisting of hospitality and staff overtime costs, was met from Subhead A of the Vote.

198 The Forum report, published by the Department of Foreign Affairs and Trade, includes details of the structure and format of the Forum and is available online at www.globalirishforum.ie.

199 Farmleigh is a Government-owned estate, which serves as the premier accommodation for visiting dignitaries and for high-level Government meetings.

23.6 Figure 111 outlines the key cost elements

**Figure 111 Forum Costs**

| Cost Element | Outlay €|
|---|---|
| Site costs | 72,539 |
| Catering | 61,441 |
| Hotel accommodation | 37,700 |
| Conference materials | 35,780 |
| Audiovisual and related costs | 32,185 |
| Facilitation and moderation | 23,894 |
| Transport | 17,930 |
| Website costs | 15,992 |
| Miscellaneous | 32,662 |
| **Total** | **330,123** |

Source: Department of Foreign Affairs and Trade

23.7 The Accounting Officer stated that the costs of the Forum were kept to a minimum. Participants paid for their own travel costs and the accommodation provided by the Department was chosen at hotels close to the venue and at competitive prices (an average of less than €100 a night).

23.8 Documentation in respect of the above payments was inspected on a sample basis during the examination. The funding examined was applied for the purposes intended.

## Recording and Tracking Proposals

23.9 The Forum's purpose was primarily to surface ideas and make recommendations that could be taken account of in future policy making and administration. This section reviews whether

- there were arrangements in place to capture the Forum's proposals
- there was a reasonable degree of tracking the extent to which the proposals were progressed.

23.10 In doing so, it is acknowledged that the success of an initiative such as the Forum cannot be determined by a simple calculation of the number of measures implemented. Rather, value will be derived from the level of engagement with the proposals, as policy is reviewed and administrative arrangements modified.

23.11 The Irish Management Institute (IMI)[200] was retained by the Department to facilitate eleven economic working group sessions and to record the resulting contributions and recommendations. The topics considered by the working groups are set out in Annex A. The IMI presented participants with a summary report before the seminar concluded.

[200] The IMI is an executive management centre committed to working with practising managers, with the aim of building smarter organisations through management learning.

## Follow-Up Arrangements

23.12 In October 2009, the Department submitted a report of the Forum's proceedings to Government. The report summarised the discussion that took place at each plenary session and panel discussion and identified the main themes and issues raised by participants on a recurring basis. It identified 37 specific initiatives for action in the short-term and 22 medium-term objectives.

23.13 Having considered the contents of the report, the Government established an inter-departmental committee to consider and take forward the work of the Forum. The committee reports to Government and is chaired by the Secretary General of the Department of the Taoiseach. It has met on a number of occasions and has submitted two progress reports to Government, one in February 2010 and the other in October 2010. A team of co-ordinators in relevant government departments support the work of the committee.

## Short-term Initiatives

23.14 The initiatives identified with potential for action in the short-term are listed at Annex B. The Accounting Officer has placed a summary of their status, to April 2011, on the Department's website. The initiatives identified fell into six broad categories

- building and supporting networks
- educational initiatives and work placement
- progressing the environmental agenda and green technology
- fostering innovation
- support for business
- improving Ireland's international profile.

23.15 I sought the observations of the Accounting Officer on the extent to which the themes outlined above were being addressed.

### *Building and Supporting Networks*

23.16 Forum participants identified a need to establish a formal network to enable the global Irish community to partner with Government in promoting positive messages abroad and assisting Irish business development overseas. A need to build connections with those who have previously lived in Ireland and have returned to their country of origin was also recognised.

23.17 In February 2010, a Global Irish Network (the Network) was launched in London. Regional meetings were held at Ministerial level in France, Germany, China, the US and Australia. The cost of Network meetings held in 2010 was €34,000. The Accounting Officer informed me that in the case of each of the Ministerial meetings, the Network events were arranged to tie in with other Ministerial commitments and took place as part of a wider programme. In a number of cases, (e.g. in France and Germany), they were held at no additional cost.

23.18 Irish diplomatic missions also hosted informal meetings in various countries, including Germany, Australia, the United Arab Emirates and Argentina. In addition to the Network, embassies have reported increased activity by local Irish business groups, including the establishment of a number of new networks in key markets. Embassies have focused particularly on expanding existing networks of young professionals, through engaging with Irish graduates in Britain, the US and elsewhere.

23.19 The Network is co-ordinated by a secretariat within the Department, with Irish ambassadors abroad playing a central role through liasing with international members. The Network has three broad and interlinked objectives

- to provide a platform to assist the Government and State agencies to promote Ireland's economic, cultural and tourism messages in key markets
- to provide a forum through which successful Irish business and cultural figures abroad can interact with each other, exchange views and be kept informed of key developments in Government policy
- to provide a forum through which members can put forward proposals and implement practical initiatives.

23.20 The Accounting Officer informed me that over 300 people from 37 countries agreed to participate in the Global Irish Network. He stated that the Network included some of the most influential Irish and Irish-connected individuals abroad and provided an invaluable resource of international expertise.

23.21 Interaction with members took many forms during the Network's first year in operation, ranging from formal meetings hosted by Ministers or Ambassadors through to informal discussions with Network members on specific issues.

23.22 During 2010, Network members received regular information on the main economic developments in Ireland through email communications from the Forum secretariat and through the Network's website. Missions also provided regular oral briefings to members. This information enabled Network members to speak to the media and their peers in key markets about the positive aspects of the Irish economy.

23.23 The Accounting Officer stated that at the end of 2010, the Department's Irish Abroad Unit and Ireland's diplomatic missions undertook a comprehensive review of the Network's first year of operation. The review found that the Network contributed strongly in three areas

- as a highly influential advisory group with strong facilitation capacity
- as a mechanism for distributing key information about the Irish economy and other significant developments
- as a means of delivering, or assisting with the delivery of specific initiatives.

23.24 The Accounting Officer informed me that he had written, in January 2011, to the secretaries general of all government departments outlining the work of the Global Irish Network[201] and encouraging them to view the Network and its members as an available resource that may be of assistance in advancing initiatives of interest. In order to ensure ongoing co-ordination across departments, he also asked secretaries general to nominate co-ordinators. These co-ordinators are now in place and co-operate in advancing the work of the Global Irish Network.

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[201] The Global Irish Network was one of the outcomes of the Forum and is described more fully in the remainder of this chapter.

## Specific Network Initiatives

The Network has worked with Irish embassies and consulates to advance some specific initiatives

- A Farmleigh Fellowship was established by Network members based in Singapore. It provides up to 25 Irish participants with an opportunity to work for four months with a number of different companies in Asia and to participate in a joint MSc degree in Asian Business Management from University College Cork and Nanyang Business School in Singapore. The programme is now underway with the first group of participants, having finished the initial phase in Cork, now in Singapore. In addition, the Irish Technology Leadership Group (ITLG)[a] in Silicon Valley is in the process of establishing a graduate placement scheme[b].
- Some Irish embassies and consulates have worked with Network members and Enterprise Ireland to develop formal mentoring programmes. The programmes are aimed at Irish companies seeking to break into or expand existing operations in particular markets and they provide access to advice and guidance from Network members based in those areas. Less formally, many missions have facilitated contact between State agencies and individual Network members, as well as between members and other organisations such as local Irish chambers of commerce.
- Network members have assisted the Department in its ongoing efforts to restore Ireland’s reputation. This has included projecting a positive assessment of Ireland’s strengths in international media interviews and private business contacts. Such positive engagement by individual members in their own business circles can be very valuable and influential. In the US, a number of Network members have come together to advance initiatives that would complement the work of the Embassy and consulates in this area.
- A number of Network members were central to the development of Imagine Ireland, which is Culture Ireland’s[c] year-long season of Irish arts in America. Imagine Ireland will see over 1,000 artists and producers from Ireland create over 400 individual events across 40 American States throughout 2011.

Notes: a The ITLG consists of Irish-American senior executives, based in Silicon Valley, who support the growth and development of Irish based technology companies and are committed to ensuring that Ireland remains a strategic area of investment and opportunity for US technology companies.

b Craig Barrett, former President and Chief Executive Officer of Intel, was appointed as the Chair of the ITLG and this is viewed as a positive development.

c Culture Ireland is the State agency for the promotion of Irish arts worldwide, operating under the aegis of the Minister for Arts, Heritage and the Gaeltacht.

### *Educational Initiatives and Work Placement*

23.25 Forum participants identified a need to continually develop the third and fourth level education systems with the aim of fostering greater creativity, providing incentives for exceptional performance and encouraging more graduates to enter the mathematics and science areas. They advised that this should be supplemented by aligning Ireland’s skill base with specific opportunities in international markets.

23.26 The Accounting Officer informed me that the primary means of progressing this set of recommendations would be through the National Strategy for Higher Education, which was launched in January 2011. Overall responsibility, therefore, for this area rests with the Department of Education and Skills. The strategy includes

- recommendations to foster creativity and innovation in teaching, such as introducing a requirement for all staff to hold qualifications in pedagogy[202], embedding entrepreneurship and other generic skills into all programmes at undergraduate and postgraduate level and broadening first-year undergraduate education
- research and innovation recommendations aimed at providing connectivity between higher education institutions, their students and staff, and the wider community
- a greater emphasis on staff and student mobility between business, industry, the professions and the wider community, with students to participate in accredited work or service placements and structures and procedures to be established that encourage the involvement of the wider community in activities including programme design and revision.

## *Environmental Agenda and Green Technology*

23.27 The development and promotion of Ireland as a 'Green Island' across a range of sectors, including food, tourism and energy innovation was identified by Forum participants as a potential growth stimulus.

23.28 The Accounting Officer drew attention to three key initiatives being progressed principally by the Department of Communications, Energy and Natural Resources

- a new €90 million National Energy Retrofit Programme was established in 2010
- a Smart Metering Programme will enhance management of energy demand, delivering smart networks and enabling energy efficiency through the use of the latest technology[203]
- the Environmental Protection Agency is due to publish a 'Green Who?' brochure in 2011, which outlines the various forms of assistance available in terms of information, availability of grants and other practical assistance from a range of agencies in the environmental area.

23.29 In addition, the Ocean Energy Development Unit (OEDU) of the Sustainable Energy Authority of Ireland administers a Prototype Development Fund. This fund is aimed at supporting the development and deployment of ocean energy devices that can generate renewable electricity. To date, grants totalling €4.7 million have been awarded in respect of 17 projects with a total value of €14 million.

23.30 Plans for the development of a full-scale grid connected wave test site off Annagh Head in Mayo were announced in May 2010. The OEDU is currently managing the completion of a strategic environmental assessment of Irish waters for wave, tidal and offshore wind development. The OEDU has commissioned studies on the economic benefits for Ireland of ocean energy and offshore wind development, capabilities in the engineering sector for ocean energy development and the adequacy of existing ports and shipping infrastructure.

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202 Pedagogy is the art or science of teaching, education and methods of instruction.

203 The electricity element of the pilot project was launched in January 2010 and the gas element went live in June 2010. The project is on schedule for completion, including a cost benefit analysis, in 2011.

### *Fostering Innovation*

23.31 Forum participants concurred with the strategy for economic renewal outlined in 'Building Ireland's Smart Economy'[204] as an approach to fostering innovation. They particularly advocated increasing investment in research and development (R&D) and maximising Ireland's potential as a leading location for intellectual property protection and as a test bed for clinical trials.

23.32 The Accounting Officer stated that the Department of Communications, Energy and Natural Resources is charged with advancing smart economy initiatives.

## Smart Economy Initiatives

Key follow-on initiatives related to the Forum included

- The creation of an International Content Services Centre, which will be a digital content exchange where developers can clear, trade, distribute and collect revenues from a wide range of content (e.g. images, advertising and music). A high-level task force met on a number of occasions in 2010 to examine content trading, taxation, legal and intellectual property issues. It is envisaged that the International Content Services Centre concept will be further developed through co-operation between the Digital Hub[a] and the Industrial Development Authority.
- The Department of Communications, Energy and Natural Resources has convened a series of workshops to establish the environment and conditions suitable for the development of energy efficient data and cloud computing centres in Ireland.[b]
- The commissioning of the Exemplar Network, which is a fibre-optic communications test bed, using patented Irish technology and allowing for the high-speed and high quality transfer of electronic data. Additional investment of €5 million was allocated for the project in July 2010. Over 40 companies and institutions have engaged with the Exemplar test bed and several Irish, UK and Spanish university projects are in planning. Further phases of the development of the Exemplar Network Programme will commence in 2011.

Notes: a The Digital Hub is a Government initiative to create an international centre of excellence for knowledge, innovation and creativity focused on digital content and technology enterprises.

b Ireland hosted the ISO Study Group on Data Centre Standardisation in November 2010. ISO, in this context, stands for the International Organisation for Standardisation, which is the world's largest developer and publisher of international standards.

23.33 In the area of R&D, for which the Department of Jobs, Enterprise and Innovation has responsibility, the proposals will be progressed under the Strategy for Science, Technology and Innovation, 2006 - 2013. An Innovation Taskforce[205] report was finalised in March 2010, with a focus on providing a road map for positioning Ireland as a hub for international innovation development.

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204 The five key action areas in 'Building Ireland's Smart Economy' are securing the enterprise economy and restoring competitiveness, building the ideas economy, enhancing the environment and securing energy supplies, investing in critical infrastructure and providing efficient and effective public services.

205 An Innovation Taskforce was appointed by the Taoiseach, in June 2009, to advise the Government on its strategy for positioning Ireland as an international innovation development hub and to assist with the development of a smart economy.

## Research and Innovation Initiatives

A group, including departmental, agency and private sector representation, was established to implement the recommendations of the Innovation Taskforce report. The Accounting Officer noted that there have been a number of developments to date.

- The Innovation Fund Ireland was launched in July 2010, with the aim of attracting leading international venture capital companies to locate in Ireland. Under the scheme, Enterprise Ireland and the National Pension Reserve Fund (NPRF) will match up to €250 million of investment from international venture capital firms, so that a total of €500 million is available to support innovative enterprise. The NPRF has made two investments to date. Enterprise Ireland's first call for expressions of interest closed in November 2010 and the NPRF is currently assisting it to evaluate the 32 expressions of interest received. It is envisaged that Enterprise Ireland will make a number of commitments to venture capital fund managers in the near term.
- The Enterprise Ireland Seed and Venture Capital Scheme (2007-2012) aims to further develop the Irish venture capital sector. It provides risk capital to small and medium sized enterprises in the seed, start-up and development stages, leverages private and institutional investment and develops commercially viable funds. Enterprise Ireland is investing €175 million in a new round of venture capital funding under the scheme.
- Funding has been provided by the Department of Foreign Affairs and Trade to the Irish Technology Leadership Group towards the establishment of a secretariat and the expansion of the organisation's activities.
- The Irish Innovation Centre was officially opened in San Jose in early 2010. It provides an environment in which Irish Technology companies can gain access to venture capital firms, bankers, customers, suppliers and employees.

### *Support for Business*

23.34 Forum participants drew attention to the need to support Irish businesses, both at home and abroad, through the establishment of a single liaison point in Government and the development of venture capital funding mechanisms.

23.35 The Accounting Officer informed me that in the period since the Global Irish Economic Forum, progress has been made in a number of areas to improve the supports to business.

- In September 2010, the Government launched a '*Trading and Investing in a Smart Economy*' strategy and action plan. The strategy seeks to ensure that overseas trade, tourism and investment in key markets is promoted in a co-ordinated manner.
- The enterprise development agencies are formulating new client support strategies with a focus on taking advantage of opportunities in the global marketplace, while sustaining jobs.

- Red tape, or the regulatory burden on business, continues to be reduced. The Department of Jobs, Enterprise and Innovation estimate that in the period since the Forum, this work has resulted in €74 million[206] in savings for small firms. International benchmarking statistics reveal that Ireland imposes a relatively low burden of regulation on business, with the National Competitiveness Council's Annual Competitiveness Report 2010[207] stating that Ireland's regulatory environment is one of the least restrictive in the OECD.
- There are plans to streamline business inspection and licensing as well as food safety monitoring.
- The attainment of a predictable, consistent and speedy intellectual property regime in Ireland will be addressed through the National Intellectual Property Protocol providing clarity around expectations and terms and ensuring efficient processes for the commercialisation of intellectual property from publicly funded research.
- The intellectual property regime is being reviewed with the objective of affording appropriate access to intellectual property arising from Government funded research, so that it can be used by enterprises to create jobs and drive economic recovery.

### *Improving Ireland's International Profile*

23.36 Forum participants were of the opinion that there was a need to refine the image that Ireland projects to the world market, with a particular emphasis on undoing the reputational damage caused by regulatory weaknesses in the financial system. In addition, they highlighted a need to actively promote Ireland abroad, particularly in the Asian markets, focussing on the unique nature of Ireland's cultural identity.

23.37 The Accounting Officer noted that events since the 2009 Forum have had a significant impact on Ireland's international profile. However, initiatives undertaken by the Department of Foreign Affairs and Trade in advance of the Forum and as part of the follow-up process have enabled it to address the damage done to Ireland's international reputation.

23.38 The Department positions itself to do this through monitoring the tone and content of the coverage of Irish affairs in the international media, particularly in respect of articles relating to the economy. The Department's Media Monitoring Unit works with other government departments and State agencies to ensure that embassies and consulates have access to the most up-to-date information on economic developments. Missions share much of this information including key speeches, reports and contents with locally based members of the Global Irish Network.

23.39 The Accounting Officer stated that diplomats in Irish missions have engaged on economic issues with the international community at various levels including Heads of State, senior ministers, central bank governors and all levels of the media.

23.40 Missions also engage on these issues with the Global Irish Network, thus enabling members to speak to the media and their peers in key markets about the positives in the Irish economy.

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[206] This figure was calculated by the Department of Jobs, Enterprise and Innovation using the Standard Cost Model, which is an international methodology for measuring administrative costs.

[207] Annual Competitiveness Report 2010 'Benchmarking Ireland's Performance – Volume 1', published by National Competitiveness Council in July 2010.

23.41 Key interventions included

- promoting the publication in the foreign press of articles written by Irish political leaders
- taking advantage of St. Patrick's Day celebrations to promote Irish interests
- establishing a Foreign Trade Council whose objectives included building Ireland's reputation in high-growth global markets and enhancing them in existing markets
- participating in a communications group chaired by the Department of the Taoiseach, which is developing an international communications strategy and campaign to enhance Ireland's image and reputation.

## General Observations of the Accounting Officer

23.42 The Accounting Officer stated that the Department of Foreign Affairs and Trade considers the Forum to have been a success and that it represented real value for money. The primary focus of the Forum was to develop a new level of strategic engagement between Ireland and key Irish connected business leaders abroad. The success in achieving this objective has been one of the most important long-term outcomes from the event.

23.43 Since September 2009, a far greater recognition of the value of the relationship between Ireland and its diaspora has developed among key contacts abroad and within the domestic business and Government sectors. The Forum was responsible for a qualitative change in diaspora engagement by the Irish State and added considerably to the range and level of engagement with the global Irish already carried out by the Irish Abroad Unit of the Department and by Ireland's embassies and consulates abroad. The Accounting Officer noted that, since the Forum, a number of other countries have approached the Department for guidance on how they could develop a similar level of diaspora engagement.

23.44 The establishment of the Global Irish Network in February 2010 – a key outcome from the Forum – has been the mechanism through which this considerable resource has been harnessed for the first time and on such a scale. The Network provides the Government and Irish companies with access to key private sector decision makers across the globe. It can act as a considerable source of 'soft power' for Ireland in the years to come and is already serving as an important resource for the Government in promoting Ireland's economic, cultural and tourism messages in key markets at a critical juncture for this State.

23.45 The second key objective of the Forum was to examine ways in which the Irish, at home and abroad, could work together and contribute to overall efforts at economic recovery. The report of the Forum and the six and twelve month progress reports demonstrated the range and detail of the discussion across key economic sectors. A succinct account of the progress achieved, to April 2011, under each of these specific proposals is set out on the Department's website. The Accounting Officer stated that a close reading of that assessment shows that the follow up process to the Forum's recommendations has been robust and that the vast majority of initiatives have either been implemented or seen significant progress towards implementation.

## Conclusion

The cost of holding the Forum was €330,000. Following the Forum, a network was established which is managed by the Department of Foreign Affairs and Trade. The ongoing costs are met from within the Vote and €34,000 was spent during 2010 to hold Ministerial meetings with members of the network at various international venues.

The Forum has produced a wide range of ideas that, while not formally endorsed by Government, are available to inform policy and administrative adjustments.

This chapter has reviewed progress in addressing the main themes in the advice emanating from the Forum. How each specific measure is being addressed is outlined on the Department's website.

The Forum's usefulness lies in its capacity to surface ideas and follow them in a joined up whole-of-Government way while repositioning State interventions to better align Ireland's distinctive competencies and productive capacity with the marketing opportunities that exist in the current economic environment.

There has been a reasonable level of tracking and reporting on the proposals of participants and it would be useful to evaluate the overall contribution of the concept and opportunities to further exploit the networks, for the benefit of the country, going forward.

## Annex A Economic Forum Working Groups

The topics considered by the working groups were

- How can Ireland attract higher value inward investment and secure existing investments?
- How can Ireland help indigenous exporting Irish companies achieve scale?
- How can a ‘European Silicon Valley’ be created in Ireland through attracting talent, entrepreneurs and intellectual property expertise?
- How can Ireland’s education system address any skills deficit to prepare young people to be the thought leaders of the smart economy through fostering creativity, innovation and lateral thinking?
- How can the Irish financial services sector take advantage of the finance and banking sectors of the future?
- How can Ireland become a leader in technology convergence?
- How can Ireland develop its low carbon economy?
- How can Ireland prioritise capital spending to fast track the infrastructure necessary for the smart economy?
- How can Ireland position itself as a leading global location for the next generation of tourist?
- What are the necessary changes to transform the Irish food and agriculture sector to secure its future as a long-term sustainable industry?
- What role can Ireland’s cultural and artistic capital play in developing our economy?

## Annex B Initiatives with Potential for Action in the Short Term

| | |
|---|---|
| | **Improving Ireland's International Profile** |
| 1 | Create a 'Gateway Ireland' website to promote Irish business, culture and sport. |
| 2 | Implement a revised Asia Strategy and develop strategies for other emerging markets. |
| 3 | Increase Ireland's representation abroad and ensure embassies have a strong business focus. |
| 4 | Make more targeted use of global marketing opportunities linked to St. Patrick's Day. |
| 5 | Tourism Ireland to encourage members of the global Irish community to holiday in Ireland. |
| 6 | Select most appropriate participants to maximise return from international trade missions. |
| 7 | Focus on the traceability of Irish food products as the key to accessing future export markets. |
| 8 | Increase efforts to bring an end to the import ban for Irish beef in the Philippines. |
| | **Building and Supporting Networks** |
| 9 | Establish a Global Irish Network to continue the work commenced at the Forum. |
| 10 | Create a database of influential Irish individuals and businesses across the world. |
| 11 | Organise a youth forum to engage with younger members of the global Irish community. |
| 12 | Support and promote specific sectoral Irish business networks abroad. |
| 13 | Establish a food and beverage network around the world. |
| 14 | Implement a strategy to engage foreign nationals who have previously lived in Ireland. |
| | **Educational Initiatives and Work Placement** |
| 15 | Establish a world-class centre for Irish culture and performing arts in a landmark Irish building, to become a centre for artistic and creative education, innovation and technology. |
| 16 | Establish a programme to assist Irish graduates in securing employment and educational opportunities in target countries including China, Japan, Korea, Russia and India. |
| 17 | Set up student placements in Ireland for younger members of the global Irish community. |
| 18 | Develop a strategy to promote the teaching of Asian languages in Ireland. |
| 19 | Up skill key talent (e.g. unemployed architects, electrical and mechanical engineers) in new technologies and processes through the advancement of major green public building projects. |
| 20 | Use Global Irish Network to create placements for agricultural and food sector graduates. |
| | **Fostering Innovation** |
| 21 | Establish an Irish Innovation Centre in California. |
| 22 | Implement the Innovation Fund proposed in 'Building Ireland's Smart Economy'. |
| 23 | Develop tourism opportunities through improving access to genealogical records and enabling potential tourists to trace their ancestry. |
| 24 | Develop a content management destination, streamlining the management of digital content and associated royalty issues and providing a complete service for global clients. |
| 25 | Develop an intelligent transport system, including the provision of e-Centres adjacent to major cities, to increase productivity, reduce congestion and lower carbon emissions. |

| | |
|---|---|
| | **Support for Business** |
| 26 | Establish a formal mentoring programme through which leading members of the global Irish community take non-executive positions on the boards of Irish companies. |
| 27 | Create a new bond scheme aimed at the global Irish community, with revenue generated being invested in landmark infrastructure projects. |
| 28 | Appoint an 'IFSC Tsar' to work with the Central Bank Governor and Minister for Finance to restore confidence in Ireland within the main financial markets. |
| 29 | Re-establish confidence in Ireland as an international financial centre. |
| 30 | Develop a white paper on financial services, which would identify key strategies to pursue. |
| 31 | Actively promote Ireland as a centre for global asset management activity. |
| | **Environmental Agenda and Green Technology** |
| 32 | Implement the recommendations of the high-level action group on green enterprise. |
| 33 | Establish a solidarity fund to support the development of green technology firms in Ireland. |
| 34 | Implement an energy demand reduction programme. |
| 35 | Establish an annual prize to encourage positive developments in green technology. |
| 36 | Develop a smart electricity network, incorporating renewable energy, to enable customers to control energy costs and to support the development of an electric vehicle network. |
| 37 | Establish a single water authority for the entire country. |

# Chapter 24

# Official Development Assistance

Vote 29 International Cooperation

# Official Development Assistance

24.1 Official development assistance (ODA) is the transfer by State agencies of resources – either in cash or in the form of commodities or services – to developing countries or territories, or to multilateral development institutions[208].

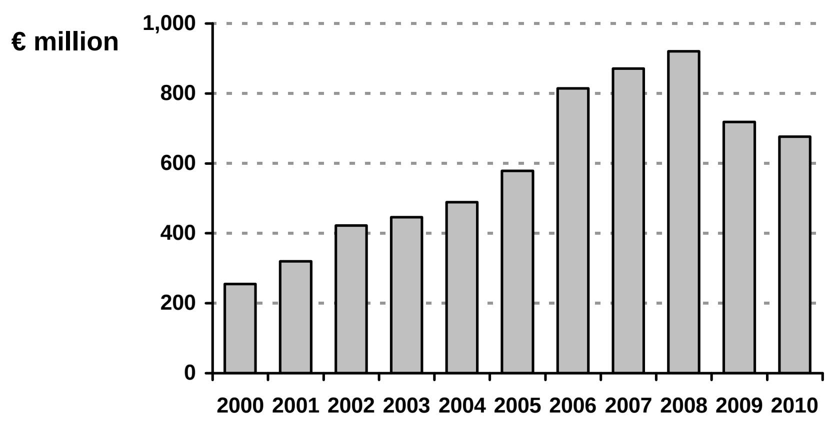
## Chapter Focus

This chapter has been compiled to present the full expenditure on ODA in one statement. It also outlines the systems in place for audit and evaluation of the major components of the Irish ODA programme.

## Expenditure on Development Aid

24.2 Irish ODA expenditure totalled €676 million in 2010, down from a peak of €921 million in 2008. This represents a decrease of €245 million, or almost 27%, over the last two years. Figure 112 shows the trend in the level of Irish ODA expenditure since 2000.

**Figure 112 Irish Official Development Assistance Expenditure (€ million), 2000 to 2010**




Source: Irish Aid Annual Report

24.3 Irish Aid[209] is the division within the Department of Foreign Affairs and Trade that administers Ireland's programme of ODA. ODA expenditure processed through Irish Aid is accounted for under Vote 29: International Co-operation, but some expenditure is processed through other government departments and accounted for on other votes. In 2010, €522 million of ODA expenditure was accounted for under Vote 29, representing 77% of total Irish ODA.

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208 Transfers only qualify for inclusion in estimates of ODA if they are directed towards the promotion of the economic development and welfare of developing countries.

209 This is the Development Co-operation Division of the Department of Foreign Affairs and Trade.

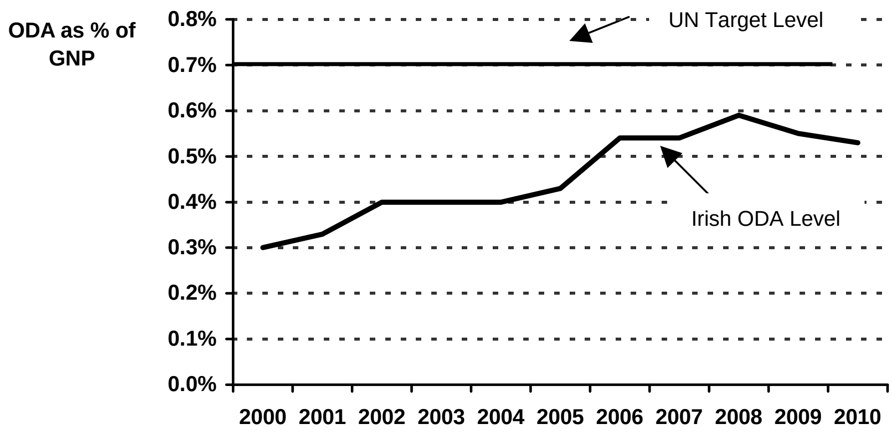
24.4 Other ODA expenditure consists mainly of Ireland's contribution to the EU development co-operation budget, payments to certain international bodies by the Department of Finance, the Department of Environment, Community and Local Government and the Department of Agriculture, Fisheries and Food (accounted for on their respective votes) and repayments by the Revenue Commissioners in respect of the Tax Deductibility Scheme for donations to relevant charities.

### *United Nations Target*

24.5 The United Nations (UN) has set a target for developed countries to contribute ODA equivalent to 0.7% of their Gross National Product (GNP) each year[210]. In 2005, the EU Council set an objective for Member States, except those who have joined since 2002, to reach the 0.7% target level by 2015[211]. The current Programme for Government contains a commitment to reach the 0.7% target level and states that the Government will seek to achieve this by 2015.

24.6 Ireland's ODA contribution in 2010, at 0.53% of GNP, was ninth highest among OECD countries.[212] As Figure 113 indicates, Ireland's ODA progressively increased from 0.3% of GNP in 2000 to 0.59% in 2008, but has fallen back over the last two years.

**Figure 113 Irish Official Development Aid as a Percentage of GNP, 2000 to 2010**




Source: Department of Foreign Affairs and Trade

24.7 Only five donor countries exceeded the UN target in 2010: Norway (1.1%), Luxembourg (1.1%), Sweden (1%), Denmark (0.9%) and the Netherlands (0.8%). Luxembourg reached the target level in 2000 and has continued to meet it since then. The other four countries have consistently met the target since the 1970s.

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

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

212 OECD, Net Official Development Assistance in 2010, April 2011.

## Application of Development Aid

24.8 A breakdown of how Irish ODA funding was applied is presented in Figure 114. This distinguishes between

- Bilateral assistance — involving the provision of direct assistance to a developing country. Ireland delivered bilateral assistance worth €413 million in 2010, through a variety of channels, including governments of developing countries, Irish non-governmental organisations (NGOs) and missionary societies.
- Multilateral assistance — involving contributions to international aid organisations that pool funds from member countries and apply them for development purposes. Ireland contributed €233 million in multilateral assistance during 2010.

**Figure 114 Official Development Assistance, by Type, 2007 to 2010**

| | 2007<br>€m | 2008<br>€m | 2009<br>€m | 2010<br>€m |
|---|---|---|---|---|
| Bilateral assistance | 576.0 | 614.8 | 454.9 | 412.9 |
| Multilateral assistance | 264.8 | 270.7 | 231.1 | 232.6 |
| Administration costs (Vote 29) | 30.1 | 35.1 | 32.2 | 30.5 |
| **Total gross expenditure** | **870.9** | **920.6** | **718.2** | **676.0** |

Source: Department of Foreign Affairs and Trade

24.9 The largest single element (€182 million) of bilateral assistance was funding for nine programme countries[213], with which Ireland has an agreement to provide support on a long-term basis. The balance of Irish bilateral assistance (€231 million) consisted of a mix of multi-annual measures including civil society projects, health and education initiatives and recovery programmes in selected countries and more immediate measures including funding for emergency and humanitarian causes.

24.10 Annex A outlines the key programmes under which assistance is provided.

## Evaluation and Audit of ODA Expenditure

24.11 The Department of Foreign Affairs and Trade (the Department) operates an Evaluation and Audit Unit, the main aims of which are to provide assurance that public funds administered by the Department are used for their intended purposes and that value for money is achieved. The Unit's work covers both the activities of the main Department, accounted for under Vote 28: Foreign Affairs and the development co-operation work accounted for under Vote 29: International Co-operation. In view of the relative size of the budgets[214] and the nature of the expenditure programmes, the Unit focuses particularly on Irish Aid operations funded under Vote 29. The annual work plan for the Unit is approved by the Accounting Officer and agreed by the Department's Audit Committee.

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213 Funding is provided under strategic partnerships with the governments of certain priority countries to support poverty reduction and development on a long-term basis.

214 The total gross expenditure for Vote 28: Foreign Affairs and Vote 29: International Co-operation, in 2010, was €224 million and €524 million respectively.

24.12 The activity of the Unit in relation to ODA funding takes two main forms.

- The objective of the audit function is to assess the Department's systems of internal control and provide assurance that funds are used for their intended purposes.
- The evaluation function assesses the design, implementation and results of ongoing and completed initiatives in order to determine their efficiency, effectiveness, impact and sustainability.

## *Audit*

24.13 Audit work focuses particularly on the appropriateness of the accounting and financial management systems of partner organisations[215], whether they are NGOs, multilateral organisations, Government agencies or other bodies in receipt of funding. Where funds are delivered through governments, an assessment is made of the overall public financial management environment, including the capacity and independence of the national audit offices.

24.14 The audit arrangements in respect of ODA funding provided through Vote 29 address three broad areas of expenditure

- programme country expenditure (€182 million)
- other bilateral assistance programmes (€225 million)
- multilateral assistance programmes (€84 million).

### *Programme Country Expenditure*

24.15 Assistance is given to nine programme countries in accordance with approved multi-annual strategic plans. There is an element of ex-ante assessment for this expenditure, as the internal control systems of potential partner organisations are examined prior to the country strategy papers being approved. The Evaluation and Audit Unit is working increasingly with national audit institutions in partner countries with a view to improving financial management and accountability, as well as strengthening internal audit capacity at programme country level.

24.16 Coverage by audit of approximately 95% of expenditure is being achieved in recent years. The approach taken to gaining that assurance is influenced by the funding channel used by Irish Aid in particular countries, e.g. where funding is channelled through government systems, coverage will generally be achieved through reports received from the national audit office of the recipient country.

24.17 The ways in which audit assurance is achieved include

- audit reports commissioned by partner organisations, such as those carried out by UN funds and programmes, national audit offices in recipient countries and NGOs
- audits commissioned by Irish Aid and carried out by internationally recognised audit firms
- audits of specific programmes or projects, jointly funded by Irish Aid and one or more other donor countries
- work carried out directly by the Evaluation and Audit Unit and by internal auditors posted at missions in recipient countries.

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215 Partner organisations are the intermediary bodies through which funding is delivered from Irish Aid to the developing countries.

24.18 Expenditure in programme countries was €218.6 million in 2008 which is the latest year for which the audit programme has been substantially completed. The level of audit assurance achieved to date in respect of 2008 expenditure is 94% - Figure 115 outlines the source of that assurance.

**Figure 115 Source of audit assurance for 2008 programme country expenditure[a]**

| Programme Country | Partner commissioned audits (including NAOs)[b] | Commissioned by Irish Aid | Joint Donor Funded | Internal Audit | Total |
|---|---|---|---|---|---|
| | €m | €m | €m | €m | €m |
| Uganda | 27.0 | 5.0 | 2.9 | 5.9 | 40.8 |
| Mozambique | 6.9 | 7.5 | 17.8 | — | 32.2 |
| Tanzania | 29.6 | 5.3 | 2.3 | — | 37.2 |
| Ethiopia | 23.8 | 5.8 | 6.1 | — | 35.7 |
| Zambia | 14.9 | 6.7 | — | 1.9 | 23.5 |
| Vietnam | 9.3 | 5.8 | — | — | 15.1 |
| Lesotho | 5.3 | 2.6 | 0.1 | — | 8.0 |
| Malawi | 0.3 | 5.8 | 2.0 | — | 8.1 |
| Timor Leste | — | 3.8 | — | — | 3.8 |
| **Aggregate** | **117.1** | **48.3** | **31.2** | **7.8** | **204.4** |

Source: Department of Foreign Affairs and Trade

Notes: a This figure captures assurance up to 1 May 2011.

b NAOs are the national audit offices of the respective countries.

## *Other Bilateral Assistance*

24.19 In the case of other types of bilateral development assistance, the contract with the partner organisation stipulates that audit reports prepared by independent bodies must be submitted to the Department. Responsibility for the collection and review of these audit reports lies with management of the section within Irish Aid that deals with the partner organisation. The Evaluation and Audit Unit may be consulted by the section on specific issues. It also reviews controls relating to schemes or partners in case of identified risk. However, the Department does not have a structured system in place to ensure that reports are submitted as required or for the review of reports by the Evaluation and Audit Unit.

## *Multilateral Assistance*

24.20 Given the nature of multilateral assistance programmes, involving the application of a pool of funds from multiple donor countries for development purposes, it is difficult to isolate and carry out an ex-post audit of the specific funds contributed by Ireland. Reliance is placed on the existing audit arrangements in force for the international aid organisations.

24.21 In the case of UN organisations, funds are subject to audit by the UN Board of Auditors and each organisation’s internal audit function reports to the governing body, on which Ireland is represented. Individual audit reports are made available to Ireland on request.

### *Response to Audit Reports*

24.22 In cases where material issues have been identified, audit reports may contain qualified audit opinions. The general practice is to discuss the nature of the qualification with the partner organisation and work together to agree an action plan to resolve the issue.

24.23 The Department stated that there have been a number of cases where it has delayed or suspended funding, pending resolution of issues highlighted in audit reports. On occasion, the Department has requested and obtained refunds from partner organisations.

## *Evaluation*

24.24 A peer review of Irish ODA, carried out in 2009 by the OECD's Development Assistance Committee, noted that Irish Aid dedicates significant effort and resources to demonstrate the impact of its aid programme. Evaluation strategy is considered and developed at the planning and design stage of new initiatives, which ensures clarity from the outset in relation to how performance will be measured and what constitutes success.

24.25 Evaluation reports are submitted to the Department's Senior Management Group and its Audit Committee and give rise to formal responses from management in the area under review. In instances where management does not agree with a particular recommendation, it can challenge the recommendation by submitting a case to the Evaluation and Audit Unit, which then issues a determination as to whether or not the recommendation is justified. The final reports are published and made available on the Irish Aid website.

### *Overall Effectiveness*

24.26 During 2010, a formal review was carried out of Ireland's ability to implement its aid commitments under the Paris Declaration on Aid Effectiveness and the Accra Agenda for Action.

### *The Paris Declaration and Accra Agenda*

The Paris Declaration consists of five principles in respect of development aid, arising from a forum of donor and recipient countries that took place in 2005

- Ownership – allow recipient countries to set their own development strategies
- Alignment – donor countries to act in accordance with local systems and objectives
- Harmonisation – donor countries to coordinate actions and share information
- Results – greater focus on measuring the results of development assistance
- Mutual accountability – both donor and recipient countries are responsible for results.

The Accra Agenda for Action, agreed in 2008, sought to accelerate progress on implementation of the Declaration principles. In particular, it promotes the use of partner country systems to deliver aid and it emphasises the need for predictability for recipient countries in relation to the level of aid to be received. In addition, indicators were developed to assess the progress of individual countries in implementing the Paris Declaration and Accra Agenda principles.

24.27 The review team consisted of an independent evaluator and two senior staff from the Department. There were three dimensions to the report.

- In relation to the level of commitment within Irish Aid to making any necessary changes to its aid delivery policies, procedures and practices, the evaluation team found a high level of dedication among its staff to aid effectiveness generally and to implementation of the Paris Declaration and Accra Agenda principles in particular. However, it was noted that although certain elements were prioritised, the agenda had not been fully absorbed by staff within the remainder of the Department of Foreign Affairs and Trade.
- The evaluation team did not identify any constraints on the capacity of Irish Aid structures and personnel to understand and implement any necessary policy changes. However, the report noted that although the policy development and planning processes in place are excellent, the lack of an effective system of performance reporting on aid effectiveness is a key deficit. In addition, the report stated that the emphasis within Irish Aid on financial accountability should be complemented with public financial management expertise. Other capacity issues identified include budget constraints arising from the global recession and potential staff retention and turnover difficulties arising from Irish Aid's decentralisation move to Limerick and government-wide embargoes on recruitment.
- In relation to the strength of the incentives driving institutional behaviour, the report found that the perception among politicians of the Paris Declaration and Accra Agenda priorities as a means to advance Irish foreign policy represented a key driver, but it was noted that there was little pressure on Irish Aid to deliver improved aid effectiveness coming from external sources, such as academics and NGOs.

24.28 The review made a number of key recommendations for Irish Aid and the Department to improve the effectiveness of Ireland's international aid. These included

- to develop more systematic dialogue within Irish Aid and the Department in relation to implementation of the Declaration and the Accra Agenda principles
- to improve the robustness of results management, impact assessment, evaluation and audit
- to strengthen management practices through increased delegation, introduction of a mentoring system and formal training on aid effectiveness and public financial management
- to further develop the departmental strategy for engagement with the public on international development
- to ensure that opportunities to work in Irish Aid are available to departmental staff.

24.29 The Accounting Officer has stated that work undertaken to address the issues highlighted includes

- development of a results and performance management system by Irish Aid
- capacity building for management and staff in performance and results based management
- establishment of a dedicated team to provide ongoing quality assurance and support in the areas of policy, planning and effectiveness.

24.30 It was noted that an independent research report on the quality of development assistance by a range of countries and multilateral aid agencies, published in 2010, found that Ireland was the only bilateral donor that ranked in the top ten across all key dimensions of aid quality examined.[216]

[216] Brookings Institute/Centre for Global Development (2010), Quality of Official Development Assistance Assessment.

### *Evaluation Programme*

24.31 The selection process for evaluation topics takes account of the level of strategic importance of particular initiatives to the Irish Aid overseas development programme and the amount of expenditure involved. The broad scope of evaluation work is set out below.

### *Programme Countries*

24.32 In relation to the nine programme countries, evaluations of each were carried out during the period 2004 to 2010. Funding agreements for programme countries cover a five-year period and the policy is to carry out an evaluation in the final year of each cycle.

24.33 Three formal evaluations of partner country aid programmes were completed in 2010. These related to

- the country strategy paper for Vietnam (2007 – 2010)
- the country assistance programme for Tanzania (2005 – 2010)
- the joint assistance strategy for Zambia (2007 – 2010).

24.34 Summaries of all three evaluations are set out at Annex B.

### *Other Bilateral Programmes*

24.35 There are a variety of arrangements in place for the evaluation of other types of bilateral development assistance.

24.36 In relation to Civil Society Support, accounting for €99.9 million in 2010, the Multi Annual Programme Scheme is evaluated towards the end of each five-year funding cycle, with the latest evaluation nearing completion at present. The evaluation arrangements in respect of the Civil Society Fund are stipulated in the individual funding contracts with recipients. With regard to Misean Cara, the next independent review is scheduled to take place towards the end of the current phase of funding (2012/13).

24.37 In the areas of emergency and humanitarian assistance and emergency preparedness and post recovery, accounting for expenditure of €64.2 million in 2010, most of the funding goes to international bodies with established evaluation practices and procedures[217]. On issues of strategic interest to Irish Aid, the Evaluation and Audit Unit can take an active part in some of these evaluation exercises. For example, the Unit is currently participating in the evaluation of the UN Central Emergency Response Fund.

24.38 For global health, hunger and education initiatives, accounting for €18.6 million in 2010, most of the funding is provided jointly with other donors and the various components are evaluated at agreed intervals.

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[217] Including UN agencies, multilateral agencies and international NGOs.

### *Multilateral Assistance Programmes*

24.39 In relation to multilateral development assistance, accounting for €84.5 million under Vote 29 in 2010, the UN agencies involved have evaluation units which conduct regular reviews of all aspects of their operations. All of the evaluation reports are routinely made available to Irish Aid and the other donors contributing to the initiatives evaluated. In relation to funding provided through EU bodies, evaluative work is carried out through the Evaluation Unit of the European Commission. Most of the remaining multilateral assistance is channelled through jointly funded capacity building programmes, including the World Bank Institute and the International Finance Corporation, each of which has its own evaluation function. All reports from EU and World Bank evaluations are publicly available.

### *Follow-up on Completed Evaluations*

24.40 During 2010, the Evaluation and Audit Unit further developed its system of tracking the implementation of evaluation recommendations made. A template is used to track both the post-completion status of the evaluation report itself (e.g. submitted for internal review, submitted to Audit Committee) and the implementation status of all individual recommendations. Meetings are held with management in the area covered by the review, to discuss developments in relation to the agreed recommendations.

24.41 Figure 116 summarises the position in relation to implementation of recommendations arising out of each of the 2009 evaluations.

**Figure 116 Status of recommendations from evaluations completed in 2009[a]**

| Status[b] | Evaluation of Uganda Aid Programme | Evaluation of support for Sierra Leone | Evaluation of HIV and AIDS support |
|---|---|---|---|
| Total number of recommendations in report | 18 | 15 | 7 |
| Number accepted by management[c] | 17 | 14 | 7 |
| Number implemented | 17 | 13 | 7 |
| Number in progress | — | 1 | — |
| Number not commenced | — | — | — |

Source: Department of Foreign Affairs and Trade

Notes:
a An evaluation of support for Liberia was also completed in 2009, but details are not included above. 2011 is an election year in Liberia and given the potential for instability to affect Irish Aid's programming, the development of a new country strategy has been postponed until after the election. The new strategy, when developed, will address the issues raised in the 2009 evaluation.

b The status shown is as at 1 May 2011.

c In both cases where recommendations were not accepted by management, the Evaluation and Audit Unit agreed that the recommendations were not justified.

## Conclusion

Irish ODA expenditure totalled €676 million in 2010, of which €522 million was processed through Irish Aid and accounted for under Vote 29: International Co-operation.

Between 2000 and 2008, Ireland made steady progress towards the UN target for developed countries to contribute ODA equivalent to 0.7% of GNP each year. However, having reached 0.59% in 2008, the figure has fallen back in both of the last two years, with the level for 2010 being 0.53%.

A review was carried out, during 2010, of Ireland's ability to meet its commitments under the Paris Declaration on Aid Effectiveness and the Accra Agenda for Action. The findings were generally positive but some concerns were noted, including the lack of an effective system of performance reporting on aid effectiveness and a need for increased expertise in public financial management.

The Department has an Evaluation and Audit Unit tasked with ensuring that funds are used for their intended purposes and that value for money is achieved.

### *Audit*

Coverage by audit of approximately 94% of expenditure has been achieved in recent years. This audit assurance is achieved in a variety of ways including reports received from partner organisations, audits commissioned from internationally recognised audit firms and work carried out directly by the Evaluation and Audit Unit.

For bilateral assistance outside of that provided to programme countries, responsibility for the collection and review of audit reports lies with individual sections within Irish Aid. The Department does not have a structured system in place to ensure that reports are submitted as required or for the review of reports by the Evaluation and Audit Unit.

For multilateral assistance programmes, funded through pooled contributions from multiple donor countries, there are limitations on the extent to which the specific funds contributed by Ireland can be isolated and subjected to ex post audit. In these cases, the Department relies for audit assurance on the audit arrangements of the international aid organisations to which the contributions are made.

Where audit reports received have been qualified due to material issues identified, the Department works with the partner organisation to agree an action plan addressing the areas of concern.

### *Evaluation*

The objective of the evaluation function is to determine the impact of initiatives and assess the extent to which value is achieved. Evaluation strategy is being integrated into the design of new interventions, setting in advance the criteria against which success will be measured. The Unit has a structured system in place to track and follow up on evaluation recommendations made.

The funding programmes in each of the programme countries have been evaluated since 2004 and further evaluations are scheduled over the next four years. For the other bilateral assistance programmes, evaluation arrangements vary with the largest single programme, the Multi Annual Programme Scheme, being evaluated once every five years and others on a more ad hoc basis. For multilateral assistance programmes, the Department is reliant on evaluations received from partner organisations including UN organisations and the World Bank.

The evaluation efforts of the Evaluation and Audit Unit are focussed on the funding provided to programme countries. The results of the three evaluations carried out during 2010 are summarised at Annex B.

## Annex A Key Assistance Programmes

Irish Aid provides assistance to developing countries under a wide range of programmes, some of which are delivered through direct contact with the countries themselves and others through international aid organisations.

### *Bilateral Development Assistance*

Most (64%)[218] Irish ODA is provided through bilateral co-operation programmes. Figure 117 presents a breakdown of bilateral transfers.

**Figure 117 Bilateral Official Development Assistance, by Type, 2007 to 2010**

| | 2007 | 2008 | 2009 | 2010 |
|---|---|---|---|---|
| | €m | €m | €m | €m |
| **Vote 29 International co-operation expenditure** | | | | |
| Assistance to programme countries | 185.0 | 218.6 | 195.0 | 181.7 |
| Assistance to other countries | 29.4 | 38.2 | 24.5 | 20.2 |
| Civil Society Support, including co-financing with NGOs | 117.6 | 134.2 | 107.6 | 99.9 |
| Global health, hunger and education initiatives[a] | 96.5 | 67.6 | 27.8 | 18.6 |
| Emergency and humanitarian assistance | 120.8 | 108.4 | 67.7 | 64.2 |
| Other programmes | 17.8 | 39.5 | 25.1 | 22.2 |
| **Bilateral ODA by other Government agencies** | 8.9 | 8.3 | 7.2 | 6.1 |
| **Total bilateral ODA** | **576.0** | **614.8** | **454.9** | **412.9** |

Source: Department of Foreign Affairs and Trade

Note: a Expenditure under the global hunger initiative (which commenced in 2009) is now included in this category, rather than in 'other programmes'. The 2009 figures have been adjusted accordingly.

### *Assistance to Programme Countries*

A total of €181.7 million was spent on formal country assistance programmes in 2010. These programmes are strategic partnerships with the governments of selected countries to support poverty reduction and development on a long-term basis. The countries supported by Ireland under these programmes are Ethiopia, Lesotho, Malawi, Mozambique, Tanzania, Timor Leste, Uganda, Vietnam and Zambia. Development assistance is managed by the Irish embassies in each country, and is provided through support to the partner governments' national development plans and budgets, as well as through civil society organisations and NGOs in these countries.

Assistance totalling €20.2 million was also provided in 2010 for selected other countries. A programme is supported in South Africa, supervised by the Irish embassy there. A recovery programme is in place in Sierra Leone and Liberia, delivered mainly through UN specialised agencies and NGOs, and supervised from an office in Sierra Leone. Support was also provided for a programme in the Palestinian administered areas, and for a HIV/AIDS programme in Zimbabwe that is delivered through NGOs.

[218] Of the €645.5 million distributed in ODA in 2010, €412.9 million was delivered through bilateral assistance programmes.

### *Civil Society Support*

The Civil Society budget provides NGOs, missionary groups and other civil society partners with funding for development interventions. Expenditure in this area fell by 7% in 2010, to €100 million. The principal channels of expenditure are

- The Multi-Annual Programme Scheme – this provides multi-annual predictable funding to five NGOs based on their strategic plans. The five NGOs are Concern, Trócaire, Christian Aid, Goal and Self Help Africa. Funding through the Scheme is based on the recipient organisation having in place a strategic planning and monitoring framework and a commitment to continuous improvement in line with best international practice.
- The Civil Society Fund – this provides multi-annual project funding across a range of social and economic sectors. In 2010, some 77 NGOs were funded under this scheme.
- Misean Cara (formerly the Irish Missionary Resource Service) – this body is a management agent for missionaries, which sub-grants to 87 missionary organisations and provides additional capacity building and oversight of their development interventions.
- The In-Country Micro Projects Scheme – under this scheme, nine Irish embassies and one consulate have budgets to directly support small-scale development projects. The scheme operates in developing countries where Ireland has diplomatic accreditation, but where there is no Irish Aid programme.
- Information Centre and Volunteer–Related Programme – the centre's purpose is to provide information on the work of Irish Aid, and to provide an information service to individuals who wish to work as overseas development volunteers.

### *Global Health, Hunger and Education Assistance*

The expenditure on health, hunger and education schemes in 2010 amounted to €18.6 million, including expenditure under the global hunger initiative, which commenced in 2009. This compares to expenditure on such programmes totalling €96.5 million in 2007. Other expenditure is mainly targeted at HIV/AIDS prevention and care and the provision of basic education in less developed countries. Funds for the initiatives are provided via NGOs and missionaries.

### *Emergency and Humanitarian Assistance*

Emergency and humanitarian assistance is provided during and in the aftermath of emergency situations that arise as a result of natural disasters or humanitarian crises. The objective of this assistance is to save lives, alleviate suffering and maintain human dignity. The funding may be provided to governments dealing with humanitarian crises through NGOs that are in position to respond quickly to such crises, or through international organisations such as the UN and the International Red Cross. The total expenditure on emergency and humanitarian assistance in 2010 was €64.2 million, which represents a reduction of 5% on the 2009 provision.

In order to facilitate rapid response to emergencies, €25.9 million was contributed in 2010 (up from €23 million in 2009) to pooled funding arrangements, including the UN's Central Emergency Response Fund. A further €10.1 million was channelled through the Red Cross. UN organisations received almost €4 million, of which the World Food Programme received the largest share (€2.1 million). The NGO sector was provided with €12.6 million, of which €10.5 million was provided to Irish-based organisations.

### *Multilateral Development Assistance*

Around 36% of Irish ODA is provided through general contributions to the cost of development work undertaken by a range of international multilateral organisations. Figure 118 presents a breakdown of the organisations funded.

**Figure 118 Multilateral Official Development Assistance, by Organisation, 2007 to 2010**

| | 2007 | 2008 | 2009 | 2010 |
|---|---|---|---|---|
| | €m | €m | €m | €m |
| United Nations, including voluntary contributions to UN agencies | 111.9 | 102.1 | 60.1 | 59.9 |
| European Community agencies and initiatives | | | | |
| EU Budget for Development Co-operation | 82.0 | 85.3 | 95.0 | 77.5 |
| European Development Fund | 15.3 | 22.0 | 22.0 | 23.2 |
| World Bank and other multilateral institutions | 46.4 | 53.6 | 32.8 | 28.3 |
| Co-financing with multilateral agencies | 9.2 | 7.7 | 21.2 | 43.7 |
| **Total multilateral ODA** | **264.8** | **270.7** | **231.1** | **232.6** |

Source: Department of Foreign Affairs and Trade

Multilateral co-operation funding is directed mainly to the following areas

- UN Agencies – The UN plays a role in addressing poverty globally and in helping deliver on agreed international objectives and the Millennium Development Goals. Ireland provides a proportion of its ODA to UN funds and programmes, mainly as core funding for their operations and activities, but also in support of reform measures and specific programmes including democracy building and electoral reform, education and training, assistance to refugees, protection of human rights, combating HIV and AIDS, developing health systems and environmental protection.
- EU Development Co-operation – The European Union (including the contributions of its member states) is the largest provider of development assistance at a global level and influences development agendas at international level.
- The World Bank and regional development banks are significant aid delivery channels and important agents in policy and reform issues at country level. Ireland, through the Department of Finance, contributes to the World Bank's International Development Association and the Asian Development Fund. It engages with the banks on debt management, aid effectiveness and development financing policy, as well as on specific issues related to Irish Aid programme countries.
- Co-financing with multilateral agencies includes support for agricultural research to help the poor through the Consultative Group on International Agricultural Research and the Global Crop Diversity Fund. The development of entrepreneurship and small-scale business is supported through the International Labour Organisation.

# Annex B Aid Evaluations 2010

## *Country Strategy for Vietnam*

The evaluation provided an independent assessment of the logic, coherence and strategic direction of Irish Aid's first country strategy paper (CSP) in Vietnam (2007-2010). It also documented lessons learned which can be applied in the design of future country strategies.

The report noted that the socio-economic context in Vietnam has changed dramatically over the last two decades. The country has a population of over 86 million, a flourishing market based economy and GDP growth averaging 7.5% annually over the past ten years. Overall poverty has declined from 58% in 1993 to a projected 10% in 2010, according to the national definition of the poverty line. However, governance challenges remain in relation to issues of transparency, corruption, equality and the distribution of wealth.

Vietnam is the main recipient of aid in East Asia, receiving support from over 50 overseas donors. In 2008, it received aid totalling US$1.6 billion, which represented about 3% of the country's Gross Domestic Product. By the end of 2009, Irish Aid had disbursed a total of €53.4 million in Vietnam, since the start of the CSP in 2007.

The evaluation found that the overall CSP was appropriately designed to align with both Vietnam's Socio-Economic Development Plan and the Irish Government's White Paper on aid (2005). In particular, it focused on initiatives addressing deep-seated poverty and difficulties experienced by minority groups and contained a portfolio of initiatives that addressed the interests of all stakeholders in a balanced way. However, the report noted that the twin focus on poverty reduction and economic development produced two streams of work, which were linked only to a limited extent.

The evaluation found that the programme performed well but could have been more effective if it had included a greater focus on measuring progress and learning lessons. It was found that efficiency had been achieved through the use of a mix of aid modalities and that sustainability issues were being addressed, but it was too early in most cases to judge their success.

The evaluation's overall assessment of the implementation of the CSP was that it provided important support to the twin agendas of poverty reduction and economic development.

**Key Recommendations**

The report contains a number of recommendations for Irish Aid in relation to the next country strategy paper in Vietnam

- identify a limited number of priority partners and focus on areas of comparative advantage, whilst maintaining flexibility to take advantage of emerging opportunities
- continue to focus on poverty, targeting marginalised and disadvantaged groups
- continue and extend successful components such as the Irish Development Experience and Sharing (IDEAS) programme and the CSP scholarship programme
- develop consistent practice for disengagement from programme components, supporting all partners to make the necessary adjustments
- give higher profile to lesson learning, within a clear monitoring and evaluation framework.

### *Joint Assistance Strategy for Zambia*

The purpose of the evaluation was to provide an assessment of the Joint Assistance Strategy for Zambia (JASZ) over the period from 2007 to early 2010, to inform the development of future strategic plans. The evaluation examined both the design and implementation of the JASZ and assessed its relevance, effectiveness and efficiency.

The JASZ is a medium-term framework, containing a number of principles, commitments and proposed actions to improve aid management. It was developed and signed by sixteen co-operating partners in 2007 and covered the subsequent three-year period. The report does not contain a figure for total aid to be provided to Zambia during the existence of the JASZ. Figures included for 2008 total almost US$920 million, of which approximately US$26 million was contributed by Ireland.

In terms of the relevance of the JASZ, the report noted a number of issues in respect of both its design and implementation. Firstly, it contains no specific targets or indicators to measure progress. Secondly, although the success of the JASZ depends critically on state support, the Government of Zambia is not a signatory to the strategy. Thirdly, the Government has shown institutional weaknesses in its approach to aid management, which has created difficulties for the co-operating partners.

The report found that the absence of a systematic follow up process made it difficult to assess whether or not the JASZ work plan has been implemented. It found that the arrangements for communication between the co-operating partners and the Government worked well. It noted that mutual accountability is seen as weak by most of the co-operating partners and that although there is a strong sense of harmonisation, the requirements of bilateral donors still dictate many actions and decisions. It concluded that the JASZ has been more effective in improving processes than improving development outcomes.

In terms of efficiency, the evaluation found that the JASZ is providing a greater level of coordination in the areas of governance and the environment. However, a lack of clarity in relation to roles in some sectors has occasionally led to tensions between co-operating partners. The report found that transaction costs for the partners had increased under the JASZ, but there has been some reduction in transaction costs for the Government of Zambia.

Overall, the evaluation found little evidence that the JASZ had promoted greater ownership at country level, with the government's aid management systems being weak and there being question marks over its ability to influence co-operating partner decisions. It highlighted missed opportunities on both sides for progress in relation to dialogue architecture and a donor assessment framework.

**Key Recommendations**

The report made a number of recommendations for co-operating partners (including Irish Aid) in relation to the design and implementation of the next strategy for Zambia. The new JASZ should

- contain a clear statement of objectives, identifying the actions and commitments necessary to achieve those objectives and supported by a new memorandum of understanding between co-operating partners and the Government of Zambia
- promote the principles of the Paris Declaration, focusing particularly on those which have not been addressed so far, i.e. mutual accountability and management for results
- support the implementation of the Sixth National Development Plan for Zambia, mapping programmes to priority areas and ensuring appropriate administrative support
- include more robust monitoring systems, negotiated and agreed with the Government of Zambia
- incorporate annually revised work plans with realistic targets to ensure that the focus is maintained on development outcomes.

### *Country Assistance Programme for Tanzania*

This evaluation examined the performance of the development assistance provided by the UK and Ireland to Tanzania during the period 2005-2010. It was undertaken jointly by Irish Aid and the UK's Department for International Development (DFID).

Economic growth in Tanzania exceeded 7% in each of the years under review, apart from 2009, where it dipped to 5% due to the global economic slowdown. The impact on poverty has mainly been seen in non-income areas, with notable progress in education and health. Increased public spending has provided additional infrastructure for social services but the recruitment of qualified staff has lagged behind.

General budget support from development partners has contributed approximately 20% of total public spending over the period under review. Although this has led to an expansion in the scale of service provision in some sectors prioritised by government, the report noted that it has not led to improvements in service quality or efficiency. Inequities persist in the social sector allocations to the most disadvantaged districts.

The evaluation found that despite the country's consistent economic growth in recent years, there had been little impact on poverty in Tanzania due to an over reliance on public sector consumption and the limited impact of investments in agriculture, trade and the private sector. Direct budget support continues to enable higher public spending in the right areas but commitments by donors in this area have the potential to limit their scope for direct investment in the private sector and civil society. It was further noted that the general budget support dialogue was too complex and multi-tiered, with an undue focus on a growing set of indicators, thereby limiting the opportunity for discussion and exchange of ideas.

The assessment of the review team was that the Government of Tanzania had demonstrated its ability to appropriately manage and allocate the increased income from domestic revenue and overseas aid, but further investigation is required to establish whether value for money was obtained for the increased public expenditure. Although stakeholders have become more active and the availability of information has increased, the level of accountability has been limited by their lack of knowledge and understanding of the processes for budget setting and government decision-making.

In relation to the in-country capacity of Irish Aid, the evaluation found that the organisation was appropriately structured and has made effective use of the linked diplomatic and development functions. However, linkages between Irish Aid headquarters and country office programmes were found to be weak with insufficient information flows and a lack of shared lesson learning.

The report found that Irish Aid is highly regarded by its peers, which adds weight to its views and opinions and enables it to exert significant influence on the Government of Tanzania. The report also noted that although cross-cutting issues are often neglected in the budget support dialogue process, Irish Aid has played a strong role in a number of cases, notably gender and the environment.

**Key Recommendations**

The report contains a number of recommendations for Irish Aid to improve the effectiveness of future development assistance to Tanzania

- promote renewed dialogue to further develop the relationship of trust with the Government of Tanzania and gain a deeper understanding of the dynamics of change and the nature of the country’s political economy
- focus on the development of in-country staff to ensure they have the necessary skills and knowledge to engage in effective policy dialogue
- maintain the current effective mix of aid, balancing support for priority sectors and specific projects with general budget support
- prioritise support to build on success in the agriculture and health sectors and continue to encourage local government reform and decentralisation
- reaffirm general budget support as a preferred modality for providing harmonised, country led assistance, whilst maintaining a realistic outlook on the results which can be expected
- acknowledge, understand and respect the complexity of the many obstacles (policy, institutional and human resource) to effective public spending
- promote stronger linkages between Irish Aid headquarters and in-country colleagues through team working, information exchange, shared reviews and lesson learning.

# Chapter 25

## National Broadband Scheme

# National Broadband Scheme

25.1 Key EU competitiveness objectives include ensuring that all Europeans have access to basic broadband by 2013 and to ensure that, by 2020, all Europeans will have access to internet speeds of above 30 megabits per second (Mbps) and that 50% or more of European households will subscribe to internet connections above 100 Mbps.

25.2 Ireland's general broadband objectives for the future were set out in a statement entitled 'Next Generation Broadband – Gateway to a Knowledge Ireland' which was published in 2009. Targets set included the provision of universal access to broadband across the State and higher broadband connection speeds.

25.3 The technology by which broadband service is provided, generally, falls into two broad types

- fixed broadband – delivered through the traditional phone network, by cable or through fibre optic networks
- wireless broadband – delivered over radio networks, commonly via mobile phone masts, or by satellite.

25.4 The National Broadband Scheme (NBS) was conceived as a key element in the delivery of wireless broadband to 10% to 15% of the population of the State that would otherwise not be able to access a service without intervention or support – typically, those living in peripheral areas and regions of low population density where private service providers were unable or unwilling to deploy broadband infrastructure on a commercial basis (the NBS areas)[219]. The Department's economic analysis of the proposed scheme projected net benefits to society and the economy if the scheme proceeded within certain cost limits.

25.5 Following a competitive tendering process, the Department of Communications, Energy and Natural Resources (the Department) entered into a contract with the service provider '3' to provide a wireless broadband service in specified areas. The company was to provide broadband services on a retail basis to all residences and businesses located within the NBS coverage areas seeking a service as well as wholesale access to any authorised broadband operator who wished to serve premises in the NBS area.

25.6 '3' is obliged to provide the contracted services for the term of the contract (until August 2014). The Department has stated that it cannot dictate what the company does after the contract has expired. On the basis that the company has constructed a physical network of masts to serve the NBS area, the Department assumes that services will continue to be provided to customers in those areas after the contract lapses.

25.7 The contract involves the Department paying a subsidy of €79.8 million to '3' in a number of phases over 68 months – 20% paid on meeting mobilisation criteria in December 2008, 67.5% paid on meeting specified rollout milestones, 2.5% payable in month 26 of the contract and 10% to be paid at the end of the operational period less any credits due. The payment schedule, actual and forecast, is set out in Figure 119.

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219 A further scheme, called the Rural Broadband Scheme, was introduced in 2011. It is designed to provide broadband to individual rural premises in non-NBS areas where a service is not currently available due to technical or other reasons.

**Figure 119 NBS Payment Schedule**

| Payment stage | Payment due date | Budgeted €000 | Actual €000 |
|---|---|---|---|
| Mobilisation | 2008 | 15,960 | 15,960 |
| Rollout | 2009/2010 | 55,860 | 55,864 |
| Final | 2014 | 7,980 | — |
| **Total** | | **79,800** | **71,824** |

Source: Department of Communications, Energy and Natural Resources

25.8 The NBS is eligible for EU co-funding under the European Regional Development Fund (ERDF) 2007-2013. Just over €36 million is expected to be recouped by the end of the project.

25.9 A Project Board established by the Department, with the assistance of independent technical consultants, monitors on a monthly basis the performance of the NBS infrastructure, service availability, service delivery and customer experience as well as overall compliance by '3' with contractual obligations.

## Chapter Focus

The chapter reviews progress to date in delivering the broadband commitments for the Scheme. It examines principally

- whether the planned broadband service is being provided to the agreed standard
- the extent to which the service is being taken up by customers in the target NBS area
- how service quality is monitored and the results to date.

## Service Availability

25.10 The area to be provided with a broadband service through the NBS comprises 1,028 selected Electoral Divisions.[220]

25.11 Under the contract with '3', it was intended that most NBS customers in the target areas would avail of a mobile transmission network service. This type of service is accessed using a so-called 'dongle' (a device that plugs into a computer). In areas of restricted reception, customers are also provided with a repeater — a device to strengthen the broadband signal within the customer's premises. A satellite transmission service was also planned that would be available to a small proportion of subscribers who are unable to receive the coverage offered by the mobile network.

25.12 Key requirements specified in the contract with '3' include targets in relation to the download speed achievable by users of the service and the capacity of the system to serve users simultaneously. Limits were also set on the proportion of the service that could be provided via satellite.

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[220] Electoral divisions (formerly called district electoral divisions) are the smallest administrative areas for which population statistics are published. In rural areas, each division consists of an aggregation of entire townlands. There are 3,440 divisions in the State. The term 'areas' used throughout this report denotes the divisions targeted by the NBS.

### *Download Speed*

25.13 The average speed of connection to the internet, as measured by the average download speed, is a key measure of the performance of a broadband service.

25.14 The OECD compares internet speed in its member states using the maximum download speeds advertised by internet service providers. On that measure, the internet speeds achievable in Ireland, at 9.6 Mbps, are substantially lower than those in most other member states. The average advertised speed across all members states is estimated at 37.5 Mbps, with an average speed of 85.6 Mbps being advertised in Sweden.

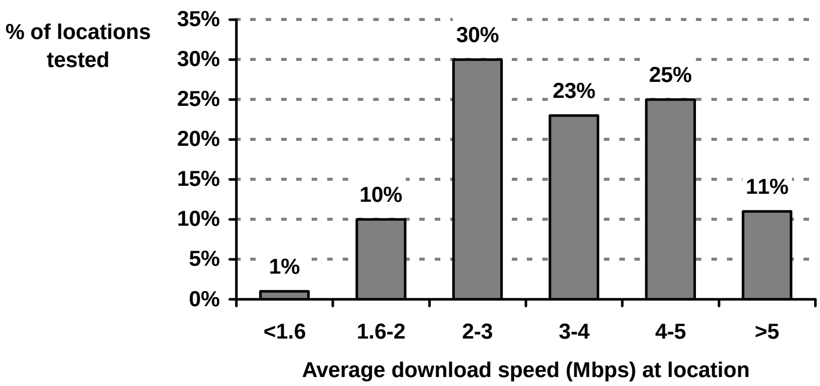
25.15 In practice, these speeds are the theoretical maximum speeds achievable with the technology being used by internet service providers. Users of those services have lower actual download speeds when averaged over a time period. This reflects a variety of factors, including service availability and the number of service users seeking a service at the same time (referred to as the contention ratio).

25.16 The contract with '3' specified that the service to be provided in the NBS areas should initially have a minimum download speed of 1.2 Mbps, with upgrades to minimum download speeds of 1.6 Mbps from July 2010 and 2.3 Mbps from October 2012. It was projected that the average download speeds for those availing of mobile broadband would be 2.9 Mbps by July 2010 rising to 3.4 Mbps by October 2012.

25.17 Under monitoring arrangements in the contract, '3' is obliged to test the broadband services it provides for speed, contention ratio and quality of service. These tests include measurement of the download speed of broadband and contention rate. The company conducts tests of the services provided in randomly selected locations.

25.18 The results of the most recent speed tests reported by '3' indicate download speeds of between 2 and 5 Mbps were available at most of the locations tested (see Figure 120).

**Figure 120 NBS Download Speeds in Six Months ending December 2010[a]**




Source: Department of Communications, Energy and Natural Resources, '3' test results.

Note: a The results are based on static tests at 90 random locations each month.

25.19 Almost all locations tested were found to have download speeds over the required minimum (1.6 Mbps) at December 2010. Average download speeds of less than 2 Mbps were found at 11% of locations. Overall, average download speed for the six months July to December 2010 was estimated at 3.5 Mbps.

25.20 11% of the locations tested had average download speeds greater than 5 Mbps service. Nationally, it is estimated that 29% of users had an average download speed above 5 Mbps.[221]

## *Contention Ratio*

25.21 The contention ratio for a broadband service relates to the number of customers using the service at the same time. The lower the ratio, the better the quality of service in terms of download speed. The initial maximum contention ratio specified in the NBS contract was 36:1. The service provider was required to reduce the ratio to 22:1 from 1 July 2010.

25.22 In contention tests carried out by '3' the ratios found were below the contractual standard of 22:1 and were generally in the region of 5.4:1.

25.23 In parallel with broadband speed objectives, the delivery of the NBS envisaged a defined limit on data volume downloaded by consumers. Download volumes were set initially at 15 Gigabits (Gb) per month for the mobile service and 10 Gb for satellite. It was expected that subsequent upgrades would increase the available download limit first to 20 Gb and then to 30 Gb in October 2012 for mobile broadband. Currently, the contracted limit is 20 Gb download. However, the maximum available for download from the satellite-delivered broadband will remain the same as is now available – 10 Gb.

## *Nature of Service Provided*

25.24 The Department has stated that the NBS was designed primarily to deliver a broadband service to specified fixed locations in the NBS area. As such, it has effectively been configured as a fixed broadband solution, using wireless broadband technology.

25.25 The NBS set a maximum allowable limit of 5% of the total number of fixed residences and businesses that could receive a service via a satellite connection, considering this product to deliver a lower quality service than mobile broadband. A survey of 300 NBS customers found that 96% were receiving broadband through the mobile infrastructure with the remainder receiving their broadband product through satellite.[222]

25.26 In providing mobile broadband services, operators use mobile repeaters in customer premises to boost the signal. Use of repeaters indicates that the broadband signal experienced by the subscriber in its basic form is less than adequate, due to the nature or orientation of the building or because of terrain obstructions, and needs boosting to provide an acceptable service.

25.27 At 30 June 2011, a total of 43% of the customers of the NBS service used repeaters. The very high percentage of repeater equipment being used in the NBS suggested a poor basic signal being experienced by many subscribers.

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221 Akamai Technologies Inc, Quarter 1 2011 Report.

222 There was provision in the contract for '3' to designate certain areas as 'conditionally enabled' and to provide more than 5% of the service in those areas via satellite. In the event, '3' have not used that designation option.

25.28 The Department has stated that the proposed deployment of repeater equipment was given detailed consideration in the course of the evaluation of '3's bid and its use to ensure that the minimum specified NBS services were delivered at fixed locations was deemed to be acceptable. It stated that repeaters are also used to mitigate against the effects of localised 'clutter' (due to terrain) and of building materials in the customers' homes (certain double glazing, wall thickness, windows in an inappropriate direction, etc) all of which are unknown at the time of network planning. It also stated that the deployment of repeaters has reduced the required reliance on a satellite service. When '3' bid in the NBS competition, its solution specified the use of a combination of mobile transmission base stations with use of repeater equipment if the signal strength at a specific customer location was low.

25.29 The costs associated with the deployment of repeaters falls on '3' and, on the basis of the Department's estimate, this equipment has cost the company over €3 million to date.

## Conclusion — Service Delivery

Based on service measurement carried out on behalf of the service provider and reported to the Department, broadband services that comply with the service standards set in the contract have been made available in the target NBS areas.

Nationally, it is estimated that 29% of users had an average download speed above 5 Mbps. The overall average speed being experienced in the NBS area was 3.5 Mbps with 11% of the locations tested having average download speeds greater than 5 Mbps.

### *Views of the Accounting Officer*

25.30 The Accounting Officer of the Department stated that the objective of the NBS was to deliver affordable, scaleable broadband services to certain designated electoral divisions in rural Ireland where broadband coverage was deemed to be insufficient. The wider policy objectives of the NBS were

- to address the market's failure to provide broadband in the more remote parts of rural Ireland
- to address economic and social exclusion concerns due to a lack of broadband access
- to enhance the competitiveness of the regions for foreign and indigenous investment.

25.31 The Accounting Officer said that the NBS had delivered on its core objective, in that, since October 2010 affordable and scaleable broadband services were available throughout the entire NBS area in line with the contract signed between the State and '3'.

## Uptake of the Service

25.32 Ultimately, social and economic value is achievable from a broadband service only if it is used. Customer uptake is one measure of use of the service. This is usually measured in terms of the broadband penetration rate, either relative to the number of premises where a fixed service is available, or to the population as a whole.

25.33 The Department estimated that there were approximately 200,000 premises capable of being serviced with broadband located within the proposed NBS coverage area. This included dwellings in use and business premises.

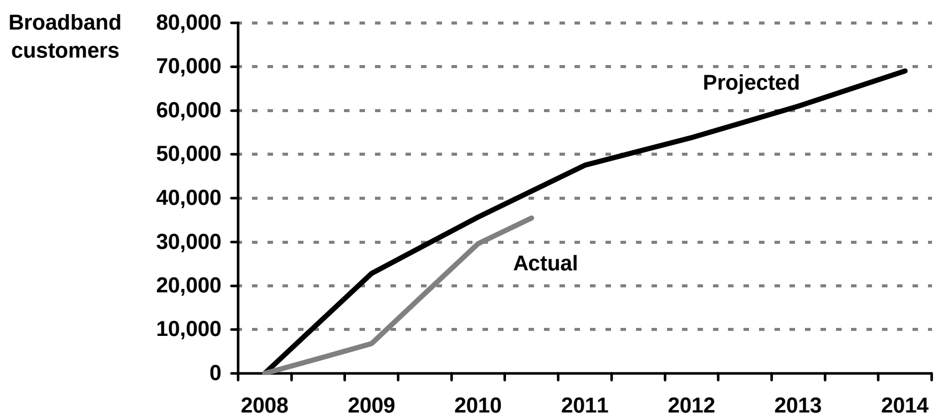
25.34 The Department has stated that the broadband penetration rate in countries with mature broadband environments is around 80% of premises. In its cost benefit analysis of the NBS proposal, it projected an uptake of the NBS service by 126,000 customers by the end of the contract period in 2014, representing an uptake rate of 63% of potential serviceable premises in the region. However, it did not set customer take-up targets for the scheme, or incorporate targets into the contract with '3'. It has stated that uptake by paying customers was envisaged as a matter for the service provider.

25.35 In the context of negotiation for the contract, it was envisaged that 107,000 of projected NBS customers would be retail customers of the service provider and that 29,000 customers would avail of services provided by '3' on a wholesale basis to other service providers.

25.36 In practice, subscriber demand has been significantly weaker than that projected at the outset of the scheme. The projected customer uptake by 2014 was initially reduced to 107,000 retail customers, in recognition of a lack of interest by other broadband service providers in entering into wholesale arrangements with '3'. Subsequently, the projected customer uptake by 2014 was reduced from 107,000 to 68,000 customers i.e. 34% of premises in the NBS target areas.

25.37 As indicated in Figure 121, actual uptake has not reached the levels envisaged, even for the reduced projection level. By June 2011, a total of 35,500 customers had taken up the service offered by '3' – about 15% below the level implied by the revised 2014 projection.

**Figure 121 National Broadband Scheme Customers, Target and Actual**




Source: Analysis by Office of the Comptroller and Auditor General, based on data from DCENR

25.38 In retrospect, the original projected uptake rates appear to have been pitched too high. It could have been expected that there would be a reasonable level of initial sales to satisfy demand from those that had no broadband service at all and that, once that demand had been satisfied, growth could be expected to level out.

25.39 In a survey of NBS customers undertaken in mid-2011, 51% reported that they had switched to the service from other service providers. The Department has stated that in order to reach unserved homes and businesses, it had to bring a service to some areas that were already partially served. Where it was identified that there was already a partial service, further detailed analysis was undertaken to determine whether or not to include it in the NBS area. In many cases, the Department decided that because there were so many premises in an area without access to a service, the area would be included in the scheme. This meant that homes and businesses in the area that were already capable of receiving a service from another service provider would also be included in the NBS.

25.40 While the lower than projected take-up has commercial implications for ‘3’ in the form of lower than projected revenues, it will (subject to continued delivery of the contracted service to the required standards) receive the full contract payment from the Department.

25.41 If the revised take-up target of 68,000 customers is achieved by 2014, the State subsidy will be an estimated €1,180 per subscriber. This compares to an implied subsidy of €635 per subscriber when the Department carried out its cost benefit analysis of the scheme.

### *Demand Management*

25.42 Under the NBS contract, ‘3’ is obliged to carry out an effective marketing campaign to promote the NBS. It was planned that some €10.7 million would be spent over the life of the contract for that purpose. As Figure 122 shows, the marketing spend to end 2010 has exceeded the planned level.

**Figure 122 Marketing Spend – NBS 2009 -2014**

| | Planned €m | Actual €m |
|---|---|---|
| 2009 | 2.4 | 1.9 |
| 2010 | 2.3 | 5.0 |
| 2011-2014 | 6.0 | — |
| **Total** | **10.7** | **6.9** |

Source: Department of Communications, Energy and Natural Resources

25.43 Market analysis suggests that, because of uncertainty about employment and reduced disposable incomes, there is a consumer shift towards choosing prepay mobile products, with no contractual obligations. The NBS product is currently only available on a billed basis. A change in the choice of contract available to customers could improve the attractiveness of the product and increase subscriber take-up.

## Conclusion — Service Uptake

The appraisal of the proposed NBS was based on a projected uptake of service of 63% of the potentially serviceable premises in the regions covered by the scheme. However, this projection appears to have been overly-optimistic, given that subscriber forecasts were revised down to 68,000 (34%) relatively soon after the scheme began. Furthermore, even though expenditure on marketing of the service is ahead of projections, take-up is lagging behind the levels that need to be achieved if the current projected uptake level by 2014 is to be met. Envisaged wholesale arrangements with other service providers have not been achieved.

While the failure to reach forecast subscriber numbers has commercial impacts on the service provider, there is also a value for money implication for the State’s investment in the scheme, with average contribution per subscriber increasing from a forecast €635 to an estimated €1,180, assuming the current projected level of 68,000 subscribers is realised.

There is also a risk that the wider socio-economic benefits that had been built into the cost benefit analysis will not be fully achieved as a result of the lower then expected take-up.

### *Views of the Accounting Officer*

25.44 The Accounting Officer noted that, by virtue of the NBS, broadband services are now available in all NBS areas for those who wished to avail of them. While the take-up to date is lower than expected, the issue of availability of services in those areas needed to be addressed, given the importance of broadband for social and economic development and the need to avoid a digital divide.

25.45 He stated that while the initial take-up had been slow and continues below expectations, evidence throughout the EU suggested that this pattern of consumer behaviour was normal and that it takes some time for these service to be availed of, following their introduction into a region or area. He said that the risk associated with customer numbers rested entirely with the service provider, and that the taxpayer carries no financial risk on the lower than expected take-up.

25.46 As regards the wholesale market, the Department has stated that the absence of specific market analysis makes it difficult to explain precisely why a wholesale market did not develop. It said that it could be linked to the current economic recession or could reflect the thinly-dispersed population base of the NBS area, making the proposition for large scale wholesale service unattractive. The Department noted that, since the NBS commenced, other service providers have improved the broadband service they offer in the NBS area, thereby improving the overall choice and level of service, and are consequently contributing to the ultimate socio-economic objectives of the scheme.

25.47 The Department acknowledges that the impact of the take-up on socio-economic benefits does arise. While the impact of the dynamics of the competition and the award of the NBS contract to ‘3’ on the other market players has not been explored, a comprehensive assessment of the benefits would need to take account of the number of customers receiving broadband from any provider in the NBS areas, not solely from ‘3’.

### *Views of the Commission for Communication Regulation*

25.48 The Commission expressed the view that it is highly likely that, were it not for the implementation of the NBS, some of the consequential broadband provision would either not have materialised at all or would have materialised at a later date than was originally intended by the service providers.

25.49 The Commission noted that while a change in the type of contract available to customers in the NBS area might improve the attractiveness of the ‘3’ product and increase subscriber take-up, the impact of any new contract options on the existing subscriber base should be considered e.g. the extent to which a prepay option would result in attracting existing billed subscribers, and how such changes might impact upon the overall NBS revenue base of ‘3’.

## Quality of Service

25.50 Broadband services based on mobile technology typically underperform when compared to services provided through fixed lines in terms of stability of the connection, latency and speed. Furthermore, service provision in an NBS area does not mean that the broadband signal is of sufficient strength or speed to constitute a viable broadband product from a customer’s perspective.

25.51 Under the NBS contract, ‘3’ is obliged to commission bi-annual customer satisfaction surveys and report the results of these to the Department. To date, three surveys have been completed by an independent opinion survey company, which polled 300 NBS customers each time.[223]

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[223] The results discussed in the following paragraphs have been averaged over the three surveys.

25.52 The surveys disclose that many customers avail of the NBS service because there are no other providers in the area and do not appear to be motivated to subscribe for any apparent positive attributes of the product itself. On the other hand, about half of respondents in the latest survey indicated that they had transferred from other providers, suggesting that some aspects of the service offered are attractive.

25.53 The key result in relation to the quality of the service provided in the NBS area is that 64% of those surveyed reported that the service either met or surpassed their expectations.

25.54 Just over one-third of customers reported that the service fell short of their expectations. Based on analysis of the reasons given for stating that their expectations had not been met, an average of 18% of respondents indicated dissatisfaction with download speed, while 22% indicated the service coverage was not good enough. Problems with inadequate coverage and slow connection speeds also appear to be the main reasons that customers contact the customer care service provided by ‘3’.

25.55 The Department’s view is that customers’ expectations is a subjective measure. For instance, someone may have expectations of a level of service which could only be provided by a 10 Mbps service – that person would be able to say that their expectations had not been met. For that reason, while it is wise to survey and understand if the service was meeting expectations, it was of the view that further information would be required before conclusions could be drawn. Other such evidence includes the following.

- The number of payment rebates to customers has decreased significantly, from 23% of customers receiving rebates in 2009 to less than 2% in 2010.
- The percentage of interruptions of service to date is just over 5% (the target limit set in the contract.).

25.56 Underlying reasons for speed and coverage dissatisfaction can also be related to network performance issues and capacity planning. As an internet service provider, ‘3’ must have a process for monitoring its network performance so that it can trigger appropriate action for repair, preventative maintenance and capacity upgrades. However, the Department is of the opinion that there is no problem with capacity planning. It stated that the network had been designed with a high amount of excess capacity which was monitored and kept below a threshold. Once a threshold is reached, ‘3’ is obliged to upgrade the network and increase the available capacity.

25.57 The Department has also stated that it has quality control measures in place. These include monitoring of the performance of the NBS infrastructure, service availability, service delivery and customer experience as well as overall compliance of ‘3’ with its contractual obligations. It states that upgrades of the network and its capacity are automatically triggered at contractually agreed levels of traffic to ensure that the quality of the broadband service is maintained.

25.58 The Department stated that the NBS contract guarantees service levels and imposes a service credit regime on ‘3’ with significant financial consequences in the event that minimum specification service levels are not met.

## Conclusion – Service Quality

The NBS product is the only viable option for many areas of Ireland. This poses some challenges in measuring user satisfaction, as mobile and satellite is not a like-for-like experience with a fixed line service because coverage, availability, application performance and speeds are not comparable.

Some subscribers state they are dissatisfied with the download speed and with some elements of customer care. These elements of service are contracted to be provided by ‘3’ at guaranteed levels. Negative consumer sentiment could damage the prospects of reaching even the reduced take-up forecasts for the scheme.

### *Views of the Accounting Officer*

25.59 The Accounting Officer stated that while customer surveys are a useful barometer of how the NBS service is performing, this metric was only one way of determining whether critical objectives such as service quality were being met. He stated that the findings of the various customer surveys should be aligned with other available performance data to provide a more objective picture of the service being delivered on a day-to-day basis. Other factors that needed to be taken into account included the fact that the number of customer complaints made to the Department has remained very low in overall terms and the number of rebates to customers has fallen noticeably from when the scheme was first launched.

## Conclusion

The State has made a subsidy of €80 million available to '3' in order to provide mobile broadband services in specified areas of limited or no coverage.

A demand projection of 126,000 premises subscribing to the NBS service was initially set. The achievement to date has lagged the forecasts with the overall forecast having being reset at 68,000 premises. 35,500 subscribers had been attracted by mid-2011.

Because the likely uptake of the service is lower than projected, the value for money delivered by the scheme will be lower than envisaged in the cost benefit analysis. Based on the revised forecast for uptake, the State's average contribution per subscriber will increase from €635 to €1,180. There is also a risk that the projected socio-economic benefits of the investment will not be fully achieved. It would be useful to conduct a retrospective cost benefit analysis to establish whether and to what extent the actual outturn has matched that projected.

'3' is obliged to monitor the quality of the service provided and customer satisfaction is monitored periodically by means of survey. From the results available to date, almost two thirds of NBS customers report that their expectations for the service have been met. However, around one-fifth of customers expressed dissatisfaction with the download speed and service coverage.

The Department should, in conjunction with its technical advisors and those of '3', consider what additional steps are feasible in order to address customer concerns and ensure that business and other customers have a resilient and high quality broadband service.

## Chapter 26

# Pigmeat Recall Scheme

# Pigmeat Recall Scheme

26.1 In 2008, Ireland's pig industry had a farm gate value of €333 million, making it the third most significant industry within Ireland's agricultural sector, after the beef and dairy sectors. The total value of the output of the sector was in the order of €1 billion and the number of people employed in the industry was around 7,000.

26.2 Routine sampling of pigmeat products conducted by the Department of Agriculture, Fisheries and Food (the Department), under the National Residue Monitoring Programme, detected the presence of Polychlorinated Biphenyl (PCB) in pork fat in November 2008. As this could be an indicator of unacceptable dioxin contamination, further tests were carried out on both pigs and animal feed. The source of the pork was identified and samples were taken of all animal feeds used on the pig farm in question. The tests confirmed contamination in the animal feed and the animals themselves. It was subsequently determined that oil used in the drying process in the course of manufacture of feedstuffs had been the source of the contamination.

26.3 It was discovered that thirteen loads of oil had been supplied to the feed manufacturing plant at the source of the contamination from the same supplier between May and October 2008. The Department has stated that the contaminated batch of oil had been delivered in late August 2008.

26.4 The contaminated feed had been supplied to 48 farms – ten pig farms and 38 beef cattle farms. At the time, these pig farms produced 8% of national pork output. They supplied eight abattoirs, which, in turn, produced over 90 % of the national pork output.

26.5 On 6 December 2008, the Food Safety Authority of Ireland (FSAI) ordered the recall from the domestic and international markets of all Irish pigmeat products sourced from animals slaughtered between the beginning of September 2008 and 6 December 2008.

26.6 A number of days after the recall, the European Food Safety Authority (EFSA) issued an opinion stating that following its risk assessment there was no health risk to anyone who had consumed potentially contaminated pork products in the three months prior to the recall of all Irish pork products. The Department has stated that the EFSA took into account the fact that exposure at high levels of dioxin only began in September 2008 and any excessive dietary exposure had been mitigated by the swift and effective measures that had been taken to recall Irish pork and pork products.

### *Compensation Schemes*

26.7 The Department put in place two schemes to provide financial assistance to producers and primary and secondary processors[224] affected by the dioxin contamination

- the Pig and Cattle Disposal Scheme
- the Pigmeat Recall Scheme.

26.8 Under the Pig and Cattle Disposal Scheme, support has been provided for the removal, slaughter and rendering of both pigs and cattle from holdings affected by the dioxin contamination. €29.5 million has been paid out under the Pig and Cattle Disposal Scheme with further compensation claims totalling €849,000 awaiting the outcome of legal decisions before settlements are made. €18.8 million has been paid to pig producers under this scheme.

26.9 The Pigmeat Recall Scheme was confined to processors who had suffered losses as a result of the recall and to product relating to animals slaughtered in Ireland between 1 September 2008 and 6 December 2008, which could not be shown to be uncontaminated.

26.10 Annex A outlines the scope of the Pigmeat Recall Scheme in more detail.

## Chapter Focus

This chapter, which focuses on the Pigmeat Recall Scheme reports the results of audit enquiries into

- the financial outturn of the Scheme
- the management and control of the Scheme
- the pigmeat traceability system in place facilitating the recall of contaminated food following the dioxin incident and
- the inspection and control programme that is in place to routinely detect contamination.

## Financial Outturn

26.11 To date the sum of €102 million has been paid under the Pigmeat Recall Scheme, €97 million to 135 applicants (mostly processors) and €5 million to four renderers[225]. Potentially, up to €27 million may be due in respect of claims awaiting final processing under the 'value added' category of product[226]. The Department believes that payments in respect of the 'value added' element will ultimately be substantially less than this amount. Figure 123 sets out the breakdown of the amount paid to date under the scheme.

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224 A primary processor's operations are focused around the operation of a production line for slaughtering animals and processing them into prime cuts of meat. Secondary processors prepare prime cuts for the wholesale, retail or catering trades.

225 A renderer processes animal by-product materials for the production of tallow, grease and high-protein meal and bonemeal.

226 'Value added' product is defined as processed pigmeat products, food preparations or composite products that include affected Irish pigmeat, or processed pigmeat. This would include, for example, pies, pizzas and meatballs.

**Figure 123 Pigmeat Recall Scheme – Payments by Category**

| Claimant Category | €m |
|---|---|
| Primary Processors | 41.8 |
| Secondary Processors[a] | 51.9 |
| Rendering | 5.1 |
| Costs Associated with Overseas Claims | 3.0 |
| Miscellaneous | 0.1 |
| **Total** | **101.9** |

Source: Department of Agriculture, Fisheries and Food

Note: a Payments to Secondary Processors are in respect of approximately 10,000 tonnes of product, 16% of which relates to raw materials, 16% to work in progress and 68% for finished product.

26.12 The EU Commission provided co-funding for the schemes. However, this support was limited to product under the control of slaughterhouses. The value of Ireland's claim under the co-financing regulation amounted to €7.9 million. The Directorate-General for Agriculture and Rural Development maintains that the Department may not have fully complied with the requirements of the co-funding and may propose to the Commission the exclusion of certain expenditure from the co-funding.

26.13 The Accounting Officer stated that the EU Commission's audit process is not concluded, nor had any decision been taken in relation to an exclusion of co-funding. He stated that from a total EU claim involving 7,512 tonnes, the Commission queried the inclusion of 429 tonnes of product returned from customers, valued at approximately €450,000. The Commission believed that only products in store and under the control of processors on 6 December 2008 were eligible for co-funding and that this would not apply to products returned from customers. The Department is contesting the Commission's preliminary conclusions and has been asked to provide additional material in support of its case. It is continuing to engage with the Commission on the matter.

## Conclusion – Financial Outturn

€102 million has been paid out under the scheme. There are contingent liabilities of a further €27 million. There is a risk that a small element of the EU co-funding of €7.9 million may not be received.

## Scheme Management

26.14 The Pigmeat Recall Scheme operated in conditions of emergency. Nonetheless, it is important that to the extent possible compensation should only be paid in instances where destruction of eligible product can be substantiated.

26.15 Varying rates of compensation applied according to the categorisation of product and processor type.

## Basis of Compensation

### *Primary Processors – Eligible Product*

- Fresh, chilled or frozen product in store on 6 December 2008
- Product acquired or returned after 6 December 2008

### *Secondary Processors – Eligible Product*

- Finished goods and work in progress
- Raw material

### *Transport and Rendering*

Rendering and transport costs associated with the recall were eligible under the scheme.

### *Basis of Valuation*

The Department required applicants under the scheme to indicate on the relevant documentation the product categories, the amount being claimed in that category and the relevant valuation.

Valuations used for each product were to be no greater than the wholesale market price for the product as recorded and verifiable by the processor, and net of VAT and discounts where these applied.

Where identical products were marketed and priced at different values, a weighted average value was to be calculated and used for all such products.

For work in progress and raw materials, processors were to ascribe a valuation appropriate to their individual operation.

Processors would make records relating to prices and valuations available to the Department for scrutiny on request.

26.16 In attempting to ensure that compensation is based on documented evidence there were a number of risks to public funds

- evidence of origin of product might not be available
- it might be difficult to distinguish product slaughtered prior to the commencement date of 1 September 2008 from that slaughtered after that date
- because of the self-valuation process adopted, applicants for compensation might inflate claims or categorise product in a way that maximised compensation
- there might be inadequate capture of the amount of product sent to renderers
- some products might be destroyed prior to establishment of eligibility.

26.17 In fact, all these risks fell to be dealt with in the course of administration of the scheme.

### *Excluding Ineligible Product*

26.18 The audit noted cases where there was some uncertainty as to the eligibility of product included in processor claims. In the case of one processor, the Department was not satisfied with the evidence made available to confirm the origin of contaminated and uncontaminated products. However, it made an agreement with the company to pay a further €2.29 million in addition to the €8.2 million that it had previously satisfied itself was the amount payable. As it was not clear why this had taken place the matter was queried with the Department.

26.19 The Accounting Officer stated that the Department's initial assessment of the claims referred to resulted in refusal of payment of almost €4 million to the processor. This was in respect of approximately €1.1 million of uncontaminated product and €2.6 million of contaminated product with a further €300,000 in other claims. The processor appealed the refusal decision which was reviewed by a higher level review group which included the Department's Director of Legal Services. As a result of this review, the Department accepted the processor's case that it had suffered loss on the uncontaminated product because it had to freeze it due to lack of approved storage space and, as the product had a limited shelf life, it was rendered valueless.

26.20 In regard to the cost of the contaminated product, the Department's inspections confirmed the source of the contamination claimed by the processor. The Accounting Officer stated that the Department decided to settle these claims by the processor, for €2.29 million, being 90% of the value of the uncontaminated product and 50% of that contaminated. It refused payment of the remaining €300,000 in other claims. He also stated that the decision was made having regard to all the circumstances of the case, including clear evidence of destruction of product, and in the interests of avoiding potentially costly litigation.

26.21 In another case, that of a processor who had received in the order of €30 million, or about 30% of the total paid under the scheme up to the end of 2010, documents relating to some of the claims processed indicated that the Department officers validating the shipment of the product to the renderers had recorded that the eligibility of the product under the scheme had not yet been established.

26.22 The Accounting Officer stated that the Department subsequently authorised payment of €10.7 million for 3,449 tonnes of product in the cases referred to. This included just under €9 million for product slaughtered between 1 July 2007 and 1 September 2008 and €1.75 million for uncontaminated but unsaleable product. He noted that product slaughtered prior to 1 September 2008 or slaughtered within the eligible period and uncontaminated but unsaleable was initially ineligible pending EU approval. This approval was eventually received in October 2009. The claim was then processed for payment in December 2009.

26.23 The procedure of security sealing consignments sent from processors to renderers was not uniformly applied with smaller processors appearing to be exempted from these controls. There was a risk that this practice might have led to the addition, subsequent to veterinary certification, of ineligible product to the loads transferred and, ultimately, payment by the Department for that product.

26.24 The Accounting Officer stated that some of the smaller processors used the services of dedicated meat disposal freight companies who would collect meat unfit for human consumption from various processors on the same day. These containers would not be sealed. With the exception of product which was destroyed in the UK, the other consignments were authorised by County Council veterinary staff who may not have had access to seals. He said, however, comfort should be taken from the fact that all consignments were paid on the lowest recorded weight and in cases where seals were absent, weighbridge documents, truck registration and trailer identification were present.

### *Correct Valuation of Product*

26.25 The Department carried out an initial 16 valuation audits on secondary processors who had claimed compensation valued at approximately €34.9 million or 67% of all claims from secondary processors. It was found that 50% of the claims were overvalued and not all processors had used the methodology laid down by the Department. Average reductions of 3% were required and in three cases reductions of between 17% and 23% were imposed.

26.26 The Accounting Officer informed me that, in the case of the 16 processors subject to valuation audits, payments totalled €31.5 million, which was a reduction of €3.4 million. He noted that this was not solely valuation related but also included reductions for ineligible product. Disallowances as a result of excessive valuation were in the region of €450,000.

26.27 The audit review was generally unable to establish from the relevant forms examined whether the product was raw material, work in progress[227] or finished goods. This raised a concern as to whether the correct valuations were used for compensation calculation. Furthermore, in its own audits, the Department found that 15% of claims were 'unreasonable' in that they claimed no work in progress was involved[228].

26.28 Responding to my enquiries, the Accounting Officer noted that there were two issues involved – valuations and work in progress. He said the Department proactively identified and dealt with these issues to ensure that the correct valuations were claimed by secondary processors. The Department identified claims where there was either no work in progress recorded on the final claims or where the volume of work in progress was judged to be very low. Department auditors were asked to visit processors to confirm valuations and inspectors were also asked to visit the plants to examine the processing records and check the level of processing and work in progress. This resulted in substantial disallowances.

26.29 He stated that the Department was able to determine valuations for primary product but knew that secondary processors would have to be audited to ensure that correct valuations were claimed. A trader notice was issued in March 2009, inviting processors to submit final claims which explained the valuation method to be used. However, following queries from processors and queries by the Department on claims received, a further notice was issued in May 2009, reminding processors of the valuation method. Auditors from the Department were asked to review valuations claimed by selected processors.

26.30 The Accounting Officer said that following a review of the reports from its auditors, the Department found it necessary to issue a third trader notice advising secondary processors that it was aware of a high incidence of overclaims and recommending that processors who had not been subject to an audit to review and if necessary revise their claims. Where necessary, processors were contacted by officials in the Department for an explanation, a revised claim was requested and payments reduced. Post payment audits found three overpayments which have either been recouped or are in the process of being recouped.

[227] The Department agreed to pay 80% of the value of a product if the product was still in the work in progress stage at the time of the recall. Where the work in progress exceeded 80%, processors were informed that they would only be paid 80% of the value of the product.

[228] Full product value was not payable if the Department regarded it as work in progress rather than finished product at the time of the recall.

26.31 He informed me that inspectors from the Department's Control Division were asked to visit plants to check on the level of processing of products. Some companies were able to claim higher than the 80% work in progress valuation (which he stated was a guide level) where they could prove that the value of their goods was higher due to the products being in the final stage of processing i.e. slicing or awaiting packaging. Others had to submit revised claims. The total disallowances, which affected six processors was €935,000.

### *Validating Destruction of Product*

26.32 The review noted a number of instances where pigmeat product had been sent for destruction before the Department could determine its eligibility under the scheme. 637 tonnes of product belonging to two major retailers were destroyed in this way. In other cases, the examination found that the Department could not verify whether the product had been destroyed.

26.33 The Accounting Officer said that, in these instances, the Department had no alternative but to pay compensation as the products sent for destruction by retailers had been destroyed in the days after the introduction of the product recall. He emphasised that the recall had been introduced by the Food Safety Authority of Ireland to ensure that contaminated food did not enter the food chain. Retailers cleared their shelves of all pigmeat products as the short shelf life of most pigmeat products did not give the retailers or their suppliers the time to establish whether the products were contaminated or not. While the Department was able to weigh all the consignments sent for destruction it could not establish a record of the products in each consignment.

26.34 He stated that retail claims differed from the product element of the scheme as it was accepted that a consistent form of proof was not possible in most cases, given that removal, dispatch and destruction all took place at the hands of a third party. However, applicants were asked to provide the best proofs available for consideration by the Department. Where available the appropriate completed departmental forms[229] were provided by retailers. Otherwise declarations were obtained from retailers that provided equivalent information on the date and place of dispatch, product details, quantities and the place and date of rendering. Examples of appropriate supporting proofs included invoiced refund claims from retailers, product details, relevant quantities, valuations, credit notes and details of any payments made or replacement product supplied.

26.35 The Department contacted the major Irish retailers early in 2009 to secure their agreement to supply itemised spreadsheets for each of their pigmeat suppliers who were affected by the product recall. The retailers emailed spreadsheets to the Department listing the value of supplier claims, details of the products, rate per kilogram per product and other associated costs. However, retailers were unable to supply the weights for all products for each supplier.

26.36 Retailer documentation to their suppliers contained a mix of weights for some products or the number of units for others so the Department was unable to calculate the weight for each retailer, which could then be used to ensure that the sum of all retail claims did not exceed the total weight destroyed by each retailer. In the case of retailer claims to the value of €1.2 million examined in the audit, the Accounting Officer stated that the claims were paid on the basis of statements from the retailers, account details, invoiced refund claims and credit notes. In some cases, the rates for products claimed in retail

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229 Key documents in the scheme included the PRS2 and PRS3 forms. The PRS2 recorded details of the categories, origin and weights of product being sent for rendering. It was completed by the processor and validated by the Department official on site. The PRS3 was the movement record for the product between the processor and the rendering plant. It was a split document, one half of which was prepared by the processor and validated by the supervising Department officials or Local Authority veterinary staff, the other side completed by management at the rendering plant and validated by the Departmental staff at that plant.

claims were higher than would have been expected for the category of claim. They appeared to be retail rates. This was queried by the Department and resulted in revised claims which led to disallowances of €145,000.

## Conclusion – Management of the Scheme

The scheme was an emergency measure introduced to cope with the adverse market and consumer impact of dioxin contamination in pigmeat products. Although the scheme was introduced in December 2008, final EU approval to the original scope and subsequent amendments put into effect by the Department was not received until October 2009.

A substantial proportion of product sent for rendering by the retail trade and attracting compensation was product which could not be verified by the Department as eligible under the scheme. The key security control over pigmeat product being dispatched for rendering – consignment sealing – did not operate in the case of many smaller processors. In these cases, which were largely managed by veterinary officers from local authorities, seals were not readily available at the time of dispatch. The integrity of the product while in transit would have been at a less than optimal level in these cases.

The Department had substantial difficulties in ensuring the correct valuation policies were applied by pigmeat processors, in particular secondary processors. Around 50% of claims submitted by secondary processors amounting to €35 million were found by the Department to have been overvalued prior to payment. The Department invested considerable administrative and audit effort to ensure that these anomalies were dealt with.

## Product Traceability

26.37 In order to minimise risks to human health and financial loss arising from contamination incidents, national authorities should have systems in place that allow for speedy identification of contaminated product and affected animals.

26.38 In the dioxin case, deboned meat from contaminated animals could not be readily separated from deboned pigmeat from unaffected animals with the result that a product recall had to include all pigmeat product produced between the specified dates.

26.39 The EU defines traceability as '*the ability to trace and follow a food, feed, food-producing animal or substance intended to be, or expected to be incorporated into a food or feed, through all stages of production, processing and distribution*'[230]. The Department is responsible for EU legislation in this regard.

26.40 The status of tracebility in the pigmeat sector can be summarised as follows

- there is no EU or national legislation requiring traceability systems for pigmeat products to producer source
- there is traceability of pigs to the farm of origin from abattoir records. However, once a pig carcass has been deboned, the individual meat cuts cannot easily be traced back to the farm of origin.

[230] Regulation (EC) No 178/2002.

26.41 In regard to the latter point, the Department states that this is because of commercial constraints placed on production facilities i.e. pigs of the same carcass weight (originating from various farms) are placed in the same chill which results in the mixing of carcasses from different origins. It said that this was necessary for commercial reasons as supermarket clients demand cuts within a very tight weight range. The Department noted that all boxed product could be traced back to farms whose pigs were slaughtered on the same day.

26.42 Departmental papers show that the Department had considered the option of a partial recall of product. However, it emerged that pigs had moved from the ten pig farms to which contaminated feed had been supplied to a further 18 herds. The Department was unable to establish categorically that all pigs from these herds had been slaughtered at the seven largest slaughter plants. Therefore, it was decided that the scope of the recall would extend to all slaughter plants.

## Conclusion – Traceability

Inability to trace some pigmeat product back to farm of origin led to a wider recall than might otherwise have been the case. While accepting the Department's view that the industry complies with EU requirements in regard to traceability it would be useful for it to review national agricultural practice in traceability systems in comparable countries to determine if there are cost-effective methods to improve traceability of all pigmeat products and reduce the risk of financial loss to the Exchequer.

### *Views of the Accounting Officer*

26.43 The Accounting Officer stated that, in general, Irish traceability systems are regarded as being at least on a par with those in other EU Member States. The approach taken to the recall was also guided by the urgency of the need to restore confidence in the Irish pigmeat industry, the protracted period over which the relevant slaughtering had taken place and the fact that much of the product had already travelled through a complex supply chain. He said the scope to improve systems had nonetheless been discussed on a number of occasions since the dioxin incident at meetings between the Department and meat industry representatives.

26.44 He stated that it is intended that a standard return template will be used in the event of a similar incident recurring, so that information supplied by different food business operators to facilitate traceability can be processed more efficiently. Finally, he said that the stakeholders were also monitoring other developments, particularly in relation to bar coding and a proposed scheme to DNA type Irish boars, which may contribute to improved traceability.

## Food Safety Inspection Regime

26.45 Primary responsibility for food safety rests with Food Business Operators (FBOs)[231]. A central element of this responsibility is to draw up and have in place a Hazard Analysis and Critical Control Point (HACCP) plan. The plan must include sampling of the critical control points in the processes, i.e. 'self checks'.

26.46 FBO's also carry out residue monitoring. The Department issues annual directions to each primary processor specifying the minimum range of substances which must be checked for and minimum testing levels. The Department has stated that it makes clear to FBO's that the directions regarding the minimum levels of testing are without prejudice to their own risk assessments.

26.47 A multi-annual National Control Plan (NCP) is jointly prepared by the FSAI and the Department. It determines the structure and the systems of controls for food, feed, animal health and animal welfare in Ireland. The National Residue Monitoring Programme (NRMP) and the National Feed Inspection Programme (NFIP) are key control measures within the NCP.

26.48 The Department has informed me that annual directions issued by the Department to the FBOs in relation to residue testing do not cover testing for PCB's or dioxin contamination. Testing for PCB's continues to be carried out under the Department's testing programme and, since the beginning of 2011, testing is also carried out for dioxins.

### *National Residue Monitoring Programme*

26.49 The NRMP is mainly designed to monitor compliance with EU legislation. It is concerned with two key elements

- monitoring for the use of certain banned substances (e.g. growth promoting hormones) and
- monitoring the levels of authorised medicines and environmental contaminants, for which maximum levels (maximum residue limits) have been set.

26.50 The level of testing to be undertaken nationally on an annual basis is set down by way of EU Directive. In Ireland, the distribution of the national allocation as between primary processors supervised by local authorities and those supervised by the Department reflects the relative throughput of each sector. This distribution is overseen by the FSAI. Local authorities supervise primary processors with lower throughput and are responsible, by means of a formal service contract, to the FSAI[232] for delivery of the NRMP in that sector. On the other hand, the Department is responsible for supervision of higher throughput primary processors in regard to residue testing. The FSAI also has a service contract in place with the Department for delivery of those responsibilities.

26.51 Of the 98 samples taken by the Department for PCB testing in 2008, 25 had been taken prior to the test that detected the residue leading to the recall. When a sample in November showed positive for PCB, a further 69 samples were taken of which 38 showed positive.

26.52 The Department require all samples to be sealed. The sample taken on 19 November 2008 that resulted in the discovery of the dioxin contamination had no seal when received in the Department's

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[231] A Food Business Operator is the person or entity responsible for ensuring that the requirements of food law are met in the business under their control.

[232] The FSAI has overall responsibility, nationally, for implementation of food safety legislation.

laboratory. Of ten subsequent samples issued to a laboratory for screening of PCB's, eight were listed by the laboratory as not sealed.

26.53 The review noted that the six abattoirs that received product from the contaminated farms from 1 September 2008 to the date of the discovery of PCBs on 19 November 2008 carried out slaughtering. PCB or dioxin contamination was not discovered by the Department during this time.

26.54 The Accounting Officer stated that while the seal on the outer container that held the samples was not present on arrival in the laboratory in certain cases, this did not in any way affect the traceability of the sample. He said traceability was ensured through the documentation accompanying the samples and, in particular, a duplicate labelling system under which each individual sample container (within the outer container) has a uniquely numbered label affixed to it and the duplicate is affixed to the sampling documentation. Since 2008, the Department had introduced an alternative sealing system (which was important from the point of view of sustaining a criminal prosecution for a residue breach). This new system provides for a dedicated sealing container within the closed outer container. He noted that seals on outer containers were vulnerable to being torn off inadvertently during transit.

26.55 The Accounting Officer also stated that because of the lack of previous history in relation to detection of dioxins in animal product in Ireland, it was not possible to implement any particular targeting criteria under the NRMP, in terms of checking for PCBs, other than ensuring a geographic spread and distribution across the year. This system succeeded in detecting the problem, subsequently traced to the feed chain.

## *National Feed Inspection Programme*

26.56 The objective of the National Feed Inspection Programme is to ensure that feedstuffs or feeding practices do not constitute a hazard to human or animal health or the environment. Its scope is the safety of feedstuffs throughout all stages of the food chain.

26.57 Unannounced inspections are carried out at all stages of the feed chain to check compliance with legislation[233]. Inspection involves the examination and assessment of various processes, documentation or facilities and equipment. The Department operates a risk based inspection regime that takes account of

- experience gained from previous inspections
- known high risk contaminants and
- specific requirements issued from the EU.

26.58 According to the Department, a total of 8,192 unannounced inspections in feed operator premises have been carried out between the years 2007 and 2010. Some 2,100 compliance shortcomings were found in just under 1,000 inspections or 12% of these feed operators. The Department has stated that most of these shortcomings were minor in nature.

26.59 The Department also carries out audits at approved manufacturers and certain other feed business establishments such as food recyclers. These audits are pre-notified to the firms and involve an examination of the control procedures in place.

[233] The applicable EU legislation is Regulation 882/2004 and Regulation 183/2005. These Regulations were given effect in Irish law by Statutory Instrument 432 of 2009 (replacing Statutory Instrument 910 of 2005, which was in place at the time of the dioxin incident).

26.60 A total of 277 audits have been carried out between 2007 and 2010. Some compliance deficiencies were found in all of the cases.

26.61 In regard to non-compliance noted in NFIP inspections, the Accounting Officer said that the vast majority of non-compliance in unannounced inspections was minor in nature, mainly in relation to hygiene and non adherence to aspects of HACCP plans or protocols laid down in quality manuals. He also stated that all audits will by their nature highlight one or more deficiencies in procedures. Corrective actions and a timeframe for completion are agreed with feed business operators following an audit.

26.62 Dioxin contamination had not been found under this programme between 2002 and the November 2008 detection. In 2002 dioxin had been found in a fish feed additive for consumption by cattle. In that case, the contamination was assessed as not constituting a health concern for humans.

26.63 Tests carried out for dioxins in 2009 and 2010, resulted in one positive sample in 2009 and three in 2010. The sample in 2009 related to the dioxin incident precipitating the disposal and recall schemes. The positive samples in 2010 related to seaweed meal.

26.64 The Accounting Officer has informed me that the Department reviews its control regime both internally and with the industry on an ongoing basis, taking into account its control results.

## Conclusion – Monitoring

The Department’s monitoring and testing regime did not pick up dioxin contamination emanating from affected farms or in slaughterhouses in the period between the end of August 2008 and mid-November of that year.

Overall, the results of inspections suggest a high level of non-compliance with feed safety and hygiene regulations at various points in the food chain. Many of these instances may be relatively minor but the scale of the shortcomings suggest a need for the Department to consider the broad lessons arising out of inspections and promote an improvement programme based on the key findings.

## Conclusion

The Pigmeat Recall Scheme was introduced in December 2008 as an emergency measure to address health concerns and minimise the economic damage that the contamination of meat products could do to Ireland's reputation as a producer of quality food products. The ambit of the scheme altered in the course of the year after its introduction with the final terms being approved in October 2009.

Implementing effective administrative processes to prevent excessive payments under the scheme in the case of valuations applied by processors to products submitted for compensation proved difficult. Large quantities of pigmeat product were destroyed before the Department had verified that it was eligible under the scheme. In addition, around 50% of claims submitted by secondary processors were found by the Department to have been overvalued.

Overall, the Department coped reasonably well with the administration of a compensation scheme based on incomplete records.

There is a limit to the extent to which pigmeat product may be traced back to the farm of origin, particularly where pigmeat has been mixed into value added items. This had the effect of forcing a wider and deeper and more expensive recall scheme than might otherwise have been the case with full traceability.

There appears to be a significant level of non-compliance by food business operators with food safety and hygiene regulations which the Department and other State regulatory agencies should consider in terms of how this may be improved so as to minimise the risks of future contamination incidents that have the potential to threaten the reputation of the industry.

# Annex A Scope of the Pigmeat Recall Scheme

## *Original Scope*

At the commencement of the scheme in December 2008 the scope of product eligible for compensation was pigmeat product manufactured from animals slaughtered in Ireland on dates between 1 September and 6 December, 2008 in the following situations

- the product had left the control of the primary and secondary processors and was in free circulation on 6 December, 2008, was returned to the processor or his agent, was receipted for and was verified by the Department; or
- the product was sent directly by retailers to meat renderers for destruction, with verification documents being provided to the primary and/or secondary processors and made available to the Department; or
- the product remained under the control of the processors, and could not be shown conclusively to the satisfaction of the Department to be uncontaminated; or
- the product remained under the control of primary and secondary processors and, due to the expiry or sell by dates could not enter free circulation in the marketplace.

## *Scope Extensions*

Over the course of 11 months – December 2008 to October 2009, the Department broadened the scope of the original Schemes. By October 2009 compensation had been made available on a more extensive basis and, in particular, in respect of

- an additional cull of 40,760 pigs
- an additional 230 tonnes of beef products held under the control of processors and withdrawn from the market as a result of dioxin contamination
- pigmeat products manufactured in Ireland from a mix of Irish sourced and foreign pigmeat
- pigmeat that had been incorporated into meat products for which the primary and secondary processors bear a legal liability to reimburse the tertiary processors
- 800 tonnes of product destroyed in the early days of the scheme that may also have included uncontaminated product (including foreign product)
- product stated by processors to be unsaleable or unmarketable and manufactured between 1 July 2007 and 6 December 2008
- product manufactured between 1 July 2007 and 1 September 2008 that had been exported
- transport and other costs of processors in bringing eligible product to the point of disposal.

In October 2009, the Department received EU sanction to include the above elements in the scheme.

# Chapter 27

# Maintenance of Regional and Local Roads

Vote 32 Transport

# Maintenance of Regional and Local Roads

27.1 Regional and local roads account for 94% of the country's road network and carry over 54% of all road traffic. Local authorities are responsible for the construction, maintenance and improvement of those roads in accordance with Section 13 of the Roads Act 1993 (the Act). In order to supplement the resources available to local authorities in discharging this responsibility an annual investment programme of grant funding is provided by central government.

27.2 In September 2009 responsibility for the administration of the investment programme was transferred from the Department of Transport (the Department) to the National Roads Authority (NRA) pursuant to Section 32 of the Act. The decision was taken in order to better utilise resources which were available to the roads sector.

27.3 The NRA's main role is to provide technical support, advice and guidance to local authorities and to process grant payments under the programme. It is anticipated that the additional resource costs of the NRA associated with the role will be limited as use can be made of existing expertise and procedures within the NRA.

27.4 Funding provided to the NRA from the Local Government Fund for the purpose of paying those grants to local authorities amounted to €411 million in 2010. The Local Government Fund is administered by the Department of the Environment, Community and Local Government and is resourced from voted monies provided by the Oireachtas and motor tax receipts.

27.5 In 2010, the allocations to local authorities under the regional and local roads investment programme[234] were determined by the Department in conjunction with the NRA and comprised the following

- specific improvement grants for the provision of links to strategic routes
- strategic regional and local roads programme grants which facilitate development in line with the National Spatial Strategy
- maintenance and improvement grants allocated on a pro-rata mileage basis[235] to local authorities for projects such as surface dressing of roads, roads reconstruction and other road maintenance such as drain clearing and road markings
- block grants to urban authorities allocated based on population size
- local improvement schemes such as works on non-public roads financed through a mixture of public and private funds
- other projects including work on sign posting, footpaths, safety measures and training of staff involved in road maintenance.

27.6 In respect of regional and local roads, the NRA paid grants of €411 million in 2010 to local authorities – €300 million for construction and improvement and €111.4 million on maintenance and management. Figure 124 sets out the grants paid to local authorities in 2010 by type of funding.

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[234] Separately, urban authorities, including five City Councils, five Borough Councils and 49 Town Councils, receive block grants for road improvements and maintenance in their administrative areas.

[235] These grants are allocated based on the relative mileage of road in each county. There is an exception in the case of the three Dublin County Councils who receive a higher allocation due to the additional demands on the road system in their areas.

**Figure 124 NRA Regional and Local Road Grants, 2010**

| **Grant type** | **Budget** | **Grants paid** |
|---|---|---|
| | **€m** | **€m** |
| **Road Construction and Improvement** | | |
| Restoration Improvement | 188.8 | 190.1 |
| Specific Improvement | 33.9 | 38.4 |
| Strategic Projects | 23.7 | 21.6 |
| Urban Block Grant | 26.5 | 26.0 |
| Other Improvements [a] | 29.6 | 23.9 |
| | **302.5** | **300.0** |
| **Road Maintenance and Management** | | |
| Restoration Maintenance | 60.0 | 59.3 |
| Discretionary Maintenance | 51.0 | 51.7 |
| Miscellaneous | 0.4 | 0.4 |
| | 111.4 | 111.4 |
| **Total** | **413.9** | **411.4** |

Source: Department of Transport, Tourism and Sport

Note: a Other improvements includes safety measures, regional road signposting, footpaths and training.

## Chapter Focus

This chapter reviews the cost of surface dressing by local authorities under their restoration maintenance programmes. Given the transfer of function to the NRA and the variation in costs of road resurfacing works across local authorities I enquired as to

- the efficiencies being sought from the transfer
- the measures taken or proposed to reduce the unit cost rates of road resurfacing work.

## Unit Cost of Road Resurfacing

27.7 Included in the €59.3 million spent on restoration maintenance are grants aimed at protecting the structural integrity of roads by way of surface dressing and associated preparatory work[236] such as hedge and verge trimming.

27.8 Data on the average unit costs incurred by local authorities for surface dressing supplied to the Department of Transport for 2008 to 2011 indicated that there were significant variations in costs across different local authorities. Figure 125 sets out the average costs for the Dublin Area and the rest of the country by year. This indicates that outside the three Dublin County Council areas the average combined cost for regional and local roads was €4.96 per square metre in 2010 with the costs for the three Dublin areas significantly higher than the rest of the country at €27.53 in 2010.

**Figure 125 Average Resurfacing Costs under the Restoration Maintenance Programme, 2008 - 2011[a]**

| Year | Average cost[b] outside Dublin (€/m²) | | | Average cost[b] in Dublin (€/m²) | | |
|---|---|---|---|---|---|---|
| | Regional roads | Local roads | Overall | Regional roads | Local roads | Overall |
| **2008** | 5.27 | 4.44 | 4.61 | 26.64 | 22.40 | 22.20 |
| **2009** | 5.25 | 4.34 | 4.56 | 26.50 | 14.84 | 18.29 |
| **2010** | 5.44 | 4.88 | 4.96 | 41.07 | 26.37 | 27.53 |
| **2011 (projected)** | 4.86 | 4.05 | 4.27 | 23.84 | 18.23 | 19.52 |

Source: Department of Transport, Tourism and Sport

Notes: a No information was available from one county area for 2008, 2009 and 2010 and from one Dublin area for 2009.

b The overall averages are calculated on the basis of a weighted average between regional and local roads to get an average per county and then a straight average is calculated based on each county. The result is expressed as a cost per m$^2$.

27.9 Figure 126 shows the spread of costs of road resurfacing for regional roads in 2010. Clare reported the lowest at €3.78 per square metre while Sligo, Kilkenny and Tipperary South recorded the highest rates at €10.87, €8.55 and €7.06 respectively.

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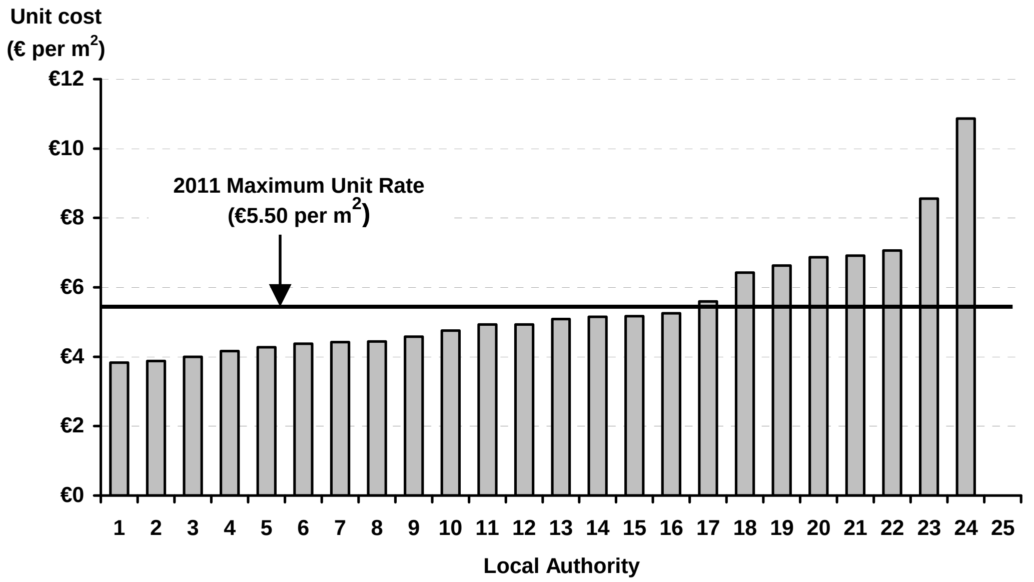
[236] This excludes larger preparatory work such as drainage and pothole repair which are classified as Restoration Improvement.

**Figure 126 Spread of Resurfacing Costs for Regional Roads in 2010 (excluding Dublin Areas)[a]**

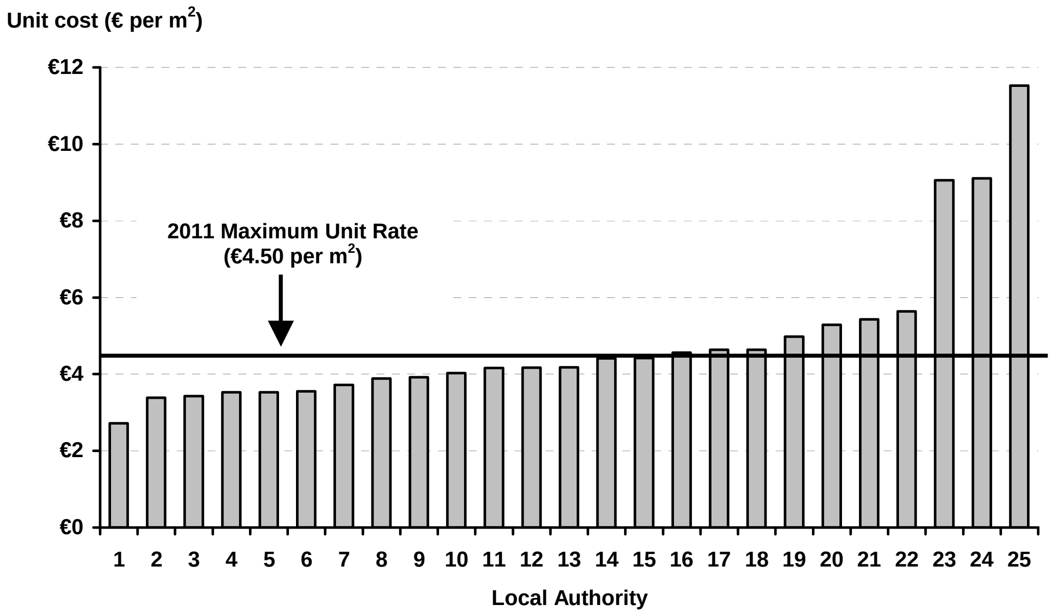



Source: Department of Transport, Tourism and Sport

Note: a No information was available from one local authority area.

27.10 Figure 127 shows the spread of costs of road resurfacing for local roads in 2010. Cavan reported the lowest cost for local roads at €2.72 per square metre while the highest rates were recorded by Sligo, Kilkenny and Tipperary South with rates of €11.53, €9.11 and €9.06 respectively.

**Figure 127 Spread of resurfacing Costs for Local Roads in 2010 (excluding Dublin Areas)**




Source: Department of Transport, Tourism and Sport

Note: No information was available from one county area.

27.11 Across the three Dublin areas there is a large spread in cost with Dun Laoghaire paying €50.75 per square metre in 2010, South Dublin €22.56 and Fingal €9.27.

27.12 In December 2010, the NRA, on behalf of the Department, issued a revised Memorandum on Grants for Regional and Local Roads which set out policies, practices and procedures determined by the Department relating to the regional and local roads investment programme. The Memorandum updated the conditions for grant funding for local authorities under a programme which provided that, for resurfacing works, local authorities must justify variations from national average costs. A subsequent circular issued by the NRA following discussion with the Department in February 2011 set maximum unit costs for 2011 of €4.50 and €5.50 per square metre for surface dressing for local and regional roads respectively. Where these rates are exceeded without a sufficient explanation, a council's grant will be reduced by an amount equal to the excess cost[237].

### *Views of the Accounting Officer*

27.13 In response to my enquiries the Accounting Officer stated that there are a number of reasons why the cost of surface dressing work can vary from county to county.

- Polymer modified bitumen emulsion is more expensive than normal bitumen emulsion. The former is often used on roads with high traffic volume.
- The cost of traffic control measures which are required will vary from site to site. In general the greater the level of traffic the more challenging and expensive the traffic control will be.
- The distance from the supply point to site in terms of bitumen emulsion and chippings will affect transport costs of materials.
- The number of suppliers of materials competing in different geographical regions will affect cost.
- Rates of spread of both bitumen emulsion and chippings will vary depending on the mix design which takes account of site conditions.
- Variations of the normal single surface dressing are sometimes required to ensure that the proposed surface treatment will fully rectify the deficiencies in the condition of the existing road. Such treatments include racked-in dressing, double dressing, pad coat plus single dressing and sandwich dressing.

[237] Consequently, the amount paid will be the lesser of the actual cost or the maximum set by the Department.

## Surface Dressing

### *Rural Roads*

Surface dressing involves the uniform application of a bituminous binder sprayed onto a road surface followed by a layer of single sized chippings. The application of a surface dressing is a maintenance treatment which can extend the life of a road pavement that is beginning to show signs of distress (e.g appearance of minor cracks). This essential preventative work also improves the skid resistance of the road. Because of the process involved it is suited to rural roads but not to urban roads since in urban areas the liquid bitumen emulsion and loose chips would get transferred to footpaths and into shops/houses.

### *Urban Roads*

In urban areas an alternative more expensive process and more expensive materials need to be used. Options such as Hot Rolled Asphalt (HRA) with pre-coated chips or Stone Mastic Asphalt are used and while these are longer lasting they are significantly more expensive. Apart from being more expensive these materials have a greater depth than surface dressing material (and thus strengthen the road as well as seal it). The extra depth of HRA and other such materials means that in urban areas some of the existing road pavement may need to be excavated or the levels of kerbs, manholes and gullies raised to compensate for the depth of overlay. The more built up an area is the less likely it is that less expensive surface dressing options can be used.

27.14 The Accounting Officer stated that, in general, rural roads that are amenable to surface dressing work predominate in the areas outside Dublin but these counties still have some roads that pass through urban areas and which require a more expensive surface treatment. These roads are being identified as part of a checking process which is now in place. In some instances, where explanations have been sought from councils this year by the NRA it has emerged that work on roads in urban areas account for rural councils breaching the maximum rates set for 2011. For this reason, it is proposed to amend the reporting requirements in 2012 so that councils will identify this type of work upfront and track its cost.

27.15 He stated that the Dun Laoghaire/Rathdown and South Dublin County Councils are very urbanised and may carry out no surface dressing work in a particular year. Fingal has some rural roads and some surface dressing work is carried out on them. In turn, this brings down the average unit cost of work undertaken by Fingal under its Restoration Maintenance grant.

27.16 He stated that, given the various factors involved in surface dressing costs, the Department has not to date set an overall efficiency target. 2011 is the first full year for the operation of the maximum unit rates and the aim is to track costs and outputs over a period of time to assess the results being achieved.

## Conclusion

Responsibility for the administration of the local and regional roads programme was transferred from the Department of Transport to the National Roads Authority in late 2009 with the intention of obtaining improved efficiencies.

The National Roads Authority administered the payment of grants of €411 million in 2010 under the associated road investment programme in accordance with this transfer of function.

In the case of Restoration Maintenance grants, an analysis by the Department of Transport of the unit cost of surface dressing of roads indicated wide variations in cost between local authorities. Information was not available from some local authorities.

The Department of Transport and the National Roads Authority have set maximum unit costs for surface dressing work for local authorities for 2011 and have stipulated that costs in excess of those rates will not be reimbursed unless a sufficient explanation for the variation is provided.

The Department intends to amend reporting requirements to identify resurfacing work on urban roads within local authority areas given the higher treatment costs for those type of roads.

# Chapter 28

# Employment Support and Enterprise Stabilisation

# Employment Support and Enterprise Stabilisation

28.1 The State implemented a set of measures from 2009 onwards to support business and employment during the financial downturn. The overall objectives of the measures were to support the maintenance of existing jobs and stabilise enterprises. The measures included

- a temporary Employment Subsidy Scheme (ESS) – to help maintain vulnerable jobs and productive capacity
- an Enterprise Stabilisation Fund (ESF) – to assist vulnerable but viable internationally trading companies to survive the economic downturn with the aid of equity investment and market development grants.

28.2 As well as the above two initiatives, other related interventions included

- the requirement as part of the Bank Recapitalisation Scheme for the Bank of Ireland and Allied Irish Banks Plc to make available more than €3 billion in new lending to small and medium enterprises in 2010 and 2011
- a Credit Supply Clearing Group with bank, business and State representation set up with responsibility for identifying patterns of events where the flow of credit to viable businesses appeared to be blocked and the establishment of a Credit Review Office to provide independent, external review of decisions of credit refusal by banks.

28.3 Related initiatives that do not fall within the scope of this report included

- an Employer Job Incentive Scheme under which an employer who created a new job and employed a person who has been unemployed for six months or more, was fully exempt from the liability to pay employer PRSI for the first year of that employment
- arrangements to reduce the payment period by central government departments to their business suppliers from 30 to 15 calendar days to improve cash flow for enterprises.

## Chapter Focus

This chapter examines the outturn of

- the Employment Subsidy Scheme and
- the Enterprise Stabilisation Fund.

28.4 The ESF was introduced in April 2009 and the ESS in August 2009. They both operated in accordance with an approved Irish Scheme under the Temporary Framework for State aid, initiated by the European Commission on 17 December 2008. The Temporary Framework enabled EU Member States to provide businesses with improved access to finance to combat the effects of the financial and economic crisis[238]. Both the ESS and ESF were managed and administered by Enterprise Ireland on behalf of the Department[239]. The funds were provided from the Vote for Enterprise, Trade and Innovation.

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[238] The Commission approved Ireland's application to provide State aid in April 2009.

[239] The legal basis for the operation of the schemes is the IDA Ireland and Enterprise Ireland: Industrial Development Acts 1986-2006, Údarás na Gaeltachta Acts 1979-1999 and Shannon Free Airport Development Company Limited Act 1959, as amended.

## Employment Subsidy Scheme

28.5 The objective of the ESS was to assist employers, who were under particular pressure as a result of the global economic crisis to retain the labour, knowledge and skills of their workforce and thereby support a faster return to sustainable growth.

28.6 The ESS entailed the payment of a subsidy to qualifying companies[240] who retained an agreed number of jobs until 30 November 2010. The amounts allocated and payments made under the scheme for the years 2009 to 2011 are set out in Figure 128.

**Figure 128 Employment Subsidy Scheme Financial Outturn 2009 – 2011[a]**

| Year | 2009 €m | 2010 €m | 2011 €m | Total €m |
|---|---|---|---|---|
| Department allocation | 18.2 | 93.4 | 4.2 | 115.8 |
| ESS grants paid[b] | 18.2 | 95.7 | 2.1 | 116.0 |

Source: Enterprise Ireland

Notes: a While the ESS ended in 2010, Enterprise Ireland paid claim applications up to March 2011 in cases where full supporting claim documentation was not received until after the closing date.

b The excess over allocation was met from Enterprise Ireland's operational budget.

28.7 The amount of funding available under the ESS scheme was cash limited. Allocation was based on a competitive process with subsidies being paid to companies that achieved the highest score in the assessment process until available funding was exhausted.

### Scheme Eligibility Criteria

The principal eligibility criteria were

- The company had to employ ten or more full time employees in Ireland at the date of application.[a]
- It had to have export sales comprising at least 30% of turnover and be engaged in manufacturing or internationally traded services.[b]
- Companies should not have been in difficulty on 1 July 2008, but were facing significant difficulties as a result of the global and financial economic crisis.
- The companies would be considering redundancies at the point of application.
- They were required to commit to maintaining a number of full time jobs until November 2010.
- They had to be in a position to demonstrate that the company had sufficient cash, taking into account the employment subsidy to trade up to 31 December 2010 and beyond.
- They had to be judged to have sound, robust and sustainable business models and business plans that were financially viable in the medium term and assessed as capable of growth in a global upturn.

Notes: a This was expanded in a second call for applications to include part time employees.

b This was expanded in a second call for applications to include non-exporting companies in all sectors.

240 In this report, companies include incorporated entities, sole traders and partnerships.

28.8 There were two calls for applications under the scheme. The first call for applications was made in August 2009 focusing on the client base of the development agencies[241] (internationally traded services and manufacturing companies) and was under-subscribed. 621 applications[242] were made.

28.9 The export eligibility criterion was challenged by the European Commission who maintained that the provision could be regarded as constituting an export subsidy for Member States which was not intended. Following dialogue with the Commission the restriction of eligibility to exporting companies was removed and a second call was made in December 2009 which extended the scheme to non-exporting companies in all sectors. The widening of the eligibility criteria resulted in 2,590 further applications[243].

28.10 The scheme entailed the payment of a subsidy of €9,100 per annum towards full time employees (working an average of 35 hours or more per week) or €6,370 for part time employees (working an average of 21 hours or more per week) up to a maximum of €500,000 per company. Initially, there was no restriction for persons not directly employed by an applicant (such as agency or contract workers) in the first call but a restriction was imposed in the second call when the scheme was opened up to non-export companies.

28.11 Companies declared, at the time of application, the number of employees that were at risk of being made redundant and employee subsidies could not exceed this number. The number of potential jobs at risk was also taken into account when assessors determined a company's viability in the medium term.

28.12 As part of the scheme, employers committed to retain a defined number of jobs for each job subsidised. Overall, the State subsidised 14,124 jobs at a cost of €116 million. This led to a commitment to retain those jobs and an additional 79,234 (a total of 93,358). The subsidies were paid to 1,521 companies where 34,681 jobs were declared to be at risk, 14,409 in the first call and 20,272 in the second call. Figure 129 shows grant payments made for the number of jobs that were subsidised under the scheme and the number of jobs that companies' committed to retain.

**Figure 129 Subsidised and Committed Jobs**

| | Full-time | Part-time |
|---|---|---|
| **Subsidised jobs** | | |
| Call 1 | 7,080 | — |
| Call 2 | 5,399 | 1,645 |
| **Committed jobs[a]** | | |
| Call 1 | 33,791 | — |
| Call 2 | 47,903 | 11,664 |
| **Projected Retention Ratio[b]** | | |
| Call 1 | 1:4 | — |
| Call 2 | 1:8 | 1:6 |

Source: Enterprise Ireland

Notes: a The committed jobs figure also includes the subsidised jobs figure.

b This ratio is the number of subsidised jobs as a proportion of committed jobs.

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241 Development agencies comprises Enterprise Ireland, IDA Ireland, Údarás na Gaeltachta and Shannon Development.

242 453 of these were approved for funding.

243 1,178 of these were approved for funding.

28.13 The average amount of subsidy paid in the first call was €141,000 - more than 2.5 times that for the second call. The average number of subsidised jobs per company was 16 for the first call, at an average cost of €8,700 per job compared to seven at an average cost of €7,700 per job for the second. Ultimately, 3,200 entities sought assistance. Figure 130 sets out a comparison between the application and payment stages.

**Figure 130 Average Subsidy Paid**

| | Number | Amount €000 | Average €000 |
|---|---|---|---|
| Applicants | 3,211 | 236,809 | 73.7 |
| Payments | 1,521 | 115,994 | 76.3 |

Source: Enterprise Ireland

28.14 Less than 50% of applicants received grant payments. The primary reasons that applicants were not approved for funding was because their application was missing one or more of the mandatory financial documents, exports were below 30% for the first call or in the case of the second call the funding was exhausted.

28.15 In accordance with the terms of the Letter of Offer to qualifying companies, grants were payable only on foot of receipt by Enterprise Ireland of a company director's statement on job numbers, an independent accountant's report to supplement the claim and a valid tax clearance certificate.

28.16 A total of 20 companies in the first call were paid the maximum grant of €500,000 compared to four companies receiving similar payments in the second call.

28.17 In the case of those companies that received payments, the number of jobs committed and the number of jobs subsidised across the various sectors is outlined in Figure 131.

**Figure 131 Committed and Subsidised Jobs[a]**

| Sector[b] | No. of companies | Paid €000 | Jobs committed | Jobs subsidised |
|---|---|---|---|---|
| Manufacturing | 496 | 52,539 | 32,635 | 6,188 |
| Wholesale and retail trade | 363 | 19,280 | 18,642 | 2,394 |
| Real estate, renting and business activities | 212 | 16,432 | 14,121 | 1,954 |
| Hotels and restaurants | 144 | 6,376 | 8,766 | 902 |
| Construction | 93 | 4,282 | 4,600 | 630 |
| Transport, storage and communication | 66 | 4,141 | 4,163 | 501 |
| Financial intermediation | 25 | 3,073 | 1,894 | 361 |
| Other | 122 | 9,871 | 8,537 | 1,194 |
| **Total** | **1,521** | **115,994** | **93,358** | **14,124** |

Notes: a The jobs committed total includes 11,664 part-time jobs. The jobs subsidised includes 1,645 part-time jobs.

b The allocation to sectors is based on NACE codes which are used in the European Union to classify economic activities for statistical purposes. The NACE code assigned to each company is based on its primary economic activity.

### *Impact of the Scheme*

28.18 The impact of the scheme can be gauged by the extent to which qualifying companies retained employee numbers sufficient to allow for the drawdown of funds[244].

28.19 An analysis of final claim payments against approved companies showed that, in the first call for applications, 60 out of 453 companies (13%) approved for funding did not receive this payment. This outcome signifies that this group was unable to retain the full 3,317 jobs they had committed to.

28.20 In the second call, 248 out of 1,178 companies (21%) approved for funding did not receive a final claim payment. This group had committed to retaining 14,761 jobs.

28.21 It was not practicable to determine to what extent the numbers retained fell short of those committed, as companies that did not qualify for a final grant payment were not required to submit information on job numbers.

28.22 Overall, based on the extent to which companies qualified for final payments made, around 19% of the assisted companies were unable to retain the full level of jobs they had committed to.

### *Administration of the ESS*

28.23 The application assessment process involved the following steps

- All applications meeting the eligibility criteria were subjected to a desk-based assessment[245] and marks were awarded for the credibility of each company's restructuring plans.
- Assessors subjectively awarded marks on the potential future viability of the company based on projected cashflows and other financial information submitted.
- Marks were also awarded taking account of the ratio of job subsidies applied for against the level of employees each company committed to retain.

28.24 Applications that were recommended for funding by the assessors were submitted for approval to an Employment Subsidy Committee[246].

28.25 Enterprise Ireland commissioned an audit report by Deloitte in March 2010 on ESS assessment procedures. It found that no formal guidance had been set down by Enterprise Ireland in relation to the review of financial information submitted by the applicant to determine if they were in financial difficulty and therefore eligible for support. The report concluded that it was unable to ascertain whether a formal financial assessment had been carried out to determine the eligibility of applications in all cases.

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244 A company that failed to retain the number of committed employees was not paid for that particular period (but could be paid for the next period provided employment rose to the committed level).

245 The assessment team for Call 1 consisted of representatives from Enterprise Ireland, IDA Ireland, Údarás na Gaeltachta and Shannon Development. The assessment team for Call 2 was outsourced to a firm of Chartered Accountants.

246 This was a multi-agency committee of representatives from the Department, Enterprise Ireland, IDA Ireland, Údarás na Gaeltachta, Shannon Development and members of the private sector.

28.26 Grants were payable for 13-week claim periods and were paid in arrears if companies maintained the committed number of employees over the claim period and met the conditions set out in the Letter of Offer. Enterprise Ireland relied upon a company director's statement and an accountant's certificate[247] for confirmation that employees worked the requisite hours during the claim period.

28.27 A number of instances of incorrect claiming came to light subsequent to payment

- In one case, a claim for €57,200 was paid out before the fact that erroneous employee information had been submitted was detected.
- Another company's claim was based on an incorrect calculation method which was not detected before a payment of €56,700 was made. The company has made a full repayment.
- In a further case, Enterprise Ireland paid €39,000 to an ineligible company. The company was put into receivership after payment was made and Enterprise Ireland's claim for repayment is now with the receiver.

28.28 Enterprise Ireland state that it is normal practice in short, defined, large volume schemes such as the ESS, to complete the scheme before spot-checking is carried out. Enterprise Ireland has commenced an audit of claim payments on a sample basis by inspection of records in the companies' premises and propose to complete the audit in the latter half of 2011.

28.29 In reviewing the extent of job retention, the review by my Office found that insufficient detail was captured about the specific business units that sought the assistance. It became apparent when the review sought to cross check employment levels with the information on Forfás annual employment surveys[248] that the scheme information could not be reconciled with the surveys. This was because the specific business units for which ESS had been sought and approved could not be identified in the case of companies that operated within a group. Any follow up audits by Enterprise Ireland should seek to identify the specific business units in the applications and cross reference the employment levels with the Forfás survey results for those specific business units.

28.30 The cost of advertising the scheme was €135,000. Costs of administrative assistance amounted to €497,000. This was made up of

- €243,000 for an outsourced assessment team
- €71,000 for the provision of a call centre
- €39,000 for an external assessment team to review unsuccessful applications where requested
- €16,000 for the services of an independent score reviewer
- €128,000 for temporary contract staff employed for second call.

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247 The work of the reporting accountants was undertaken in accordance with Miscellaneous Technical Statement M45 – 'Grant Claims' and consisted of procedures agreed by Enterprise Ireland with the Institute of Chartered Accountants in Ireland.

248 Forfás carries out an annual census of employment levels as at 31 October in all manufacturing and services companies supported by the enterprise development agencies.

## Conclusion - ESS

The scheme was an emergency response designed to help maintain productive capacity and employment. In design, it only subsidised jobs that were claimed to be at risk of redundancy and the assistance was only payable in instances where a defined number of other jobs were to be retained.

Based on the extent to which companies qualified for final payments, around one-fifth of assisted companies did not manage to retain all of the jobs they committed to.

In the case of those companies that maintained the committed jobs, the retention target had been set at 85% of their employment levels. This leads to an inevitable risk of deadweight i.e. paying for jobs that would have been retained in any event.

The specific business units for which ESS had been sought and approved could not be identified in the case of companies that operated within a group. This became apparent when the review sought to cross check scheme employment levels with the information on Forfás annual employment surveys. It is important in schemes such as the ESS that the specific business units and populations of workers be identified. The absence of this level of detail has implications for the capacity of the State agencies to evaluate the impact of the spending and reduces the quality of the vouching that supports the expenditure.

An audit report on the scheme conducted on behalf of Enterprise Ireland by Deloitte found that there was limited information on the assessment of each assisted entity's financial status with the result that a key eligibility criterion was not fully evidenced. Enterprise Ireland has stated that the scheme was set up on the basis that sampling of compliance would be post hoc. To that extent, the payments may be subject to adjustment.

## Enterprise Stabilisation Fund

28.31 The Department provided ESF funding of €78 million to Enterprise Ireland in respect of this scheme. ESF assistance was made available principally by way of an equity share investment. Ultimately, payments amounted to over €80 million which included €3.3 million by way of Market Development Grants. The amounts allocated and payments made for the years 2009 to 2011 are set out in Figure 132.

**Figure 132 Enterprise Stabilisation Fund - Financial Outturn 2009 – 2011[a]**

| **Year** | **2009 €m** | **2010 €m** | **2011 €m** | **Total €m** |
|---|---|---|---|---|
| Department allocation[b] | 58.0 | 20.0 | — | 78.0 |
| ***Financial assistance*** | | | | |
| ESF main scheme | 56.9 | 19.1 | 1.0 | 77.0 |
| Market development grants | 0.8 | 2.4 | 0.1 | 3.3 |
| **Total assistance** | **57.7** | **21.5** | **1.1** | **80.3** |

Source: Enterprise Ireland

Notes: a While the ESF ended at 31 December 2010, in certain cases payments were made in 2011.

b The Department allocation of €78 million is an indicative amount within the overall Grants to Industry budget. This includes an amount for €5 million reallocated for a market development grant scheme.

28.32 By comparison with ESS, the ESF was a non-competitive fund advertised on the Enterprise Ireland website and the application process for funding was initiated either by enquiry by the client or direct contact by a Development Adviser[249] in Enterprise Ireland. The eligibility criteria was broadly similar to ESS Call 1 and the scheme was focused on internationally trading companies.

28.33 Following an initial assessment of a company's viability by the Development Adviser and after discussions with the client, the applicant company submitted a business strategy and a proposed development plan together with audited financial statements and financial projections.

28.34 The assessment process for ESF applications included a commercial assessment by the applicant company's Development Adviser. An Investment Adviser also conducted an independent commercial evaluation which involved financial ratio and trend analysis on data submitted on the application form and meetings with the company's bank and investors. Both the Development Adviser and Investment Adviser submitted independent reports to an Investment Committee[250] for consideration and approval of the proposed equity investment. The Investment Committee reviewed each company's financial track record and the proposed funding (in particular the tripartite agreement between the company, Enterprise Ireland and the company's bank) before approving or rejecting the equity investment.

## Investment Committee Review

The Investment Committee assessed company investment submissions with a particular emphasis on

- the company's trading potential, growth and sustainability and competitive position and the expected impact of the company's business plan on the company's productivity and output
- the expected impact on providing new employment or maintaining existing employment
- financial track record and proposed funding and in particular the commitment of the company's bankers and the justification of the company's need for financial assistance.

28.35 Enterprise Ireland did not set specific financial benchmarks to be attained before a company was approved for funding but it stated that it took account of all financial and other relevant information known about the company and the sector in which it operated. All applications passed Investment Committee approval stage except one.

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249 Development Advisers are assigned to each company as the dedicated point-of-contact for engaging with Enterprise Ireland and for reviewing the company's business and development strategy and conducting on-site visits.

250 The Investment Committee consists of representatives from the Department, Enterprise Ireland, Agriculture and external consultants from the wider business community.

### *Market Development Initiative*

28.36 As part of the overall Enterprise Stabilisation measures, Enterprise Ireland operated a market development grant for companies from August 2009 onwards. The grants were aimed at companies that had at least ten employees in the professional services sector of the construction industry including architects, quantity surveyors and engineers. These sectors had been severely hit by the downturn in the domestic market and had experienced very significant drops in turnover and employment.

28.37 Part of the original ESF allocation was devoted to assisting companies to develop a market entry and development strategy for up to three new overseas markets. Non-repayable grant aid, representing 4% of total ESF funding expended, was provided towards the costs of investigating overseas markets up to a maximum of €350,000 per company. Market development grants paid to 17 companies from 2009 to 2011 amounted to €3.3 million.

28.38 The objective for this scheme which focused on construction related professional services was to

- increase the number of those companies trading internationally
- increase the level of sustainable international trading activity
- sustain employment and value added in Ireland[251].

28.39 Figure 133 shows the category and number of professional services for each of the new overseas markets that the grants were provided for

**Figure 133 Categories of Market Development Grants[a]**

| Category | No. | Overseas markets | Grant payments €000 |
|---|---|---|---|
| Architecture | 7 | UK, China, Portugal, Russia, Montenegro, Middle East, Canada, Spain, Morocco, Tenerife, Poland, India, Libya, Algeria, Europe, North Africa, Germany, Romania, UAE, South America | 1,388 |
| Consulting Engineering | 5 | UK, Middle East, North Africa, Poland, Russia, Romania, Abu Dhabi, Libya, Costa Rica, UAE, Qatar, Bahrain, Saudi Arabia, Eastern Europe | 1,013 |
| Consulting Building Services and Mechanical, Electrical and Project Management Consultancy | 5 | UK, Poland, Romania, Bulgaria, UAE, Libya, Algeria, Saudi Arabia, Middle East, France. | 850 |
| **Total** | **17** | | **3,251** |

Source: Enterprise Ireland

Note: a Expenditure on market development grants covered the preparation of costing and financial projections for new overseas markets, the renting of office space in a new overseas market for a maximum of six months and attendant salaries of employees working on the project up to a maximum of €1,500 per week.

251 Value added relates to job creation in Ireland plus expenditure on Irish goods and services.

## *Profile of Assistance*

28.40 The ESF was designed for companies that were clients or potential clients of development agencies. It involved the purchase by the development agency of cumulative redeemable preference shares generally repayable after five years and typically at a 3% coupon rate.

28.41 There were 223 companies in total who received payments under the ESF (214 from Enterprise Ireland, eight from Údarás na Gaeltachta and one from Shannon Development). The average market development grant paid to each company amounted to €191,000 with the average equity investment (under the main ESF scheme) coming in at €374,000.

28.42 Figure 134 sets out the sectoral distribution of the companies who were assisted under the scheme.

**Figure 134 ESF Payments by Sector[a]**

| Sector[b] | Number of companies | ESF payments |
|---|---|---|
| | | €m |
| Manufacturing | 101 | 47 |
| Real estate, renting and business activities[c] | 81 | 21 |
| Wholesale and retail trade | 16 | 5 |
| Construction | 10 | 3 |
| Transport, storage and communication | 6 | 1 |
| Other | 9 | 3 |
| **Total** | **223** | **80** |

Notes: a ESF payments include market development grants paid of €3.3 million.

b The NACE code assigned to each company is based on its primary economic activity.

c 15 of the 17 companies recorded in Figure 133 are classified within the 'business activities' category in this Figure.

## *Post Investment Reviews*

28.43 All ESF companies that receive equity investment are subject to six monthly post investment reviews conducted by an Enterprise Ireland Development Adviser. The review covers both key financial and non-financial performance indicators to identify if original targets have been met.

28.44 A summary of how the companies in the report performed to date against key targets outlined in the Business Plan is shown in Figure 135.

**Figure 135 Performance of ESF Aided Companies against Business Plan Targets[a]**

| Assessment criteria | Assessment | | | Totals |
|---|---|---|---|---|
| | Improved | Same | Disimproved | |
| Jobs | 44 | 31 | 55 | 130 |
| Sales | 22 | 6 | 101 | 129 |
| Internationally Traded Services | 25 | 7 | 97 | 129 |
| EBITDA[b] | 30 | 9 | 90 | 129 |
| Total Debt | 41 | 55 | 33 | 129 |

Source: Enterprise Ireland

Notes: a Enterprise Ireland completed a preliminary post investment report in October 2010 that summarised 130 reviews (181 companies had been approved funding at that date). One company did not make a full return in some cases. The equity investment in the companies reviewed was approximately €43 million.

b EBITDA refers to earnings before interest, taxation, depreciation and amortisation.

28.45 Early indications from Enterprise Ireland's first post investment report for the ESF suggest that significant business challenges lie ahead for the assisted companies to ensure that they can survive the present economic downturn. Nearly 80% of companies failed to meet first year sales targets set out in their three-year business plans. 70% could not meet earnings forecasts.

28.46 Notwithstanding the results outlined in Figure 135, when Enterprise Ireland reviewed the overall risk that targets with companies would not be achieved, at the end of the first year of the three-year business plan, it concluded that there had been a reduction in the number of companies with a high risk of failing to meet their targets to 31 (24% of those assisted) from the 39 (30%) level at the commencement of the plan period.

## Conclusion – ESF

Proactive management of enterprise stability in an economic downturn of the intensity faced by Ireland was both desirable and necessary. Post investment analysis by Enterprise Ireland suggests that considerable challenges remain in that sales, internationally traded services and earnings had contracted in most assisted entities when measured against business plan targets.

The fund was designed for clients or potential clients of development agencies involved in manufacturing and internationally traded services. As such, its potential impact in wider enterprise stabilisation was limited.

From a financial perspective equity share investment funding is repayable which limits the Exchequer's ultimate exposure. The experience with similar schemes is that 60% to 70% of the investment is, ultimately, redeemed.

No evaluation of the effectiveness of Market Development Grants has been carried out to date.

## General Administrative Matters

### *Funding Overlap with Existing Grant Assistance*

28.47 IDA Ireland, Enterprise Ireland, Udaras na Gaeltachta and Shannon Development provide assistance to companies by way of employment grants in order to sustain a designated number of jobs in particular regions for a set period with a revocation clause in the grant agreement if the jobs are not sustained. Information was requested from each of these development agencies and was cross checked to ascertain if there were any employment grant agreements that were currently in place in the period for companies that also received grant assistance under the ESS. Shannon Development and Enterprise Ireland had no matching companies.

28.48 IDA Ireland identified 14 companies that had existing employment grant agreements in place prior to and during ESS funding. These companies, with contract agreement dates going back as far as 1998 but with a liability still outstanding, were approved employment grants of over €14 million to retain 1,363 jobs. Payments of over €9.6 million were made to April 2011 in respect of 921 of those jobs. Under the ESS, the same 14 companies received payments of €2.8 million in subsidies for 328 employees and committed to retain a total of 1,403 employees. In addition, one IDA company had an employment grant revocation of €1.1 million deferred in 2008 providing it maintained 300 jobs in Dublin until 31 December 2011. The same company received ESS payments of €455,000 to retain 535 jobs until 30 November 2010.

28.49 Údarás na Gaeltachta identified six companies that were approved employment grants of over €1.2 million to retain 127 jobs. The six companies were paid €904,000 up to April 2011. Under the ESS, the same six companies received payments of €279,000 in subsidies for 43 employees and committed to retain a total of 248 employees until 30 November 2010.

28.50 There was no requirement on the ESS application form for companies to declare if they were in receipt of employment grant funding. It was not part of the eligibility criteria and the assessors were not required to seek this information or to net off employment grants received against the final grants approved under the ESS. Enterprise Ireland have stated that a company is allowed to have received employment grants in addition to ESS funding, as specific jobs funded were not identified in the ESS and could not be matched with jobs funded from employment grants.

### *Companies in Receipt of both ESS and ESF*

28.51 53 companies in the first call for ESS applications also received ESF funding and 31 in the second call. One company exceeded the €500,000 maximum Temporary Aid Framework funding. Enterprise Ireland stated that the error in granting the company €522,050 was a calculation error during the assessment process arising out of an understating by €22,050 of ESF aid previously received. Enterprise Ireland stated that they had already identified this company and that repayment of the excess amount was being sought.

## Conclusion – Funding Overlap Risk

While there was an overall financial ceiling of €500,000 under the Temporary Aid Framework, by virtue of the design of the schemes, there remains the possibility that some companies could have been subvented twice to retain the same employees.

Information on companies that were in receipt of employment grants should have been made available to ESS grant assessors in order to allow them to consider the allocations in a joined-up way.

## Liquidations and Business Difficulties

28.52 Companies that were in receipt of either ESS or ESF funding, or both, were reviewed to ascertain the number of employees that were made redundant by the same companies during the life of the grants. It was found that up to April 2011 a minimum of 110 companies had made 706 employees redundant.

28.53 The total redundancy liability of the State to the employers amounted to approximately €3.7 million for the 706 employees. The largest number of redundancies made in any one company was 46, while seven companies let go over 20 employees while the average redundancy across the 110 companies was six.

28.54 As part of the assessment process, Enterprise Ireland had to determine whether each company was viable in the medium term before it was deemed eligible for funding. Notwithstanding this, 19 assisted companies went into liquidation up to 31 March 2011. Figure 136 shows the number of funded companies who went into liquidation or were dissolved during the period of the ESS and ESF schemes or shortly after the schemes ended.

**Figure 136 Companies that entered Liquidation or were Dissolved**

| Fund | 1 April 2009 to 31 December 2010[a] | 1 January to 31 March 2011 | Total |
|---|---|---|---|
| ESS Call 1 | 4 | 1 | 5 |
| ESS Call 2 | 6 | 4 | 10 |
| ESF | 3 | 1 | 4 |
| **Total** | **13** | **6** | **19** |

Note: a The ESF commenced in April 2009 while the ESS commenced in August 2009.

28.55 One company that received advanced funding of €100,568 in December 2009 under the ESF market development grant scheme went into liquidation in April 2010 before it could utilise the funding. Enterprise Ireland have been unsuccessful in recovering any of the money. Another ESF funded company that received an equity investment of €250,000 in December 2009 went into liquidation in April 2010.

28.56 There were 12 ESS companies in the second call that entered receivership, ten in 2010 and an additional two in 2011. Three ESS funded companies were struck off the Company Register in 2011 due to the failure to file annual returns. If returns are not filed the companies are dissolved.

## Conclusion

Approximately €200 million has been spent on helping companies maintain employment levels and capacity during the economic downturn. Two temporary schemes sought to address the threats to economic stability and employment.

Under the Employment Subsidy Scheme (ESS), €116 million has been spent in assisting companies to retain their workforces and productive capacity. An independent evaluation of the scheme has not yet been carried out. However, 81% of assisted companies were paid final payments signifying that they had maintained the committed number of jobs.

The information submitted by companies at both application and payment stage was not sufficient to allow Enterprise Ireland to confirm that the committed jobs were retained in instances where entities within a group structure were assisted. This deficiency may lead to the necessity for adjustments to paid subsidies in the case of some companies when follow-up audits are undertaken.

In order to position Enterprise Ireland to administer claims and track performance, companies should have been required, in the case of groups, to specify the business units to which subsidy applications pertained.

In parallel with the ESS, an equity share investment fund and a market development grant scheme focused on clients of the State development agencies seeking to sustain and increase their business development capacity and to strengthen their business bases. €80 million was paid to 223 companies with these objectives. Difficulty, on the part of the assisted entities, in reaching Business Plan targets suggests that considerable challenges remain as sales, internationally traded services and earnings had contracted in most equity assisted entities.

From a value perspective, there was some risk of overlap with existing employment grant schemes. However, the temporary funding could be awarded notwithstanding existing job subventions.

The temporary schemes were an attempt to cope with unprecedented threats to economic stability and employment levels. The initial feedback from companies that benefited from the ESS appears to show a positive outcome in maintaining job numbers, at least over the life of the scheme itself.

In a period of extreme turbulence it would be unrealistic to expect that market demand for the output of all assisted entities would be sufficient to see them through the downturn.

In the two schemes reviewed, the experience has been that notwithstanding the fact that they were assessed as viable at application stage, 34 companies assisted to the extent of €1.2 million in ESS funding and €550,568 in ESF funding have either been liquidated, put in to receivership or struck off with some foundering soon after the injection of the assistance. However, this cohort represents only 2% of the total number of companies assisted, and a fuller measure of the impact the schemes had in helping to sustain jobs and stabilise all companies supported during the financial downturn will not be known until an independent evaluation is carried out.

# Chapter 29

# County and City Enterprise Boards

# County and City Enterprise Boards

29.1 The Vote for Enterprise, Trade and Innovation included a charge of €31 million in respect of funding for activities conducted through 35 County and City Enterprise Boards (CEBs) in 2010[252]. The boards are established as companies with the Industrial Development Act 1995 regulating aspects of their operations. Their objective is to stimulate economic and entrepreneurial activity and develop local indigenous enterprise in the micro-enterprise sector (i.e. enterprises with no more than 10 employees). CEBs are co-funded by the EU through the regional operational programmes 2007 – 2013[253].

29.2 The Department of Jobs, Enterprise and Innovation has primary responsibility for policy and funding in relation to CEBs. However, a range of administrative functions was assigned to Enterprise Ireland in 2006. An operating agreement between each CEB and Enterprise Ireland sets out the purpose for which the funds are provided and the manner in which those funds may be applied. A Central Co-ordination Unit within Enterprise Ireland is responsible for operational, technical and financial support to CEBs.

29.3 CEBs provide financial support to projects with an employment potential of up to 10 persons. In general, companies that are already in receipt of assistance from Enterprise Ireland, IDA Ireland, Shannon Development or Údarás na Gaeltachta are not assisted. There is provision for suitable CEB client companies to transfer to Enterprise Ireland in order to avail of its programmes and supports.

## Chapter Focus

This chapter reviews the activities of County Enterprise Boards and, in particular

- the supports provided to micro-enterprises
- the outturn in terms of job creation
- the arrangements for monitoring and evaluation.

252 CEBs were established in 1993 and are incorporated as companies limited by guarantee.

253 Border, Midland and Western Regional Operational Programme 2007 – 2013, and Southern and Eastern Regional Operational Programme 2007 – 2013.

## Expenditure of CEBs

29.4 The total outlay by CEBs on their core functions was €33.3 million in 2010 (€36.9 million in 2009). This was expended as set out in Figure 137.

**Figure 137 Outlay by CEBs, 2009 and 2010**

| Type of expenditure | 2009 € | 2010 € |
|---|---|---|
| Financial Supports | 10,528,606 | 11,332,220 |
| Enterprise and Capability Supports | 12,885,318 | 10,079,539 |
| Administration | 13,526,770 | 11,868,234 |
| **Total** | **36,940,694** | **33,279,993** |

Source: County and City Enterprise Boards' audited financial statements 2009 and audited and draft financial statements 2010

29.5 In addition to this, in 2010 €2.6 million was spent on 'other initiatives' (€0.9 million in 2009). These 'other initiatives' included activities for which CEBs obtain separate funding as well as national initiatives for which one CEB takes responsibility and receives a budget allocation from Enterprise Ireland. Expenditure on 'other initiatives' is not incurred by all CEBs and in 2010 the bulk of that type of expenditure was related to assistance under the European Globalisation Fund (€1.3 million) administered by certain CEBs[254] as well as expenditure on cross border initiatives by other CEBs[255] (€0.6 million).

## Financial Support to Micro-Enterprises

29.6 The financial assistance provided by CEBs[256], with effect from November 2009[257] can be classified as follows

- priming grants – which are business start-up grants that may be awarded within the first 18 months of the establishment of an enterprise
- business expansion grants – an enterprise that avails of a priming grant is ineligible for a business expansion grant until 18 months after the drawdown of the priming grant
- feasibility/innovation grants – these are grants towards the preparation of a feasibility study and/or business plan to assess the viability of a project, or for technical assistance in project or product development.

254 CEBs in Limerick City and County, Clare, Tipperary North and South and Waterford City and County provided EGF supports in 2010.

255 Cavan, Donegal, Leitrim, Louth, Monaghan and Sligo CEBs incurred expenditure in 2010 of €431,916 on "Tradelinks", a cross border microenterprise programme funded by Interreg, the International Fund for Ireland, Invest Northern Ireland and the CEBs. In addition, Cavan CEB spent €146,552 from funds provided by the International Fund for Ireland in relation to a West Cavan/West Fermanagh cross border project.

256 Supports can be provided by way of grant aid, refundable aid or equity, or a combination of these.

257 Prior to 2010, CEBs provided financial supports by way of capital grants, feasibility grants, and employment grants.

### *Assistance Framework*

29.7 The maximum Priming and Business Expansion grants payable are €150,000 (or 50% of the investment if less in each case). The feasibility/innovation grant limit is the lesser of €20,000 or a set percentage of the investment (50% in the South and East region and 60% in the Border, Midlands and Western (BMW) region). Generally, the average grants awarded do not reach these limits due to the scale of the enterprises being supported and the budgetary resources of the individual CEBs.

29.8 Financial supports are focused on commercial enterprises that can demonstrate a market for their products or services and have a capacity to grow and create jobs. In providing financial assistance possible deadweight[258] or displacement[259] needs to be taken into account and priority is to be given to

- enterprises in the manufacturing and internationally traded services sector that are seen as having the potential to develop strong exports
- tourism enterprises aimed predominantly at overseas visitors and

At least 30% of all grants approved in the year must be in the form of refundable aid.

29.9 CEBs are required to ensure that commitments to provide future financial support do not exceed 50% of the annual allocation at each year-end. However, commitments that a CEB plans to fund from a revolving fund made up of refundable aid moneys that has been repaid to the CEB[260] can be excluded from this commitment limitation.

### *Direct Financial Support to Micro-enterprises*

29.10 The financial support provided by CEBs in 2009 and 2010 classified by type of grant is set out in Figure 138. The change in the types of grants provided following the alteration in support in late 2009 can be seen with a switch from capital and employment grants to priming and business support assistance.

[258] Deadweight arises where the investment in the enterprise would have been made or the project would have proceeded even if the financial supports were not provided.

[259] Displacement occurs where growth or employment in the assisted enterprise takes place at the expense of growth or employment in another enterprise.

[260] Assistance that is repaid by grantees who received refundable assistance can be recycled.

**Figure 138 Type of Financial Support 2009 and 2010**

| Type of Support | 2009 | 2010 |
|---|---|---|
| | € | € |
| Capital Grants | 5,149,467 | 2,264,492 |
| Feasibility Grants | 634,494 | 326,271 |
| Employment Grants | 2,624,481 | 1,806,460 |
| Priming Grants | 263,974 | 3,011,299 |
| Business Expansion Grants | 44,375 | 1,706,554 |
| Feasibility/Innovation Grants | — | 523,714 |
| Other Refundable Grant Aid[a] | 524,660 | 979,455 |
| Equity Investment[b] | 1,287,155 | 713,975 |
| **Total** | **10,528,606** | **11,332,220** |

Source: County and City Enterprise Boards' audited financial statements 2009 and audited and draft financial statements 2010

Notes: a For some CEBs, an analysis of the refundable portion of financial support by type of support was not available.

b The reduction in the level of equity investment in 2010 is mainly due to the introduction of the new structure of financial supports which provides for stage payments based on achievement of milestones thereby reducing the risk and making better use of available funds.

29.11 Figure 139 summarises the range of financial supports provided by CEBs for 2009 and 2010. The largest financial support in 2010 was provided by Dublin City CEB at €750,980 while the smallest amount was paid by Cork North CEB at €69,946. Of the €11.3 million paid in 2010, €4 million was paid in the BMW region and the remaining €7.3 million was paid in the South and East region. The level of financial support provided by each CEB in 2009 and 2010 is set out in Annex A.

**Figure 139 Range of CEB Financial Supports paid by CEBs in 2009 and 2010**

| | Number of CEBs | |
|---|---|---|
| | 2009 | 2010 |
| Under €200,000 | 8 | 4 |
| €200,000 to €300,000 | 12 | 14 |
| €300,000 to €400,000 | 7 | 9 |
| Over €400,000 | 8 | 8 |

Source: County and City Enterprise Boards' audited financial statements 2009 and audited and draft financial statements 2010

29.12 Overall, 1,037 projects were approved for assistance in 2010 (1,120 in 2009).

29.13 Of the grants approved in 2010 (€16.5 million), 41% were approved for refundable aid. Approvals for financial support in 2009 and 2010 for each CEB are classified by form of support in Annex B. Figure 140 shows the CEBs that did not meet the requirement that 30% of approvals be in the form of refundable aid. In 2010, there were six CEBs where the level of refundable aid approvals did not meet the 30% target (11 in 2009) but five of those were within three percentage points of that requirement. South Dublin, Fingal and Dun Laoghaire/Rathdown CEBs achieved refundable aid rates of 98%, 76% and 61%, respectively, in 2010.

**Figure 140 Refundable Aid Approvals below 30% Requirement, 2009 and 2010**

| 2009 | Proportion of refundable grants | 2010 | Proportion of refundable grants |
|---|---|---|---|
| **CEB** | | **CEB** | |
| Cork North | 0% | Louth | 21% |
| Louth | 9% | Waterford City | 27% |
| Limerick City | 9% | Longford | 28% |
| Kildare | 12% | Waterford County | 28% |
| Longford | 17% | Cork North | 29% |
| Cork West | 20% | Cork West | 29% |
| Laois | 27% | | |
| Cork South | 28% | | |
| Sligo | 28% | | |
| Donegal | 29% | | |
| Galway | 29% | | |

Source: County and City Enterprise Boards' audited financial statements 2009 and audited and draft financial statements 2010

## *Use of Revolving Fund*

29.14 Repayments of refundable grant aid and equity investments by clients is held by CEBs and released to fund subsequent refundable grant aid and investment, including investments in local community enterprise centres. Of the total financial supports of €11.3 million paid in 2010, €2.4 million was funded from refundable aid which had been repaid (2009 – €10.5 million in grants of which €2.3 million was funded from refunded grants). At the end of 2010, €6.5 million in repaid refundable aid and investments was held by CEBs in their refundable aid accounts (€6.6 million at the end of 2009).

29.15 In response to my enquiries, the CEO of Enterprise Ireland said that there are currently no targets set as to the amounts of refundable aid repaid that should be held or re-issued. The refundable aid balance in individual CEBs ranges from about €40,000 to just over €400,000 and given the reduced funding allocation for 2011, it is anticipated that CEBs will then utilise these refundable aid balances. He stated that the reasons why the balances were held at 31 December 2010 included

- provision for commitments arising from grant approvals including where grants are paid in two moieties
- the fact that CEBs had developed a proposal for a micro-credit scheme in conjunction with the European Investment Bank which would require a commitment to provide funding from CEB resources with the uncommitted balances in the refundable aid accounts providing the source of this[261]
- In 2010, €1.8 million of the balance had been allocated for the development of Community Enterprise Centres.

29.16 CEBs are permitted a degree of latitude in how they apply refundable aid rules, once they meet the minimum target of 30%, and individual CEB approaches are governed by local conditions. Some CEBs

[261] The proposal is currently on hold pending a Government decision on the future structure of CEBs.

apply refundable aid to all types of grant while others apply a refundable element to grants of a particular type. The extent to which individual CEBs use equity rather than grant aid also impacts on the extent to which financial support is refundable.

## Supports for Capability Development

29.17 Approximately 30% of expenditure by CEBs is aimed at building capability with €10 million being provided in 2010 by way of supports for entrepreneurial and capability development (€12.9 million in 2009). This assistance mainly involves help with training, management development and mentoring programmes as well as enterprise education and promotion. Expenditure by each CEB on these supports should not exceed limits specified by Enterprise Ireland. There is, however, provision for each CEB to transfer up to 20% of its allocation between these supports and financial supports in any year. A summary of expenditure on these supports in 2009 and 2010 is set out in Figure 141.

**Figure 141 Enterprise and Capability Supports, 2009 and 2010**

| Type of Support | 2009<br>€ | 2010<br>€ |
|---|---|---|
| Management Development Programmes | 1,775,008 | 1,452,753 |
| Training | 3,969,250 | 2,991,174 |
| Mentoring | 1,702,429 | 1,593,391 |
| Enterprise Education | 1,062,968 | 887,334 |
| Enterprise Promotion | 2,679,844 | 1,908,209 |
| Other | 1,695,819 | 1,246,678 |
| **Total** | **12,885,318** | **10,079,539** |

Source: County and City Enterprise Boards' audited financial statements 2009 and audited and draft financial statements 2010

29.18 CEBs generate income, mainly through charging for services, which is available to fund expenditure on enterprise and capability supports. Such income amounted to €1.5 million in 2010 (€2 million in 2009) which represents a contribution rate of 14.8% (15.5% in 2009).

## Administration Costs

29.19 The administrative costs of CEBs are predominantly payroll costs. Part of that cost is attributable to the provision of advice in relation to starting a business. The administration costs of CEBs for 2009 and 2010 are set out in Figure 142.

**Figure 142 CEB Administration Expenditure 2009 and 2010**

| Category of Expenditure | 2009<br>€ | 2010<br>€ |
|---|---|---|
| Salaries | 9,804,582 | 8,225,767 |
| Other Administration Expenses | 3,722,188 | 3,642,467 |
| **Total** | **13,526,770** | **11,868,234** |

Source: County and City Enterprise Boards' audited financial statements 2009 and audited and draft financial statements 2010

29.20 The average number of staff employed in CEBs ranged from three to eight in 2009 and 2010 with an overall average across all CEBs in both years of just over four.

29.21 Administration expenditure includes costs incurred by CEBs due to their existence as separate legal entities such as the cost of compliance with company law and corporate governance requirements. These costs could only be eliminated by using alternative structures such as an enterprise fund with county branches.

29.22 Enterprise Ireland has begun to develop shared services nationally, for example, insurance which was tendered for in 2010 as a national service. The CEO said that in 2011, mobile telephony has been tendered for and, pending exit from current contracts, most CEBs will be able to access the new service in 2011 or 2012. Other areas identified include accounting software, outsourcing of payroll as well as legal and professional fees.

29.23 The Accounting Officer of the Department stated that the establishment of a Central Coordination Unit within Enterprise Ireland had created positive results in improving the flow of detailed information from the CEBs, managing drawdowns in a more efficient manner and in addressing shared services and common delivery standards. However, there is scope for further enhancements in relation to shared services and in building a coherent and consistent system of supports.

## Expenditure by CEBs

29.24 A greater proportion of CEB resources in 2010 was devoted to direct financial support by comparison with 2009. Over one-third of all expenditure was on direct financial support in 2010. The average proportion of expenditure devoted by CEBs to their main functions in 2009 and 2010 is set out in Figure 143. Annex C sets out the proportion of expenditure applied by each CEB to its main functions in 2009 and 2010.

**Figure 143 Application of Resources 2009 and 2010**

| | Average 2009 | Average 2010 |
|---|---|---|
| Financial Supports | 28% | 34% |
| Enterprise and Capability Supports | 35% | 30% |
| Administration | 37% | 36% |

Source: County and City Enterprise Boards' audited financial statements 2009 and audited and draft financial statements 2010

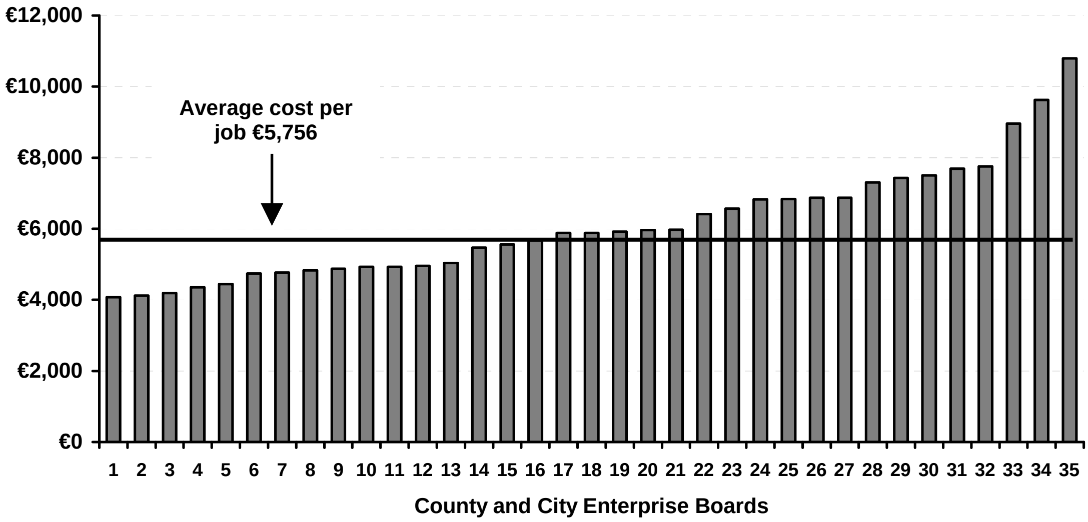
29.25 There can be considerable variation in the profile of assistance by area. In 2010, three CEBs (Galway, Limerick County and Mayo) recorded levels of financial support of just under 50% of their available funds. While the levels of financial support in two CEBs (Cork North and Kerry) were under 20%, in both cases enterprise and capability supports provided represented 45% or more of expenditure. The highest level of expenditure on administration was in Louth and Leitrim CEBs at 46% with the lowest being Dublin City at 25%.

## Performance of CEBs

29.26 The performance of CEBs can be gauged in terms of job creation and by reference to indicators set for operational programmes of which they form part.

29.27 38,672 gross jobs were supported when account is taken of jobs created or pre-existing jobs sustained[262] in the 10,920 enterprises which had received assistance of over €222 million since 1993. This equates to a cost per job of €5,756. Figure 144 plots the cost per job across CEBs. The average cost per job ranges considerably from just over €4,000 in Clare to €10,800 in Leitrim. The total financial support, gross jobs and number of assisted enterprises for each CEB are set out in Annex D.

**Figure 144 Average Cost per Job Created[a]**




Source: Enterprise Ireland

Note: a The bars represent the average cost per job for individual CEBs.

29.28 The basis on which cost per job is measured in CEBs differs from that adopted by Forfás when computing the cost per job sustained for the enterprise development agencies and this makes comparison difficult. However, the CEO stated that the measure to be used for CEBs, in future years, will mirror the Forfás methodology, thereby facilitating comparison.

262 Gross jobs include those that existed in enterprises prior to CEB assistance being provided. The jobs counted are those in all enterprises that have been assisted since 1993 and which are still in existence. Every two part-time jobs are counted as one full-time job. The cost per job is based on expenditure incurred by CEBs since 1993.

## Cost per Job Calculation Methodologies

**Forfás Methodology:** Cost per job is calculated by dividing all agency grants to all firms in a seven-year period by the number of jobs created during, and sustained to the end of, that period. The figures are calculated on a seven-year rolling basis.

**CEB Methodology:** Each year the number of jobs in each enterprise that received a grant from the CEB is compared with the number of jobs in existence in that enterprise when the first grant was paid. The cost per job is calculated using the total financial supports provided since 1993.

29.29 Figure 145 shows the annual movement in net jobs[263] supported by CEB grants for the last ten years. There was a decrease in employment in 2008 and 2009. In 2010, there was a modest recovery with a net gain of 375 jobs.

**Figure 145 Movement in Net Jobs 2001 – 2010**

| Increase/(decrease) | Movement in jobs supported |
|---|---|
| 2001 | 1,048 |
| 2002 | 3,152 |
| 2003 | 1,459 |
| 2004 | 1,341 |
| 2005 | 1,938 |
| 2006 | 2,045 |
| 2007 | 2,267 |
| 2008 | (735) |
| 2009 | (3,085) |
| 2010 | 375 |
| **Net movement 2001 - 2010** | **9,805** |

Source: Enterprise Ireland

29.30 The CEO stated that the global recession from late 2008 is reflected in the scale of the negative jobs position at the end of 2009. He said that, given very difficult domestic trading conditions, the modest recovery indicated in 2010 is encouraging.

29.31 Apart from job creation targets, other performance indicators set for micro-enterprises in the two regional operational programmes 2007 – 2013 have been achieved to the extent set out in Figure 146. Overall, the CEBs are broadly on target in terms of the indicators set in the operational programmes for the CEB supported sector as a whole.

[263] Net jobs exclude those that existed in CEB supported enterprises prior to the provision of assistance.

**Figure 146 Performance Indicators for Operational Programmes 2007 – 2013**

| | BMW Region | | South and East Region | |
|---|---|---|---|---|
| | 2013 Target | Actual to 2010 | 2013 Target | Actual to 2010 |
| Number of micro-enterprises assisted | 2,500 | 1,614 | 4,000 | 1,955 |
| Number of training days provided | 84,000 | 70,212 | 175,000 | 122,260 |
| Number of training recipients | 35,000 | 26,746 | 84,000 | 69,201 |

Source: Enterprise Ireland

## Evaluation and Review

29.32 The last review of the role of CEBs in developing micro-enterprises was carried out by Fitzpatrick Economic Consultants in 2003 on behalf of the Department of Jobs, Enterprise and Innovation and Forfás. The main recommendations were

- renewed focus on core enterprise and enterprise culture, minimising useful but wider local development activities
- greater emphasis on business information, advice, training and capability enhancement and less on provision of financial support
- increase in use of repayable financial supports and a gradual exit from grant assistance, particularly employment grants
- tightening of criteria regarding financial support especially in areas of deadweight and displacement
- a flexible and user led approach to soft supports and a gradual increase in client contributions to service costs
- a gradual move to greater financial self-sufficiency for CEBs based on repayable finance and client contributions
- the Department of Jobs, Enterprise and Innovation should continue to have primary policy and funding responsibility for CEBs
- a new central co-ordination unit should be established within Enterprise Ireland.

29.33 The CEO said that good progress has been made on implementing the recommendations of the Fitzpatrick Report. However, building a coherent and consistent system of supports and processes across CEBs is key to successful implementation. In this regard, standardised processes introduced included

- a business analysis tool, to assist CEB staff, which provides a more uniform method of making investment decisions and helps identify added value relating to clients' businesses
- a financial health check and benchmarking tool to assist with evaluation of financial assistance and training programmes and to enable CEBs benchmark their clients against industry comparators
- a client management development programme to provide clients with the skills and knowledge to achieve sustainability and growth in their business
- best practice guidelines for the CEB administrative and corporate governance functions.

29.34 The CEO said that the challenges faced by micro-enterprises in the current economic environment are in many respects similar to those faced by the small and medium enterprise sector generally. These include difficult market conditions and restricted access to working capital. The micro-enterprise sector is typically heavily dependent on domestic demand conditions and to that extent it is even more important that it increases its competitiveness to survive in the current challenging trading conditions.

29.35 The CEO particularly identified the importance for the sector of developing its export readiness with a view to positioning itself to trade internationally. In this respect he stated that building innovation capability will mitigate the challenges faced by the sector and help position individual enterprises for export trade which is a prerequisite for growth.

29.36 In response to my enquiries he stated that, in order to assist micro-enterprises in developing their export readiness, the following initiatives are underway

- Enterprise Ireland personnel are available to identify, source and provide market intelligence to emerging exporters from the micro-enterprise sector with over 150 CEB clients having availed of this service
- a ‘First Flight Programme’ which is aimed at emerging exporters has been utilised by about 100 CEB clients.

29.37 In addition, International Markets Week, a national event to assist companies deliver on their export strategy through engagement with Enterprise Ireland personnel, is open to CEB nominated micro-enterprises with existing exports who want to grow their markets overseas.

## Conclusion

Micro-enterprises employing almost 39,000 people at the end of 2010 have received €222 million in assistance from CEBs since their establishment. The average cost per job sustained was around €5,800.

The basis on which cost per job is measured differs from that used by Forfás, which makes comparison difficult. Enterprise Ireland has indicated that the measure to be used for CEBs will mirror the Forfás measure in future years, thereby facilitating comparison.

In 2008 and 2009, there was a decrease of over 3,800 in the number of jobs in CEB supported enterprises. A modest increase of 375 occurred in 2010. Enterprise Ireland has stated the importance of the micro-enterprise sector developing its export readiness and building innovation capability.

Challenges remain in addressing the recommendations of a review carried out in 2003, particularly in regard to the need for greater self-sufficiency by CEBs based on recycling funding and maximising client contributions. While some CEBs achieved high refundable support rates in 2010, six did not meet the minimum target of 30% albeit by a small margin in most cases.

Amounts of refundable aid repaid to CEBs are available to fund further financial supports. The amount held in this revolving fund at the end of 2010 was €6.5 million. Some of this funding has been assigned to provide matching funds under a micro-credit scheme and to develop Community Enterprise Centres.

Income generated by CEBs in 2010 to contribute to funding enterprise and capability supports amounted to €1.5 million which represents a contribution rate of around 15%. This is broadly in line with the contribution rate achieved in the previous year.

Given the elapse of time since the last evaluation and the changed economic environment it would be useful to evaluate the effectiveness of the interventions in this area and any further scope for savings based on shared services or the structures employed.

The Accounting Officer of the Department noted that the existence of 35 legally separate CEBs presents challenges especially in terms of consistency of service delivery, allocation of funding, administrative overhead and distribution of staff in light of Employment Control Framework targets. The Minister for Jobs, Enterprise and Innovation anticipates bringing forward proposals shortly concerning the future structure for delivering the micro-enterprise support services currently provided through the CEBs.

# Annex A CEB Financial Supports 2009 and 2010

| **CEB** | **2009** | **2010** |
|---|---|---|
| | **€** | **€** |
| Carlow | 441,060 | 263,315 |
| Cavan | 179,113 | 274,397 |
| Clare | 300,616 | 332,072 |
| Cork City | 209,458 | 339,488 |
| Cork North | 75,000 | 69,946 |
| Cork South | 444,175 | 400,777 |
| Cork West | 244,750 | 200,893 |
| Donegal | 261,508 | 393,350 |
| Dublin City | 644,489 | 750,980 |
| Dun Laoghaire/Rathdown | 595,164 | 539,188 |
| Fingal | 392,873 | 401,193 |
| Galway | 455,927 | 452,054 |
| Kerry | 428,093 | 186,744 |
| Kildare | 133,636 | 291,608 |
| Kilkenny | 363,862 | 252,228 |
| Laois | 146,272 | 268,702 |
| Leitrim | 160,794 | 196,735 |
| Limerick City | 240,062 | 282,368 |
| Limerick County | 293,529 | 524,493 |
| Longford | 187,626 | 241,860 |
| Louth | 188,342 | 249,941 |
| Mayo | 243,396 | 429,409 |
| Meath | 251,071 | 228,016 |
| Monaghan | 222,083 | 230,743 |
| Offaly | 248,104 | 250,996 |
| Roscommon | 356,083 | 343,335 |
| Sligo | 323,834 | 280,464 |
| South Dublin | 483,750 | 482,520 |
| Tipperary North | 273,051 | 190,164 |
| Tipperary South | 218,655 | 255,218 |
| Waterford City | 191,433 | 332,873 |
| Waterford County | 225,483 | 332,955 |
| Westmeath | 376,428 | 381,739 |
| Wexford | 409,594 | 341,751 |
| Wicklow | 319,292 | 339,705 |
| **Total** | **10,528,606** | **11,332,220** |
| *Of which* | | |
| *BMW* | *3,349,510* | *3,993,725* |
| *South and East* | *7,179,096* | *7,338,495* |

Source: County and City Enterprise Boards' audited financial statements 2009 and audited and draft financial statements 2010.

# Annex B Form of Financial Support Approvals[a]

| CEB | 2009 | | 2010 | |
|---|---|---|---|---|
| | Grants | Refundable | Grants | Refundable |
| Louth | 91% | 9% | 79% | 21% |
| Waterford City | 70% | 30% | 73% | 27% |
| Longford | 83% | 17% | 72% | 28% |
| Waterford County | 69% | 31% | 72% | 28% |
| Cork North | 100% | 0% | 71% | 29% |
| Cork West | 80% | 20% | 71% | 29% |
| Galway | 71% | 29% | 70% | 30% |
| Leitrim | 69% | 31% | 70% | 30% |
| Roscommon | 68% | 32% | 70% | 30% |
| Wexford | 60% | 40% | 70% | 30% |
| Cavan | 70% | 30% | 69% | 31% |
| Limerick County | 69% | 31% | 69% | 31% |
| Kilkenny | 61% | 39% | 69% | 31% |
| Limerick City | 91% | 9% | 68% | 32% |
| Offaly | 68% | 32% | 68% | 32% |
| Carlow | 49% | 51% | 68% | 32% |
| Laois | 73% | 27% | 67% | 33% |
| Cork South | 72% | 28% | 67% | 33% |
| Westmeath | 66% | 34% | 66% | 34% |
| Monaghan | 64% | 36% | 66% | 34% |
| Clare | 61% | 39% | 64% | 36% |
| Dublin City | 55% | 45% | 62% | 38% |
| Kildare | 88% | 12% | 61% | 39% |
| Sligo | 72% | 28% | 61% | 39% |
| Tipperary North | 49% | 51% | 61% | 39% |
| Mayo | 70% | 30% | 60% | 40% |
| Donegal | 71% | 29% | 59% | 41% |
| Kerry | 65% | 35% | 58% | 42% |
| Cork City | 55% | 45% | 58% | 42% |
| Tipperary South | 64% | 36% | 57% | 43% |
| Wicklow | 39% | 61% | 56% | 44% |
| Meath | 59% | 41% | 55% | 45% |
| Dun Laoghaire/Rathdown | 14% | 86% | 39% | 61% |
| Fingal | 44% | 56% | 24% | 76% |
| South Dublin | 17% | 83% | 2% | 98% |
| **Overall** | **62%** | **38%** | **59%** | **41%** |

Source: County and City Enterprise Boards' audited financial statements 2009 and audited and draft financial statements 2010

Note: a The content is set out in descending order of grant support for 2010.

# Annex C Expenditure on Main Functions 2009 and 2010

| CEB | 2009 | | | 2010 | | |
|---|---|---|---|---|---|---|
| | Financial Supports | Enterprise and Capability Supports | Admin | Financial Supports | Enterprise and Capability Supports | Admin |
| Carlow | 35% | 33% | 32% | 29% | 33% | 38% |
| Cavan | 18% | 38% | 44% | 30% | 28% | 42% |
| Clare | 31% | 35% | 34% | 37% | 31% | 32% |
| Cork City | 23% | 34% | 43% | 35% | 27% | 38% |
| Cork North | 13% | 44% | 43% | 15% | 48% | 37% |
| Cork South | 33% | 34% | 33% | 32% | 37% | 31% |
| Cork West | 26% | 35% | 39% | 25% | 35% | 40% |
| Donegal | 22% | 50% | 28% | 36% | 33% | 31% |
| Dublin city | 33% | 42% | 25% | 41% | 34% | 25% |
| Dun Laoghaire | 33% | 39% | 28% | 35% | 35% | 30% |
| Fingal | 26% | 47% | 27% | 31% | 41% | 28% |
| Galway | 44% | 27% | 29% | 49% | 20% | 31% |
| Kerry | 34% | 34% | 32% | 17% | 46% | 37% |
| Kildare | 15% | 44% | 41% | 32% | 31% | 37% |
| Kilkenny | 34% | 31% | 35% | 31% | 29% | 40% |
| Laois | 19% | 36% | 45% | 35% | 28% | 37% |
| Leitrim | 19% | 34% | 47% | 26% | 28% | 46% |
| Limerick City | 26% | 33% | 41% | 34% | 21% | 45% |
| Limerick | 29% | 37% | 34% | 48% | 22% | 30% |
| Longford | 24% | 28% | 48% | 35% | 25% | 40% |
| Louth | 17% | 36% | 47% | 26% | 28% | 46% |
| Mayo | 30% | 33% | 37% | 48% | 23% | 29% |
| Meath | 25% | 36% | 39% | 25% | 30% | 45% |
| Monaghan | 21% | 32% | 47% | 31% | 24% | 45% |
| Offaly | 28% | 31% | 41% | 31% | 26% | 43% |
| Roscommon | 38% | 27% | 35% | 43% | 24% | 33% |
| Sligo | 33% | 28% | 39% | 32% | 28% | 40% |
| South Dublin | 39% | 29% | 32% | 43% | 25% | 32% |
| North Tipperary | 29% | 31% | 40% | 26% | 29% | 45% |
| South Tipperary | 24% | 32% | 44% | 31% | 27% | 42% |
| Waterford City | 23% | 35% | 42% | 38% | 33% | 29% |
| Waterford | 30% | 32% | 38% | 42% | 24% | 34% |
| Westmeath | 34% | 28% | 38% | 36% | 29% | 35% |
| Wexford | 34% | 32% | 34% | 36% | 33% | 31% |
| Wicklow | 30% | 32% | 38% | 31% | 34% | 35% |
| **Overall** | 28% | 35% | 37% | 34% | 30% | 36% |

Source: County and City Enterprise Boards' audited financial statements 2009 and audited and draft financial statements 2010.

## Annex D Average Cost per Job – CEB Supported Enterprises

| CEB | Financial Support 1993 to 2010 € | Number of Enterprises Assisted | Gross Jobs | Average Cost per Job € |
|---|---|---|---|---|
| Leitrim | 5,039,571 | 246 | 467 | 10,791 |
| Waterford City | 6,466,144 | 257 | 671.5 | 9,629 |
| Tipperary North | 4,403,589 | 155 | 491.5 | 8,959 |
| South Dublin | 8,958,842 | 311 | 1,155.5 | 7,753 |
| Roscommon | 5,945,892 | 190 | 773.5 | 7,687 |
| Waterford County | 5,178,087 | 225 | 690 | 7,504 |
| Laois | 5,597,912 | 186 | 753.5 | 7,429 |
| Offaly | 5,761,473 | 264 | 789 | 7,302 |
| Kilkenny | 6,500,869 | 416 | 945.5 | 6,876 |
| Dun Laoghaire/Rathdown | 8,800,225 | 425 | 1,280 | 6,875 |
| Limerick County | 7,150,894 | 265 | 1,046.5 | 6,833 |
| Sligo | 6,416,995 | 359 | 940 | 6,827 |
| Cork West | 5,269,655 | 182 | 802 | 6,571 |
| Wicklow | 6,576,593 | 229 | 1,025.5 | 6,413 |
| Fingal | 7,812,565 | 374 | 1,307.5 | 5,975 |
| Limerick City | 4,926,561 | 177 | 825.5 | 5,968 |
| Cork City | 5,364,437 | 176 | 906 | 5,921 |
| Wexford | 8,180,343 | 306 | 1,390 | 5,885 |
| Cork South | 6,410,427 | 216 | 1,089.5 | 5,884 |
| Dublin City | 12,660,042 | 905 | 2,230 | 5,677 |
| Meath | 4,910,388 | 195 | 883 | 5,561 |
| Mayo | 7,380,156 | 373 | 1,348.5 | 5,473 |
| Tipperary South | 5,264,192 | 255 | 1,044.5 | 5,040 |
| Cavan | 6,292,459 | 252 | 1,270 | 4,955 |
| Kildare | 5,329,438 | 166 | 1,081 | 4,930 |
| Carlow | 6,130,000 | 224 | 1,244.5 | 4,926 |
| Longford | 4,810,425 | 305 | 986.5 | 4,876 |
| Louth | 5,222,836 | 321 | 1,081.5 | 4,829 |
| Cork North | 2,197,339 | 75 | 461 | 4,766 |
| Westmeath | 6,101,903 | 370 | 1,286 | 4,745 |
| Monaghan | 4,945,024 | 211 | 1,112.5 | 4,445 |
| Donegal | 8,620,453 | 305 | 1,981 | 4,352 |
| Galway | 8,937,239 | 983 | 2,131 | 4,194 |
| Kerry | 7,053,727 | 611 | 1,713 | 4,118 |
| Clare | 5,986,902 | 410 | 1,468.5 | 4,077 |
| **Total** | **222,603,597** | **10,920** | **38,672** | **5,756** |

Source: Enterprise Ireland

# Chapter 30

# Sports Capital Programme

# Sports Capital Programme

30.1 The Sports Capital Programme (SCP) which is administered by the Department of Transport, Tourism and Sport (the Department) funds the construction or improvement of sport-related assets as well as the purchase of non-personal sports equipment that will have a useful life of at least five years[264]. The National Lottery part-fund the SCP.

30.2 The SCP provides assistance to National Governing Bodies (NGBs) of Sport, voluntary and community organisations, sports clubs, third level institutions, schools, local authorities and VECs. Over 90% of grants allocated under the SCP are for projects related to capital works. The SCP is administered by a Sports Capital Unit in the Department. In the 12-year period, 1999 to 2010, €599 million has been paid under the programme[265].

30.3 The practice over years has been for the Department to allocate funds during the course of the year through a grant application process and to make further allocations out of savings at year-end outside of the normal application and allocation process but within the terms and conditions of the SCP. For example, in 2006 the Estimates allocated €67.7 million for the programme. Following a grant application process, €53.7 million was allocated in June 2006 and a further €21.3 million was allocated in July 2006. In November 2006, following consideration of payments made and projected to occur before year-end, the Department identified €13-14 million available for distribution through a year-end allocation.

## Chapter Focus

This chapter outlines the circumstances which led to certain payments made to Basketball Ireland not being applied for the purpose intended.

The chapter also reviews the operation of the Sports Capital Programme inspections regime.

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264 The programme does not fund grants towards buying sites, premises or, up until 2009, personal equipment such as sports kits, shoes, rackets/bats or protective clothing.

265 Grants to the value of €77 million had been committed to projects but had not been paid by December 2010. Grants of €27 million had been withdrawn as projects did not proceed or grant criteria were not met.

## Conditions of Sports Capital Grants

The terms and conditions of the SCP state that grant payment is only made on foot of submission of original, paid, valid invoices or certificates of payment (certified by an architect or engineer).

The level of funding from the SCP is dependent on whether the proposed sporting or physical recreational facility is classified as local, regional or national and whether it will be located in a disadvantaged area. Where the facility is classified as local up to 70% of the eligible cost of a project may be funded by the SCP. However, in disadvantaged areas, the grant rate may be up to 90%. Funding levels in the case of regional or national projects depend on the scale of the proposed facilities.

Key terms and conditions of SCP grants include

- the submission of at least three quotations or tenders for each aspect of the works being funded
- providing valid tax clearance or C2 certificates for any contractor or supplier that provides more than €10,000 worth of goods or services to the grant aided project[a]
- an agreement to sign a declaration that the financial interest of the Department in the facility or equipment will be protected and that the grant will be refunded if the facility ceases to operate or if its use changes[b].

All provisional grant allocation letters state *'If you are found to have submitted false or fraudulent documentation or be purposefully misleading the Department in any way, we will withdraw the grant and bar you from applying for future funding. We, the Department of Arts, Sport and Tourism, reserve the right to take legal action if you use fraud to claim grant payments, including any top-up grants from the Department of Community, Rural and Gaeltacht Affairs'.*

Notes: a Thresholds are revised periodically. This is the threshold in place for the 2008 SCP allocations.

b Where the grant is for €10,000 or more, the declaration should be witnessed by a Peace Commissioner, Commissioner for Oaths or a solicitor.

### *Grants for Basketball Hoops*

30.4 Basketball Ireland is the NGB for basketball in Ireland. In the period 1999-2006, it received €1.8 million from the SCP for a project called the Community Hoops Programme.

30.5 The Community Hoops Programme had been set up to encourage the playing of basketball. It involved the installation of basketball hoops at facilities in local communities. Basketball Ireland was to be responsible for the acquisition of the equipment and the ultimate recipient was to be responsible for its installation[266].

30.6 In order to ensure that all grant conditions have been met, the Department's Finance Unit carries out inspections of a sample of payments each year. After the inspections, an annual capital inspection report is referred by the Finance Unit to the Sports Capital Unit for any appropriate follow-up action.

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266 The Basketball Ireland Community Hoops booklet (dated October 1998) held on the files of the Department states that the applicant is responsible for the installation expense. In practice, grant applications and invoices submitted in 2004 and subsequent years by Basketball Ireland to draw down SCP grants include installation as a cost of Basketball Ireland. Department files do not document the reason for the changed approach.

30.7 In 2008, the sample included a grant for €300,000 made to Basketball Ireland in December 2006. The report of the Finance Unit noted that the equipment for which the assistance was provided had not been purchased and that no payments had been made to suppliers by April 2009.

### *Department Actions*

30.8 In early 2008, the Finance Unit queried why none of the hoops for which the €300,000 grant had been awarded had been purchased or installed.

30.9 In correspondence of April 2008, Basketball Ireland stated that all SCP grants allocated to community hoops prior to 2006 had been utilised in accordance with the submissions and site-listings provided to the Department. However, Basketball Ireland informed the Finance Unit in October 2008 that, in relation to the 2006 grant, an exercise to establish locations for the hoops was ongoing and a report on locations was not due for presentation to the Board of Basketball Ireland until November 2008.

30.10 In April 2009, the Finance Unit was informed by Basketball Ireland that, as a result of cutbacks, there would be no installation of hoops in 2009 and there were no installations scheduled for 2010.

30.11 The final report of the Finance Unit, which issued in September 2010, recommended that the Sports Capital Unit consider the recovery from Basketball Ireland of monies paid to it in 2006 under the Community Hoops Programme.

30.12 By October 2009, the Internal Audit Unit of the Department, which had completed a report on the matter as part of an audit of the 2008 Sports Capital Programme[267] noted that Basketball Ireland had been given the option in September 2009 to complete the work within three months or return the full allocation to the Department. The report also noted that all allocations to the Community Hoops Programme were being investigated.

30.13 In December 2009, the Accounting Officer of the Department requested a report from the Internal Audit Unit of the Department on all monies paid to Basketball Ireland under the SCP. The Internal Audit Unit reviewed the files of the Department and Basketball Ireland.

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[267] The report's objective was to assess the adequacy and effectiveness of the existing controls for the operation of the 2008 Programme and identify potential improvements in the existing controls and effectiveness of the Programme in meeting its objectives. Notwithstanding the grant paid to Basketball Ireland under the 2006 Programme for work that had yet to commence, the report noted satisfaction that an effective framework was in place for managing the 2008 SCP in a manner consistent with its strategic objectives.

### *Findings of Internal Audit Review*

30.14 A draft report[268] of the Internal Audit Unit noted the following

- Expenditure by Basketball Ireland on hoops merchandise from 2004 to 2010 was estimated at €113,700 (this is 10% of grants received for the purpose in the period). While the Basketball Ireland accounting system indicated that a total of €285,112 was spent on the Community Hoops Programme, that sum included expenditure on wages and re-branding costs in the period 2004-2010[269].
- The number of units purchased for the entire duration of the Hoops Programme were estimated at 345 units at a cost in the region of €255,000. The SCP had provided funding of €1.8 million to purchase 1,720 units[270].
- The draft report found that grants received that were not expended on hoops were used to support other development programmes and, in particular, Basketball Ireland's regional development programme.

30.15 The draft report also identified pre-payment validation weaknesses on the part of the Sports Capital Unit. It also found that the monitoring of projects by the Sports Capital Unit was lax in not obtaining regular progress reports[271].

30.16 No grant application had been made for allocations in December 2005 and December 2006 (totalling €800,000) as they were year-end allocations[272]. These grant allocations were paid at a rate of 100% of the value of the invoices submitted up to the maximum level of the grant.

### *Seating at the National Basketball Arena*

30.17 The Irish Sports Council also allocates funding to support the work of NGBs, including Basketball Ireland. Grants are provided for recurrent expenditure and specific programmes such as Women in Sport.

30.18 At 31 December 2008 Basketball Ireland's balance sheet showed a deficiency of funds of €1 million. Its income for that year was €2.3 million.

30.19 In July 2009, the Irish Sports Council requested its Internal Auditors to review aspects of financial control arrangements within Basketball Ireland in order to provide assurance as to the fitness of Basketball Ireland to handle those public funds for which the Irish Sports Council had responsibility.

30.20 In a report of November 2009, the Internal Auditors of the Irish Sports Council noted that a €400,000 capital grant had been paid by the Department to Basketball Ireland in 2007 for seating in the National Basketball Arena (a related company of Basketball Ireland). While this €400,000 capital grant had been made, Basketball Ireland had also raised funding by way of a hire purchase agreement for the same assets in 2008.

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[268] A draft report was provided to Basketball Ireland on 23 February 2011 following a review by the Office of the Attorney General. A copy of the draft report has been forwarded to An Garda Síochána. The issues arising in Basketball Ireland were first noted by the Office of the Comptroller and Auditor General during the audit of 2009 Appropriation Account of the Department. The Office of the Comptroller and Auditor General acceded to the Department's request to defer reporting on the issues until it received the draft Internal Audit Report.

[269] The area of expenditure (the split between wages and equipment) is not identifiable for the period 1999 to 2002.

[270] In respect of some years, the application forms included a cost for installation.

[271] The Accounting Officer stated that progress reports were sought by the Department and a progress report was supplied by Basketball Ireland in 2004.

[272] There is no grant application form for year end grant allocations.

### *Views of the Accounting Officer*

30.21 The Accounting Officer stated that the invoices received from Basketball Ireland were backed up by signed declarations which stated that the equipment funded by the Sports Capital grants would be kept in sporting use for a specified number of years. The number of years covered by these declarations for equipment purchased has varied from 25 years to five years through different rounds of the SCP.

30.22 The Accounting Officer stated that while the absence of on-the-ground inspection was a contributory factor in allowing Basketball Ireland to repeatedly draw down funding without purchasing the hoops, the Department has acted to reduce the risk of such instances recurring. Since December 2010, in order to draw down any allocation under the SCP, all grantees must comply with revised procedures including

- A signed covering letter on the grantee's headed notepaper certifying that invoices have been paid that relate to the capital works or were expended on the purchase of equipment directly related to the purpose for which the grant was allocated.
- Invoices relating to the expenditure must be forwarded with the covering letter. These should include a comprehensive description of the equipment purchased or works carried out thereby allowing the Sports Capital Unit to assess both the validity and appropriateness of the expenditure.
- The grantee must also forward, with the covering letter, copies of Bank Statements clearly showing the payments in respect of the submitted invoices leaving the bank account of the organisation.

30.23 All NGBs that have received equipment grants of €50,000 or more since 2005 have been asked to fill out a declaration stating that the funds were used for the purpose for which they were allocated and to supply a progress report on what the grant has allowed the sport to achieve. The NGBs have also been informed that failure to supply this information will be taken into account in considering any future funding.

30.24 The Accounting Officer stated that when the draft internal audit review is finalised, the Department will consider what steps should be taken to recover any funding that may have been misappropriated and what, if any, sanctions should be imposed.

30.25 In regard to the Capital Inspection Programme the Accounting Officer stated that the overall conclusion of the Sports Capital Unit was that the programme needed to include projects based on risk in addition to the random sampling. In this regard, the section identified large scale (€50,000 or more) equipment grants as being particularly problematic. By comparison with building projects which have safeguards such as letters from technical supervisors, OPW certification of invoices or legal charges on lands a corresponding set of safeguards are obviously not possible for equipment grants.

30.26 The Accounting Officer informed me in relation to the hire purchase arrangement that had been entered into by Basketball Ireland to meet the cost of the seating that all allocations to the National Basketball Arena are legally secured by way of a deed of covenant and a charge placed on the land of the arena. The seats funded by the 2006 grant were purchased and installation was signed off by Basketball Ireland's technical advisor and by the Department's technical supervisor (an architect at the OPW). The fact that Basketball Ireland borrowed funding for this seating is essentially an internal matter for that organisation.

## Conclusion – Grants to Basketball Ireland

Basketball Ireland received €1.8 million in grants from the Sports Capital Programme for the Community Hoops Programme but it has been estimated that only 20% of the equipment for which grants were provided was put in place. It is a fundamental requirement of public accountability that funds be applied for the purposes intended.

There was a prolonged failure to detect the fact that a significant proportion of the grants paid was not being used for the purposes intended. The absence of on-the ground inspection of the Community Hoops Programme facilities until 2008 contributed to this.

The provision of funding by way of year-end allocations meant that controls that would normally operate as part of the grant application process were negatived. The practice of awarding significant grants late in the year, in circumstances where the grant must be expended by year-end, introduces a risk that time limitations may decrease the analysis of documentation submitted.

While, in the case of a capital grant of €400,000 the financial interest of the State has been protected by way of a charge on land, there may be merit, in the case of material State assistance in providing for Departmental approval of any borrowing using grant aided assets as collateral.

New procedures being implemented by the Department should mitigate the risk of grants not being applied for the purposes for which they were intended. In addition, new requirements issued in December 2010 by the Department of Public Expenditure and Reform, requiring grantees to disclose grants and grants-in-aid in their financial statements will enhance the transparency of grants being paid by the Department.

## Sports Capital Programme Inspections

30.27 Apart from the matters noted in respect of Basketball Ireland, other non-compliance issues also came to light in the course of the inspections carried out by the Finance Unit in 2010. These reviewed over 80 grant payments.

30.28 There were seven instances where the inspection concluded that the documentation used to draw down the grant did not, in fact, support the claim. In four of these, the invoice, or documentation purporting to be an invoice, had not been paid by the grantee. In three instances, the claimants had either not paid the full amount invoiced or had subsequently received refunds from suppliers, following the resolution of disputes.

30.29 Three of the seven cases were still under consideration by the Department. Of the other four, no repayment was sought in two instances because the Department was satisfied that the club had spent the grant aid on the approved sports capital project. In the other two cases, a partial repayment had either been sought or was being proposed. In all four cases, a temporary ban on further applications had been either imposed or was proposed.

30.30 The Accounting Officer informed me that two cases have been reported to An Garda Síochána as a result of the inspections carried out in 2008 and 2009. None of the 2010 inspection results were so reported to date, however, documentation is being prepared for An Garda Síochána in relation to two of the grantees, and it is anticipated that other cases will also be referred to An Garda Síochána.

## Conclusion – Sports Capital Programme Inspections

While the inspection regime has been successful in identifying certain irregular payments, it is important that deficiencies found during inspections are followed up in a timely and effective way. Deficiencies should be reported promptly to the Accounting Officer, the Internal Audit Unit and the Audit Committee.

## Conclusion

A large proportion of the SCP grants for the Community Hoops Programme provided to Basketball Ireland over the period 1999 to 2006 does not appear to have been applied for the purposes intended.

More generally, the extent of issues arising out of inspections suggest a need to tighten the substantive evidence provided at grant drawdown stage.

A requirement that applies since December 2010, that grantees must submit bank statements showing payments to suppliers prior to drawdown should help combat most types of problems noted.

# Chapter 31

# National Sports Campus

# National Sports Campus

31.1 In 2000, following a feasibility study, the Government approved the development of a National Stadium, as the centerpiece of a National Sports Campus, at Abbotstown, County Dublin. Initially, a company – Campus and Stadium Ireland Development Company Limited (CSID) – was established to manage the development and, following legislation the National Sports Campus Development Authority (NSCDA) was set up in January 2007.

31.2 The total outlay on the project to date is estimated at €119.4 million. The composition of that outlay is set out in Figure 147.

**Figure 147 Outlay on Sports Campus**

| Cost Element | Outlay to 31 December 2010 €m |
|---|---|
| National Aquatic Centre [a] | 74.0 |
| Campus Development | |
| – Infrastructure and master planning | 6.6 |
| – Ancillary development costs [b] | 10.2 |
| Professional fees and legal costs [c] | 13.2 |
| Grants to National Aquatic Centre[d] | 7.8 |
| Administration | 7.6 |
| **Total Outlay to 31 December 2010** | **119.4** |

Notes:
a Includes cost of construction of €73.4 million and subsequent works.

b Ancillary developments costs are in respect of administration accommodation for the Authority, the Irish Institute of Sport, the Football Association of Ireland and National Governing Bodies of Sports at the Abbotstown site.

c Professional Fees and Legal Costs include expenditure of €4.6 million in legal fees and settlement costs, executive services of €3.6 million and project management of €1.7 million.

d In 2006, CSID established a subsidiary company to operate the National Aquatic Centre upon the surrender of the lease of the Centre by the private operator, Dublin Waterworld Limited, who had operated it up to that date. This company became NSCDA (Operations) Limited following the establishment of the Authority under statute in 2007. As sanctioned by the Minister the subsidiary company receives an annual contribution from the Authority for its running costs. It also received €0.9 million in capital grants in 2007 to fund a refurbishment and maintenance programme at the Centre following repossession.

31.3 These outlays have been funded by Exchequer grants of €118 million and own resource income of €2 million derived mainly from rent of administration accommodation to the FAI. The specific source of the Exchequer funds is by way of grants charged initially to the Vote for the Department of the Taoiseach and since 2001 to the Vote for the Department of Tourism, Culture and Sport (the Department).

31.4 In July 2000, the Government agreed to the development of an Aquatic and Leisure Centre at the Abbotstown site and CSID was given responsibility for procuring the provision of the Centre. The National Aquatic Centre (NAC) opened in 2003 at a cost of €73.4 million including VAT.

31.5 Initially a competition to design, build, finance, operate and maintain the proposed stadium and other sports facilities was undertaken in 2001. The competition was not concluded following a Government decision to commission an independent review to assist in determining its final cost to the Exchequer. Consultants were appointed by the Department and reported in late 2001 estimating the cost of the project at €479 million (mid-2001 prices). In response to the report CSID stated that the project could be completed for a net Exchequer investment of €444 million.

31.6 In January 2004, the Government decided to provide funding of €190 million over a five-year period towards the redevelopment of Lansdowne Road stadium which was the existing site of international rugby and soccer fixtures. It also decided to proceed with the phased development of a sports campus at Abbotstown and requested that CSID draw up a phased development programme, an associated business case and annual budgets sufficient to deliver the component elements of the campus project.

31.7 After consultation with various sporting bodies and other stakeholders, CSID drew up a Development control plan in October 2004. That plan set out proposals for the phased development of the sports campus and estimated the cost at €119 million including VAT.

31.8 Following consideration of the plan, the Government decided in November 2005 to proceed with the development of the initial phase of the sports campus over a five-year period. The proposed elements of this phase were

- a national field sports training centre catering for rugby, soccer, Gaelic games and hockey
- a national indoor training centre to provide world class training facilities for more than 30 governing bodies of sport
- accommodation for sports men and women
- sports science and medical facilities and
- all weather synthetic pitches for community use.

## Chapter Focus

This chapter outlines the extent to which the development of the National Sports Campus has been implemented and certain matters arising out of the development of the National Aquatic Centre.

## Progress to Date

31.9 The initial phase included a number of development elements. Figure 148 outlines the extent to which these elements have been progressed.

**Figure 148 Completion of First Phase Elements**

| Project element | Completion date | |
|---|---|---|
| | **Target** | **Actual** |
| Appointment of Design and Project Management Teams[a] | — | April 2008 |
| Preliminary Design | September 2008 | September 2008 |
| Detailed Design (incl. planning permission)[b] | August 2009 | November 2009 |
| Tender Submission, Evaluation and Award[c] | — | — |
| Construction | — | — |
| Completion and Handover | — | — |

Notes: a During 2006 CSID/NSCDA commenced preparation of tender documentation for the procurement of the Design and Project Management teams. However, due to changes in procurement procedures and in particular the introduction of the new form of Government contract for the engagement of consultants it was necessary to prepare new tender documentation.

b Planning permission lodged in May 2009 and granted in August 2009 after which a review of the stage and a report to NSCDA was completed. This report was finalised and agreed by NSCDA in November 2009.

c NSCDA is required to seek Ministerial approval after the completion of each stage before progressing to the next stage of the project. Due to the current economic climate, approval to proceed to the next stage has not yet been sought by NSCDA.

31.10 During 2009 the Authority, together with its contracted project management and design teams, developed a revised Campus Master Plan for the facilities to be included in the initial phase of the sports campus. The indicative cost was estimated to be in the region of €148 million including VAT. The revised costs take account of additional facilities (a National Gymnastics Training Centre and a National Indoor Athletics Training Centre) approved by the Minister and revised specifications of the stakeholders with regard to facility requirements.

31.11 The Authority has stated that, in view of current financial constraints, it has examined other possible options for the development of the facilities on a phased basis as future funding might permit and has put proposals to the Department. The strategy adopted by the Authority and submitted to the Department for approval in late 2010 involves an incremental development commencing with core indoor facilities at a cost of €40.6 million combined with a partnership approach to developing field sport facilities through the leasing of sites reserved on the campus for individual sports bodies. On 21 June 2011, the Government approved proposals of the Minister for Transport, Tourism and Sport to develop the Campus on an incremental basis.

## Ancillary Developments at Abbotstown

31.12 In parallel with the core Sports Campus project, the Authority redeveloped and refurbished existing buildings on the Abbotstown site for use by the wider sporting community, in particular the National Governing Bodies of Sport.

31.13 The first building to be redeveloped was the former State Laboratory, as a new headquarters for the Football Association of Ireland.[273] This was followed by the refurbishment in 2009 of the former Central Meat Control Laboratory as a new headquarters for both the Irish Institute of Sport and the Authority.

31.14 Planning permission was obtained in October 2010 for the next element, the renovation of the former Marine Institute building as a new headquarters to provide on-Campus office accommodation for some 19 National Governing Bodies of Sport in Ireland. Enabling works were completed in December 2010 and the project was at tender evaluation stage in mid-2011. The Authority was allocated €3 million as part of its capital allocation for 2011 to fund the project.

## Procurement of the National Aquatic Centre

31.15 The Government decided that an Aquatic and Leisure Centre should be commissioned in time for the 2003 Special Olympics World Games. CSID commenced a procurement process by advertising for a contract to design, build, finance, operate and maintain the Centre. It obtained eight expressions of interest and an assessment panel shortlisted five of these for the outline bid stage. Three bids were received and following further evaluation, a proposal from a consortium was selected as the preferred bidder. CSID signed Heads of Agreement with the consortium in February 2001 and the CSID board sanctioned entering into a contract in April 2001.[274]

### *Legal Action arising from the Award of the Contract for National Aquatic Centre*

31.16 In May 2002, Dublin International Arena Limited (DIAL), one of the unsuccessful bidders for the provision of the Aquatic Centre, initiated legal proceedings against CSID and the then Minister for Tourism, Sport and Recreation in relation to the award of the contract. CSID made application to the High Court for security of costs[275] which were awarded in full in May 2004. This judgment was appealed to the Supreme Court by DIAL and following the hearing in June 2007 the Supreme Court ruled in favour of DIAL.

31.17 The main proceedings commenced in the High Court in November 2009. However, during the course of the proceedings, agreement on a settlement of the action was reached between the parties on the basis of which DIAL withdrew their claim. The action was struck out in March 2010 and DIAL were paid a settlement amount from monies provided to the National Sports Campus Development Authority[276] from the 2010 Vote of the Department.

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[273] Completed in November 2007.

[274] The Attorney General reported to the Government in March 2002 on matters relating to the award of the contract for aquatic centre by CSID. The Government published the report which was made available to the Committee of Public Accounts.

[275] Security of costs refers to a situation where a defendant to a legal action has a reasonable apprehension that his or her legal costs will not be paid for by the plaintiff if the defence is successful and seeks an order that the plaintiff provide security for the costs of the action.

[276] As CSID had been dissolved on 1 January 2007 under the terms of the National Sports Campus Development Authority Act 2006 all legal actions involving CSID became the responsibility of the successor body, the National Sports Campus Development Authority.

31.18 The Authority, as successor body to CSID, charged the settlement cost of the DIAL litigation in its 2009 financial statements and included it under Legal and Professional Fees expenditure of €2.8 million. The Authority did not disclose the actual amount of the settlement in the financial statements since the related agreement included a confidentiality clause. Arising from the Supreme Court decision on the security of costs issue, legal costs of €287,000 were awarded against the State which were charged to the Vote of the Department in 2009. Over the course of the litigation the Authority and its predecessor body, CSID, incurred fees of €220,935 on its own legal team.

### *VAT Costs on National Aquatic Centre*

31.19 CSID registered for VAT in 2000 on the basis that it intended to develop the National Aquatic Centre and grant a taxable lease of the property to a company that would operate it. This would allow it to recover the VAT on its construction costs. During the course of construction, VAT of €9.65 million was incurred by CSID. Because VAT was to be charged to the operating company on entering into a lease the VAT costs were not added to the asset cost as recorded on the Balance Sheet.

31.20 In April 2003, CSID entered into a lease with Dublin Waterworld Limited for the operation of the Centre. CSID charged VAT to the operator on the capitalised value of the lease. In accordance with the VAT regulations, CSID calculated the capitalised value as €75.96 million and the VAT due from the lessee as €10.25 million. CSID's calculation of the capitalised value of the lease was based on a valuation by the Valuation Office that the Centre would generate an unencumbered rent of €3.38 million per annum.

31.21 Having charged VAT to the lessee on the creation of the lease, CSID became liable to remit the amount so charged to the Revenue Commissioners. It accounted for this amount[277] as part of its normal returns and treated it as an amount receivable in its accounts on the basis that it was recoverable from the operating company.

31.22 The amount recoverable remained outstanding from 2003 onwards as the lessee disputed that VAT was payable by it. It claimed that the value of the unencumbered rent was less than that calculated by the Valuation Office. Since the lessee failed to pay the VAT due, CSID took High Court proceedings against it claiming the sum of €10.25 million. This action was one element of a Statement of Claim lodged in the High Court by CSID for a series of alleged breaches of the lease on the National Aquatic Centre. The VAT issue was referred to arbitration by the Court, as provided in the terms of the lease, and in July 2005 the arbitrator found '*that the amount of VAT of €10.25 million charged by CSID on the capitalised value of the lease to Dublin Waterworld Ltd. was correctly charged'*.

31.23 The lessee challenged the arbitrator's decision in the High Court and in September 2005 the Court upheld the decision. The lessee appealed the decision to the Supreme Court and the matter was heard before the Supreme Court in January 2010.

31.24 The Supreme Court found that the arbitrator had erred in law and overturned the arbitrator's decision and further ordered that the dispute be referred back to arbitration. Following consideration of the implications of the Supreme Court judgement, and having taken further advice on the matter, the Authority decided in July 2010 to withdraw from the arbitration process. This had the effect of extinguishing the outstanding liability of the lessee. Costs, which are subject to finalisation and taxing, were awarded against the Authority and have not yet been quantified.

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[277] In total the amount of €10.25 million paid to the Revenue Commissioners consisted of a balancing amount paid in 2003 based on the capitalised value of the lease together with input tax paid by CSID in the course of construction of the Centre of €9.65 million.

## Views of the Accounting Officer

31.25 In response to my enquiries on the progress of the Campus development the Accounting Officer stated that proposals in relation to its future development were submitted by the Minister for Transport, Tourism and Sport to and approved by Government at its meeting on 21 June 2011. The proposals involve developing the Campus on an incremental basis which includes a proposal from the NSCDA to develop a National Indoor Training Centre. In light of Government funding constraints the Minister has asked the NSCDA to explore other avenues of funding such as philanthropy or sale of some of the land at Abbotstown.

31.26 He stated that the strategy also envisages the development of certain elements of the plan in partnership with the main field sports bodies, the GAA, FAI, IRFU and IHA. These elements would include the development of natural and synthetic pitches together with the associated changing facilities. The NSCDA approach envisages providing the land and common infrastructure for access and services and all four bodies have indicated their willingness to participate individually in this approach.

31.27 He also stated that the Government approved the transfer of the Abbotstown lands from the Minister for Agriculture, Fisheries and Food to the NSCDA and the Minister has also asked the NSCDA to submit plans to him for Abbotstown House which is a listed building.

31.28 In relation to the non-payment of the VAT invoice the Accounting Officer stated that this was among a number of breaches of the lease which resulted in a Statement of Claim being lodged by CSID with the High Court (Commercial Court) in 2005. The effect of this, had it been implemented as endorsed by independent Arbitration and the High Court, is that CSID would have been paid such an amount by Dublin Waterworld Limited – who, in turn, may have had recourse to reclaim such VAT on its trading activities. However, the tenant failed to comply with its obligations under the lease and this necessitated CSID initiating legal proceedings against Dublin Waterworld Limited in March 2005.

31.29 It emerged that Dublin Waterworld Limited had transferred the beneficial ownership of the lease on the same day that it had entered the lease with CSID to another party without the permission or knowledge of CSID. The case commenced in July 2005 and concluded in November 2005. The outcome of the substantive proceedings in this matter was the vacating of the Centre by Dublin Waterworld Limited and its return to the direct control of CSID.

## Summary of Actions taken by CSID in the Vacating of the National Aquatic Centre by Dublin Waterworld Limited

CSID wrote to Dublin Waterworld Limited in October 2004 pointing out that it had not complied with obligations under the lease of the National Aquatic Centre and demanding compliance and payment of outstanding amounts within 28 days. No reply was received by the expiry date. Because of the potential for incurring substantial costs, CSID sought Department approval before taking further action. The Department replied in February 2005 stating that it considered that it was unacceptable to allow the tenant renege on the terms of the lease any longer and that it was necessary to enforce the rights of CSID as landlord to recover possession of the property and that the Minister had instructed that immediate notice to quit should be served on Dublin Waterworld Limited. In this regard, CSID were instructed by the Department to exercise its rights in law under the lease and request its legal advisors to prepare the necessary documents and take all necessary steps to recover the premises.

A Forfeiture Notice was served on Dublin Waterworld Limited under Section 14 of the Conveyancing and Law of Property Act 1881 in March 2005. A Statement of Claim was delivered by CSID to Dublin Waterworld Limited in April 2005 pursuant to High Court proceedings which sought remedies to a number of breaches of the lease including

- failure to pay rent
- failure to deliver audited accounts for the purpose of assessing additional rent representing 10% of the Dublin Waterworld Limited's profits
- failure to pay insurance costs
- failure to agree the terms of a capital maintenance programme
- failure to pay Value Added Tax upon the grant of the lease
- permitting another company to operate the Centre and assigning possession of the Centre without consent
- failure to ensure that the approved manager continued in the employ of Dublin Waterworld Limited and managed the Centre.

31.30 The Accounting Officer stated that the amount of the legal costs remain to be determined but any such costs will fall to be met by NSCDA which in turn receives its funding from the Department.

## Conclusion

The cost to the Authority and, by extension, to the Department, of the National Aquatic Centre has been impacted upon by two elements.

- A settlement of an undisclosed amount relating to the procurement of the National Aquatic Centre has been absorbed as part of overall legal and professional costs of €2.8 million in 2009.
- In 2010, the extinguishing of the Authority's claim for VAT on a lease with an operating company has increased the cost of the facility to the Authority by €9.65 million as all construction VAT fell to be met by the Authority. The 2009 financial statements were adjusted to reflect this.

The cost of construction of the National Aquatic Centre amounted to €73.4 million which was funded by grants from the Department with the expectation that VAT on the cost of construction would be recovered. However, following consideration of a Supreme Court finding, the Authority decided not to pursue VAT payment under the lease and the lessee vacated the premises.

Ultimately, the recovery of VAT from the lessee would not have conferred any additional benefit to the Exchequer once the lessee was a taxable person entitled to full VAT recovery on its inputs.

Overall, the campus development has slowed and although there has been an outlay of €6.6 million on design costs and planning permission has been received it is unlikely due to the constrained financial resources of the State that further substantial development will be funded by it in the medium term.

# Chapter 32

# Financial Control in the Irish Red Cross Society

Vote 36   Defence

# Financial Control in the Irish Red Cross Society

32.1 The Irish Red Cross Society (the Society) was established in 1939 under the Red Cross Act 1938 (the Act). The Act put into effect the 1929 Geneva Convention which provides for the establishment of red cross (or red crescent) societies with government support and protection, but with structures designed to ensure that they are operationally free from government interference. Notwithstanding this, one role of the Society is to provide assistance to the State authorities in time of emergency, with a specific mandate to assist the medical services of the Irish Army.

32.2 Under the Act, the Government has the power to make provisions for a range of matters relating to the organisation, operation and governance of the Society, including its finances and accounts. The Society operates under the direction of a Central Council and an Executive Committee. The Secretary General of the Society manages the full-time and part-time members of staff in its headquarters in Dublin, three regional offices and overseas delegations. In addition, the Society has a network of over 144 branches throughout the country, run entirely by volunteers, which engages in fundraising and other activities.

### Chapter Focus

The Society is an organisation in receipt of substantial State funding. This chapter outlines the response of the Society to concerns around its capacity to comprehensively report its transactions and track its fundraising.

## Funding of the Society

32.3 The Society is funded primarily from three sources.

- In 2010, it received an annual grant-in-aid from the Department of Defence (Vote 36), amounting to €951,000. This was comprised of
  - a contribution amounting to €821,000, towards the Society's administrative costs and
  - support, amounting to €130,000, for the Society's contributions in respect of affiliation to the International Federation of Red Cross and Red Crescent Societies (the International Federation).
- From time to time, the Society receives other government funding[278] for designated relief purposes – in the recent past, this has included funding from Vote 29, International Co-Operation and Vote 27, Department of Community, Rural and Gaeltacht Affairs.
- It also receives donations from members of the public and other private sources, through fund raising, subscriptions and royalties for general and specific purposes. In some cases, it also benefits from tax refunds[279] from the Revenue Commissioners associated with those donations.

[278] It is estimated that the total funding from State sources was less than 50% of its income in the years 2008 to 2010.

[279] Tax rebates arising from charitable donations totalled €437,000, €469,000 and €181,634 in 2008, 2009 and 2010 respectively.

## Tsunami Emergency Nationwide Appeal 2004/05

32.4 While the Society has a current annual turnover in the region of €6 million to €8 million, it received over €32 million in response to its emergency nationwide appeal following the tsunami disaster in South East Asia in December 2004. Most of the money was received by the Society in late 2004 and early 2005.

32.5 No additional finance or administrative staff were employed by the Society in 2005 to manage the significant sums raised and their subsequent distribution.

32.6 A decision was made by the Executive Committee in 2005 that the money collected would be spent over a five-year period, given that the support required by the countries affected would include infrastructure and longer term assistance. At the end of 2010, in the region of €1.1 million remained unspent. This is being held as a contingency fund to enable the completion of Red Cross projects.

## Financial Control Concerns

32.7 Concerns regarding the capacity of the Society to manage its administration and finance were raised in letters from the Society's external auditors in respect of the 2005 and 2006 audits.[280] The auditors questioned the Society's ability to prepare accounts for the organisation as a whole, due to the unreliability of its systems and the lack of financial information in respect of some of its branches. On foot of the 2005 and 2006 audits, the Society appointed two separate financial consultants to review the issues raised. They recommended that changes be made to the Finance Department at its headquarters. The external auditor's management letter of 2008 noted significant improvements in the finance and administration of the Finance Department but again commented negatively on the Society's ability to prepare comprehensive financial statements.

## Internal Examination

32.8 In 2010, concerns were raised within the Society and in the media about a bank account holding tsunami appeal donations collected by the Tipperary branch of the Society. The Executive Committee commissioned an independent examination of the matter in October 2010. The examination reviewed the events and key financial controls relating to the recording and reporting of amounts lodged by the Tipperary Branch in respect of the 2004/2005 tsunami appeal. The main findings of the examination, published in December 2010, included

- The Tipperary branch collected approximately €160,000 in 2005 which was kept in a designated account separate from its other bank accounts.
- There was no evidence of movement of funds out of the bank account until the full transfer of the funds to the headquarter's tsunami bank account over three years later, in September 2008[281].
- The headquarters was not aware of the existence of the bank account until a trawl of all Bank of Ireland accounts in the name of the Society was undertaken in April 2008, at its request. This trawl led to the uncovering of 49 undisclosed accounts holding amounts that totalled €214,000, of which the Tipperary account (then standing at €162,960, including bank interest) was the most significant.

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[280] These letters, known as management letters, are issued by auditors principally to bring matters of management and financial control to the attention of those charged with governance.

[281] Small amounts totalling €1,100 were moved on two occasions due to banking errors. These movements were subsequently reversed.

- The Tipperary branch breached Society rules by not submitting required financial returns in 2005 and 2006, and by late submission of financial returns for 2007 that did not disclose the tsunami appeal bank account. The failure to submit the required returns was not pursued by the Society's Finance Department.
- No evidence of misappropriation of funds was found.

## Views of the Accounting Officer

32.9 In the light of the statutory basis of the Irish Red Cross Society, the grant-in-aid for the Society's recurrent expenditure from the Department and the use of the Society from time to time to disburse public funds, I asked the Accounting Officer if he was satisfied that the financial control, risk management and governance arrangements for the Society were adequate to ensure the proper application of public monies.

32.10 The Accounting Officer noted that the Society is an independent, charitable corporate body with full power to manage and administer its own affairs through its governing body, its Central Council. The Central Council is made up of elected members and members nominated by Government. The Irish Red Cross Society Order, 1939, provides for Government to nominate not less than one third of the membership of the Central Council. Amongst the current Government nominees is a Principal Officer from the Department who is also a member of the Society's Executive Committee. As it has been the practice for Government to nominate one-third of the Central Council, this means that, in effect, two-thirds of the Society's governing body is made up of members of the Society. Furthermore, the International Federation places great importance on the independence of national societies and on ensuring that Governments do not interfere in their running.

32.11 He stated that as the Society is a body corporate which, in accordance with legislation, is responsible for the handling of its own internal affairs, it was not a matter for the Department to be involved in the day to day running of the Society. However, in light of the claims of maladministration within the Society that had been made, queries had recently been raised regarding the use to which the funds that are granted annually, from the vote of the Department of Defence, are put. Comprehensive and satisfactory answers had been provided by the Society and the Department was satisfied that the grant was used appropriately and for the purpose for which it was provided – towards the salaries and administration of the headquarters of the Irish Society.

32.12 In relation to corporate governance, he noted that the Society had undertaken a review of its existing governance structures and in January 2010 submitted a copy of its proposals for governance reform to the Minister for Defence. Following examination of the proposals by the Department, a Statutory Instrument that will amend the Irish Red Cross Society Order, 1939, was drafted and forwarded to the Office of the Attorney General. Discussions are ongoing with the Office of the Attorney General on the extent of the changes that can be made. Furthermore, the current Programme for Government provides for a detailed legal review to be underataken of the basis, structures and governance of the Red Cross in Ireland in order to improve its functioning in the light of changing circumstances. A comprehensive review of all Red Cross legislation, and in particular the primary legislation, will be commenced as soon as work on the new Order has been finalised by the Office of the Attorney General.

32.13 He stated that a new Chairman of the Society (a former Secretary General of the Department) and a new Secretary General of the Society had been appointed. The Accounting Officer stated that he was satisfied that good progress is now being made in developing more robust, multi-dimensional, corporate governance practices within the Society. He stated that the Society had recently put the following initiatives in place

- a Statement of Directors' Roles, Responsibilities and Accountabilities
- a Code of Conduct for Directors and Management
- a Strategic Planning Framework
- a Register of Organisational Risks
- an induction process for new Directors
- the establishment of an independent Audit Committee with external participation
- performance Evaluation for Senior Management and plans for Board Evaluation
- a Statement of Fundraising Principles and Behavioural Code
- analysis and reporting of non-compliant branch financial returns.

32.14 He stated that work was well advanced in drafting financial policies relating to the management of reserves, borrowing, capital expenditure, procurement and investments.

## Conclusion

The Irish Red Cross Society is an independent body through which the relief of distress can be tackled. Without prejudice to its independence, it is important that bodies in receipt of substantial State funding be in a position to demonstrate good governance and that the funding department satisfy itself in regard to their governance and financial systems.

The initiatives outlined by the Accounting Officer should strengthen the direction, control and management of the Society and provide increased assurance about the conduct of its financial affairs.

# Chapter 33

# Welfare and Employment Schemes

# Welfare and Employment Schemes

33.1 Approximately €20.6 billion has been spent on welfare schemes in 2010 with a further €1 billion being incurred on employment measures. The vast bulk of this is spent through the Department of Social Protection (the Department) which was accountable for expenditure of €20.8 billion of the total. These funds were processed through Vote 38 (€11.3 billion[282]) and the Social Insurance Fund (SIF) (€9.5 billion).

33.2 The Department makes three types of welfare payments

- Social insurance type payments, which are made on the basis of PRSI contributions. Payments made under the social insurance system are funded, in part, by contributions from employers and employees. Any deficit in expenditure is met by Exchequer subvention.
- Social assistance (or non-contributory) payments which are made on the basis of satisfying a means test. Social assistance schemes are financed entirely by the Exchequer.
- Payments (such as Child Benefit or Free Travel), which are not dependent on PRSI contributions or a means test. These payments are funded entirely by the Exchequer.

33.3 Responsibility for the Community Services Programme and the Rural Social Scheme was transferred to the Department from the Department of Community, Equality and Gaeltacht Affairs in May 2010. In addition, following a Government decision on 27 April 2010, responsibility for certain employment schemes transferred to the Department. The Department took over responsibility for the FÁS employment programmes and services from 1 January 2011.

### Chapter Focus

This chapter consolidates and summarises expenditure on welfare and employment schemes met from various public accounts, setting out the source of the funds applied over the past four years, together with 2011 estimates.

## Welfare Expenditure

33.4 All expenditure under the Department's Vote and the SIF has been included in the consolidated view of welfare expenditure set out below as well as around €100 million met from other Votes.

33.5 Expenditure under certain other programmes that could be considered to have broad welfare objectives have not been included in the consolidation including

- medical card expenditure met from the HSE's Vote, estimated at €1.9 billion in 2010
- certain educational expenditure such as the School Support Programme, which is designed to provide a variety of supports to pupils in areas categorised as disadvantaged – its welfare objective arises because it has the potential to reduce child poverty and to improve the life chances of individuals and create improved social outcomes.

[282] Net of subvention provided to, and administration costs recovered from, the Social Insurance Fund.

## Welfare Expenditure and Funding

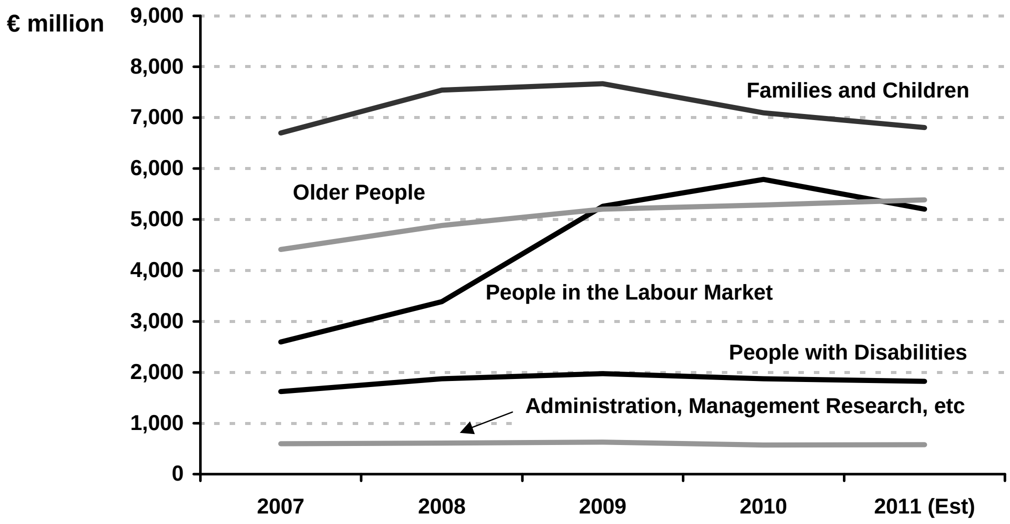
33.6 Figure 149 summarises social welfare expenditure on each main category of recipient. It also indicates the sources of that expenditure. Annex A presents a breakdown of social welfare expenditure by category of recipient and by scheme.

**Figure 149 Expenditure on Social Welfare**

| **Expenditure Category** | **2007** | **2008** | **2009** | **2010** | **2011 Est** |
|---|---|---|---|---|---|
| | **€m** | **€m** | **€m** | **€m** | **€m** |
| Support for Families and Children | 6,700 | 7,544 | 7,667 | **7,091** | 6,809 |
| Support for People in the Labour Market[b] | 2,596 | 3,389 | 5,263 | **5,788** | 5,203 |
| Support for People with Disabilities | 1,622 | 1,875 | 1,975 | **1,873** | 1,822 |
| Support for Older People | 4,414 | 4,885 | 5,203 | **5,286** | 5,384 |
| Administration, Management, Research, etc | 595 | 610 | 627 | **572** | 579 |
| **Total Expenditure** | **15,927** | **18,303** | **20,735** | **20,610** | **19,797** |
| ***Funded through*** | | | | | |
| Social Insurance Fund | 7,251 | 8,400 | 9,783 | **9,458** | 9,054 |
| Voted Expenditure | | | | | |
| Vote 38 Social Protection | 8,055 | 9,192 | 10,503 | **11,051** | 10,685 |
| Vote 27 Community, Equality and Gaeltacht Affairs | 49 | 49 | 48 | **30** | — |
| Vote 40 Health Service Executive | 88 | 120 | 103 | **11** | 9 |
| Vote 41 Children and Youth Affairs | 418 | 480 | 231 | **11** | 1 |
| Expenditure under other votes | 50 | 45 | 51 | **34** | 34 |
| Notional rent on State owned property | 16 | 17 | 16 | **15** | 14 |
| **Total Funding** | **15,927** | **18,303** | **20,735** | **20,610** | **19,797** |

33.7 Figure 150 shows the recent trend for the main categories of expenditure.

**Figure 150 Trend in Expenditure on Social Welfare**




33.8 Expenditure on welfare support for people in the labour market increased rapidly up to 2010, reflecting increasing unemployment during the economic downturn. At 30 June 2011 the level of unemployment stood at 14.2% of the workforce (13.4% for the same period in 2010).

33.9 Overall, a one-tenth expenditure reduction is being projected in 2011 in relation to the provision of supports to people in the labour market. The bulk of this reduction related to €423 million of a projected decrease in expenditure on Jobseekers payments. This is based on an 8% projected decrease in the numbers of people claiming Jobseekers payments[283] together with the full effect of a 4% reduction in average weekly payment rates since the 2011 budget.

33.10 Expenditure in relation to support for families and children decreased by 7.5% between 2009 and 2010 and a further decrease of 4% is projected in 2011. The decrease is accounted for by a reduction in child benefit rates and the replacement of the Early Childcare Supplement with a scheme that has an education focus – the Early Childhood Care and Education Scheme.

## *Views of the Accounting Officer – Jobseekers' Estimates*

33.11 In relation to expenditure on social welfare and employment schemes, I asked the Accounting Officer whether in view of the unemployment trends in the first half of 2011, the 2011 estimates are likely to hold.

33.12 The Accounting Officer stated that at the end of June 2011, the Live Register stood at 457,948 and the weekly average Live Register in the first half of the year had been 442,597. If the current trends continue, it is possible that the Live Register will average in the range 440,000 to 445,000. This is up to 10% higher than the average of 405,000 provided for in the 2011 Estimate.

33.13 She stated that the the Government regularly considers the expenditure position of the Department as a whole, and in particular the extent to which the Department's allocation will meet demands for its schemes, as part of its management of overall Exchequer spending.

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283 The estimate is based on an average weekly Live Register figure of 405,000 in 2011 as compared with 441,000 in 2010.

## Employment Schemes

33.14 Expenditure on schemes designed to get unemployed people back into the workforce is set out in Figure 151.

**Figure 151 Expenditure on Employment Schemes**

| Expenditure Category | 2007 | 2008 | 2009 | 2010 | 2011 Est |
|---|---|---|---|---|---|
| | €m | €m | €m | €m | €m |
| FÁS Administration and General Expenses | 148 | 150 | 150 | 133 | 86 |
| Employment Programmes and Integration Support | 509 | 533 | 508 | 460 | 518 |
| Employment Support Services | 145 | 161 | 194 | 278 | 355 |
| Employment Subsidy Scheme | — | — | 18 | 94 | 4 |
| Community Services Programme | 43 | 47 | 50 | 45 | 47 |
| **Total Expenditure** | **845** | **891** | **920** | **1,010** | **1,010** |
| ***Funded through*** [a] | | | | | |
| Vote 38 Social Protection | 145 | 161 | 194 | 286 | 880 |
| Vote 34 Enterprise, Trade and Innovation | 657 | 683 | 676 | 288 | 4 |
| Vote 26 Education and Skills | — | — | — | 399 | 126 |
| Vote 27 Community, Rural and Gaeltacht Affairs | 43 | 47 | 50 | 37 | — |
| **Total Expenditure** | **845** | **891** | **920** | **1,010** | **1,010** |

Note: a Historic provisions have been reclassified in line with the alterations in Department functions in 2010.

### *Views of the Accounting Officer – Employment Services*

33.15 I asked the Accounting Officer

- how employment activation services are now organised and delivered, the Department's role in this regard and the progress made in profiling applicants for Jobseekers scheme payments
- the arrangements for coordination with the Department of Education and Skills, which is responsible for education and training for the unemployed.

### *Employment Activation Measures*

33.16 The Accounting Officer stated that restructuring in line with international practice has sought to integrate employment and labour market activation measures with benefit payment services in a single government organisation.

33.17 Recommendations from a review of the National Employment Action Plan (NEAP) were submitted to and approved by the Cabinet Committee on Economic Renewal in March 2010. The changes introduced aimed to increase the numbers of unemployed people dealt with as well as to increase the frequency and intensity of activation measures. It also sought to clarify the responsibility of unemployed people in relation to seeking employment and the responsibility of government department agencies in providing unemployment supports.

33.18 Among the measures taken in relation to NEAP was the re-orienting of the three-month referral for Jobseekers claimants from an individual to a group process, improved allocation of interview slots and improved data sharing between the relevant departments and agencies.

33.19 To date, the group engagement process has been implemented on a phased basis in three areas – Galway, Dublin North and Dublin South and it is planned to introduce it to other areas over time. Under this new initiative, jobseekers are initially referred, in groups of between 20 and 30 to a single location, facilitated by a joint Department-FÁS team. However, the Accounting Officer added that because of the time lags inherent in the current selection and referral system it is still somewhat early to gauge the outcome.

33.20 The Department has commenced the development of a profiling system which, it hopes, will identify at initial claim stage, those individuals with a high probability of becoming long-term unemployed, and thereby, segment the jobseeker population for delivery of appropriate supports. Data capture, in this regard, commenced in one office in February 2011 and is now being extended on a phased basis.

33.21 In addition, a working group including representation from the Department, FÁS and the Community Welfare Service is developing an activation model which aims to match the interventions with the different profiles of jobseekers with a view to prioritising those most at risk of becoming long-term unemployed.

33.22 The Accounting Officer noted that, in 2011, all cases referred under the Activation Programme by the Department's facilitators will be drawn from the priority cohorts identified by Government. These cohorts included people under 35 years of age, with low skills and education levels, on the Live Register for over a year, and previously employed in sectors most affected by the downturn.

### *Integration with Education Services*

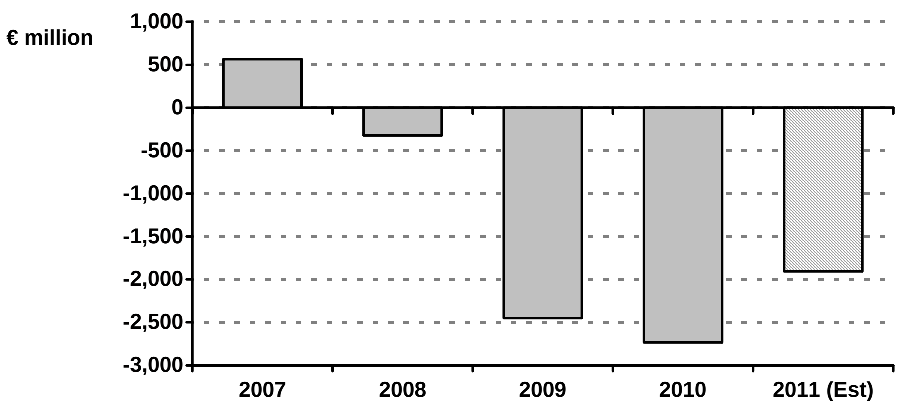
33.23 In relation to integration with education measures, the Accounting Officer noted that profiling of Jobseeker scheme applicants will facilitate the identification of the nature and incidence of local, regional and national skill deficits amongst the unemployed and inform the nature and delivery of appropriate interventions that enhance employability in the context of the changing labour market.

## Social Insurance Fund

33.24 Pay-related social insurance contributions collected by the Revenue Commissioners from employers, employees and self-employed persons are paid into the SIF. Benefits under social insurance schemes are paid for out of the SIF's current account. Funds that are not required to meet current expenditure are transferred to an investment account, which is managed and controlled by the Minister for Finance. Under the Social Welfare Consolidation Act 2005, there is provision for the Exchequer to fund any deficit.

33.25 Between 1996 and 2007, expenditure on welfare benefit schemes was less than the income received into the SIF through contributions. As a result, the balance in the investment account increased, standing at just over €3.6 billion at the end of 2007. Since 2008, expenditure has exceeded the income received in the SIF (See Figure 152). Subvention from the Exchequer to the SIF, which commenced on 26 May 2010, makes up the shortfall between income and expenditure since the accumulated amounts were depleted.

**Figure 152 Surplus/(Deficit) on Social Insurance Fund 2007 to 2010**




33.26 The Minister for Social Protection is required by law[284] to commission and publish actuarial reviews of the financial condition of the SIF at least every five years. The last review was published in June 2007, and related to the position at 31 December 2005. The main conclusion of the review was that, while total income to the Fund from contributions was projected to exceed benefit payments in the period to 2010, the Fund's net cashflow was projected to decline rapidly thereafter, with the accumulated surplus exhausted by 2016. As outlined above, the Fund has been operating in deficit since 2008, and the accumulated surplus was exhausted in 2010. It is expected that a review of the financial condition of the Fund at 31 December 2010 will be published next year.

33.27 In 2010, a total of €1.86 billion was paid from the Exchequer to the SIF and there is provision for a subvention of €1.91 billion in 2011.

[284] Section 10 of the Social Welfare Consolidation Act 2005.

## Conclusion

2010 saw considerable organisational restructuring that brought employment and labour market activation measures together with welfare payment administration.

Around €20.6 billion was incurred on welfare measures in 2010. Employment support and labour market activation measures accounted for a further €1 billion.

Estimates of expenditure on social welfare in 2011 envisage a decline of around €813 million relative to the 2010 outturn. However, the trend in unemployment levels outlined in the report suggests considerable budgetary challenges for the rest of 2011.

Currently, the Department of Social Protection and FÁS are at the early stages of introduction of a set of employment and activation measures designed to improve services based on profiling and segmentation of claimants.

The deficit on the Social Insurance Fund is expected to decline in 2011 as more claimants exhaust their benefits and move onto assistance schemes.

## Annex A Welfare Payments by Scheme and Category[a]

| Expenditure Category[b] | 2007 | 2008 | 2009 | 2010 | 2011 Estimate |
|---|---|---|---|---|---|
| | €m | €m | €m | €m | €m |
| **Support for Families and Children** | | | | | |
| Child Benefit | 2,233 | 2,454 | 2,495 | 2,213 | 2,067 |
| Widow/er Schemes/Guardian's Payments | 1,239 | 1,342 | 1,392 | 1,371 | 1,341 |
| One Parent Family Payment | 962 | 1,067 | 1,121 | 1,110 | 1,112 |
| Supplementary Welfare Allowance | 740 | 867 | 1,032 | 1,009 | 951 |
| Carer's Payment | 388 | 484 | 533 | 528 | 527 |
| Maternity Benefit | 258 | 316 | 331 | 324 | 304 |
| Treatment Benefit | 92 | 97 | 100 | 52 | 23 |
| Family Income Supplement | 140 | 170 | 167 | 186 | 199 |
| Respite Care Grants | 72 | 98 | 99 | 128 | 131 |
| School Meal Grants | 28 | 32 | 35 | 35 | 35 |
| Bereavement and Widowed Parent Grants | 21 | 24 | 24 | 25 | 24 |
| Deserted and Prisoner's Wives | 108 | 111 | 106 | 98 | 93 |
| Adoptive Benefit | 1 | 2 | 1 | 1 | 1 |
| Early Childcare Payments | 418 | 480 | 231 | 11 | 1 |
| **Total Expenditure** | **6,700** | **7,544** | **7,667** | **7,091** | **6,809** |
| **Support for People in the Labour Market** | | | | | |
| Jobseeker's Benefit | 545 | 929 | 1,734 | 1,285 | 1,027 |
| Jobseeker's Allowance | 875 | 1,159 | 2,005 | 2,809 | 2,644 |
| Illness Benefit | 755 | 852 | 920 | 943 | 855 |
| Occupational Injury Benefit | 104 | 112 | 112 | 105 | 105 |
| Farm Assist Scheme | 79 | 85 | 93 | 111 | 123 |
| Redundancy and Insolvency | 188 | 202 | 350 | 490 | 402 |
| Health and Safety Benefit | 1 | 1 | 1 | 1 | 1 |
| Rural Social Scheme | 49 | 49 | 48 | 44 | 46 |
| **Total Expenditure** | **2,596** | **3,389** | **5,263** | **5,788** | **5,203** |
| **Support for people with Disabilities** | | | | | |
| Disability Allowance | 901 | 1,053 | 1,143 | 1,110 | 1,066 |
| Invalidity Pensions | 618 | 686 | 682 | 640 | 628 |
| Blind Pensions | 15 | 16 | 16 | 16 | 15 |
| Domiciliary Care Allowance | 78 | 110 | 123 | 96 | 104 |
| Blind Welfare Allowance[c] | 9 | 11 | 11 | 11 | 9 |
| **Total Expenditure** | **1,622** | **1,875** | **1,975** | **1,873** | **1,822** |

| Expenditure Category[b] | 2007 | 2008 | 2009 | 2010 | 2011 Estimate |
|---|---|---|---|---|---|
| | €m | €m | €m | €m | €m |
| **Support for Older People** | | | | | |
| State Pensions | 3,754 | 4,183 | 4,473 | 4,537 | 4,632 |
| Pre-retirement Allowances | 124 | 118 | 97 | 78 | 62 |
| Free Travel | 64 | 68 | 73 | 74 | 77 |
| Electricity Allowance | 147 | 157 | 166 | 172 | 183 |
| Telephone Allowance | 99 | 112 | 120 | 119 | 116 |
| Fuel Allowance | 158 | 176 | 200 | 228 | 230 |
| Free TV licence | 52 | 56 | 56 | 58 | 59 |
| Natural/Bottled Gas Allowances | 15 | 16 | 18 | 20 | 25 |
| **Total Expenditure** | **4,414** | **4,885** | **5,203** | **5,286** | **5,384** |
| **Administration, Management, Research etc** | | | | | |
| Administration and management | 506 | 518 | 543 | 514 | 529 |
| Agency and service grants | 82 | 86 | 81 | 55 | 47 |
| Other | 7 | 7 | 3 | 3 | 3 |
| **Total Expenditure** | **595** | **610** | **627** | **572** | **579** |
| **Expenditure on all Schemes** | **15,927** | **18,303** | **20,735** | **20,610** | **19,797** |

Notes: a Annual expenditure data are based on audited appropriation account figures (2007 to 2010) and audited SIF data (2007 to 2009). For 2010, draft figures for SIF expenditure were used because the audit of the 2010 accounts is not yet completed. Based on the experience in previous years, it is not expected that significant changes will be required to the draft account figures. Estimates for 2011 as voted by Dáil Éireann.

b Employment Support Services, previously included in Support for People in the Labour Market, now included in Figure 151 – Expenditure on Employment Schemes.

c While a Government decision was taken in 2006 to transfer responsibility for the Blind Welfare Allowance schemes from the HSE to the Department, a date has not yet been set for this transfer.

d Due to rounding, certain scheme expenditures may not sum to the category totals reported.

# Chapter 34

# Welfare Overpayments

Vote 38 Social Protection

# Welfare Overpayments

34.1 Welfare payments in excess of entitlement come to light in instances where the claimant provides new information voluntarily or as a result of control activity by the Department of Social Protection (the Department). When an excess payment is identified, the payment is terminated or the amount is reduced to the correct level. An overpayment is recorded except in

- instances of claimant or Departmental error where a Deciding Officer after reviewing the case determines the effective date of a revised payment amount to be a current rather than a retrospective date
- cases where a Deciding Officer may not have evidence to establish when the excess payments commenced and accordingly cannot pursue an overpayment.

The effect of such decisions by a Deciding Officer is that no overpayment legally arises.

## Chapter Focus

This chapter outlines the trends in the level of overpayments recorded, the extent to which the Department has subsequently recovered those overpayments and the extent to which the Department institutes legal proceedings either to prosecute fraud cases or to recover amounts due from claimants.

## Overpayments Recorded

34.2 The Department recorded welfare overpayments totalling €83.4 million in 2010. This represented a 65% increase since 2007 and was over double the rate of increase in overall welfare expenditure in the same period – which increased by 30%. The details for the period 2007 to 2010 are set out in Figure 153.

**Figure 153 Number and Value of Overpayments, 2007 to 2010**

| | 2007 | 2008 | 2009 | 2010 |
|---|---|---|---|---|
| **Value of overpayments recorded** | **€m** | **€m** | **€m** | **€m** |
| Social insurance | 17.7 | 18.5 | 20.3 | 27.7 |
| Social assistance | 32.8 | 37.1 | 46.5 | 55.7 |
| **Total** | **50.5** | **55.6** | **66.8** | **83.4** |
| **Number of overpayment cases** | **Number of cases** | | | |
| Social insurance | 20,152 | 19,609 | 17,877 | 26,302 |
| Social assistance | 26,251 | 29,492 | 24,637 | 26,301 |
| **Total** | **46,403** | **49,101** | **42,514** | **52,603** |

Source: Department of Social Protection

34.3 The total value of overpayments due for recovery increased from €211 million at the beginning of 2007 to €315 million at the end of 2010.

34.4 The increase in overpayments recorded between 2007 and 2010 is due to an increased number of overpayment cases accompanied by a substantial increase in the average value of individual overpayments over that period. The volume of overpayments increased by 13% while the average value increased by 46%.

## Reasons for Overpayment

34.5 The Department distinguishes between those overpayments it attributes to fraud and those that are due to error. Between 2007 and 2010, the value of overpayments recorded each year as being due to fraud has fluctuated in the range of €21 million to €26 million. The number and value of overpayments classified as fraud between 2007 and 2010 is set out in Figure 154.

**Figure 154 Number and Value of Fraudulent Overpayments, 2007 to 2010**

| | 2007 | 2008 | 2009 | 2010 |
|---|---|---|---|---|
| **Value of recorded overpayments due to fraud** | **€m** | **€m** | **€m** | **€m** |
| Social insurance | 6.3 | 7.0 | 6.8 | 6.8 |
| Social assistance | 15.1 | 14.1 | 13.9 | 19.1 |
| **Total** | **21.4** | **21.1** | **20.7** | **25.9** |
| | **Number of cases** | | | |
| Social insurance cases | 8,304 | 9,991 | 6,788 | 6,482 |
| Social assistance cases | 9,808 | 8,347 | 6,251 | 9,417 |
| **Total** | **18,112** | **18,338** | **13,039** | **15,899** |

Source: Department of Social Protection

## Recovery of Overpayment Debts

34.6 Overpayment debts are recovered by the Department in two ways

- through direct payments by debtors
- by withholding some or all of any welfare payments due to the debtors.

34.7 Between 2007 and 2010, approximately 25% of overpayments recorded were recovered[285]. The total amount of overpayments due for recovery has increased from €149.5 million at the beginning of 2007 to €315 million at the end of 2010.

34.8 The aggregate value of overpayments recovered by the Department in 2010 was €34.5 million.

- €7.2 million was recovered through direct payments in respect of Non-Contributory State Pension overpayments. Most overpayments recorded in these cases arose on the death of claimants (estate cases).
- A further €7.6 million was recovered by way of direct payments from claimants in relation to overpayments raised in respect of schemes other than Non-Contributory State Pension.
- €19.7 million was collected through deductions from payments to which claimants were currently entitled.

[285] The recovery rate is based on the amounts recovered in the period expressed as a percentage of the opening balance of outstanding debt at 1 January 2007 plus overpayments recorded in the period 2007 to 2010. In 2010, recoveries were made from 50% of individuals with debt balances.

34.9 The Department's legal capacity to recover overpayment debts through benefit reductions[286] is limited due to a number of factors. The level of recovery must have regard both to the total amount overpaid and the person's ability to repay. A claimant's weekly social welfare payment can only fall below the weekly rate of Supplementary Welfare Allowance appropriate to his or her family circumstances with the claimant's prior written agreement. Since the current weekly rate for Supplementary Welfare Allowance is just €2 below most welfare payments, in many cases this is the most that can be recovered. In practice, in seeking to recover amounts overpaid, the Department takes account of the circumstances that gave rise to the overpayments and to the recipient's financial resources.

34.10 Overpayment debts may also be disposed of, in whole or in part, by being formally written off or cancelled by the Department.

- Debts are written off when the Department concludes that the debt has become irrecoverable. Over the period 2007 to 2010, about 6% of overpayment debts were written off. Write-offs of debts in 2010 totalled €8.5 million.
- In addition, cancellation of previously recorded debts may occur as a result of a revised decision in the light of new or further information or to correct errors in recorded amounts. Between 2007 and 2010 1.3% of overpayments were subsequently cancelled.

34.11 In relation to the recovery of overpayment debts, I asked the Accounting Officer to provide a breakdown of the amounts recovered between 2007 and 2010 showing the value attributable to cases classified as fraud, claimant error, Departmental error and estate cases.

34.12 The Accounting Officer stated that while overpayments recorded were classified between fraud and error, recoveries were not so classified. As a result, the Department was not in a position to provide information in respect of the proportion of each category of debt subsequently recovered.

## Legal Enforcement

34.13 Legal action by the Department may entail criminal prosecutions in relation to significant cases of abuse, and/or civil proceedings to facilitate the recovery of scheme overpayments or the collection of PRSI arrears[287].

### *Criminal Prosecution Cases*

34.14 Overall, between 2% and 3% of cases classified as fraud are referred for prosecution. In general, cases prosecuted are those that involve high value overpayments. For example, court cases finalised in 2010 involved average welfare overpayments in excess of €6,500 each, compared to an average value of overpayments classified as fraud in the year of around €1,600.

34.15 The number of criminal prosecutions against welfare payment recipients finalised in court increased between 2007 and 2009. However, it dropped in 2010 to 246 – a decrease of 29% on the previous year[288].

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286 Provided for in Article 245 of Statutory Instrument Number 142 of 2007.

287 Apart from overpayment of welfare, debts to the Department may arise where employers evade payment of Pay Related Social Insurance (PRSI) contributions that are due.

288 This figure does not include any cases referred to An Garda Síochána under the Criminal Justice (Theft and Fraud Offences) Act 2001.

34.16 Almost two-thirds of the cases decided resulted in fines being imposed (in some cases, in conjunction with other penalties e.g. community service or a suspended sentence). The average fine imposed in 2010 was just over €875.

34.17 In addition to proceedings against welfare recipients, seven employer-related cases were finalised in 2010 (the same number as 2009). One of those convicted received a prison sentence. In four cases, fines were imposed, averaging just under €1,040 each. Two cases were struck out.

34.18 At the end of 2010, the prosecuting authorities had a total of 742 criminal cases on hands at various stages of the prosecution process (2009 : 820).

### *Civil Debt Enforcement Proceedings*

34.19 In a small number of cases, the Department pursues civil proceedings as a means of recovering debts where there is a reasonable expectation that the debtor has sufficient means to discharge the debt.

34.20 Between 2006 and 2010, the Department finalised a total of 103 civil proceedings. Positive outcomes were achieved in 55 cases which included

- lump sum settlements agreed in seven cases resulting in the recovery of total debts amounting to €196,720
- the agreement of instalment arrangements in 43 cases
- judgements in favour of the Department in five cases as a result of court cases[289].

34.21 The remaining 48 cases were terminated due to changes in the circumstances of the debtor (30 cases) or because the case had become statute barred. At the end of 2010, the Department had 51 civil cases that had yet to be finalised (2009 : 56 cases).

## Views of the Accounting Officer

34.22 In relation to the relatively small proportion of fraud cases referred for prosecution, the Accounting Officer stated that it would not be practical or cost beneficial to prosecute every case of suspected welfare fraud. She stated that the Department places emphasis on ensuring that prosecutions are taken in the more serious cases where there is strong evidence of fraud and in this regard, in 2010 the Department developed a matrix for vetting cases for criminal prosecution.

34.23 The matrix uses a range of nine characteristics, with weightings assigned to each characteristic, to determine which cases should be considered for criminal prosecution. The characteristics include duration of the fraud, amount of the overpayment, false declaration at the time of the claim, failure to notify the Department of a change in circumstances, previous history of defrauding the Department and the client’s efforts to repay the overpayment.

[289] These included decrees awarded (two cases), instalment orders granted (two cases) and a judgement mortgage (one case).

34.24 The Accounting Officer also stated that the Department proposes to review its overall approach to overpayment recovery, particularly in the context of overpayments that have arisen from social welfare fraud. While the details will have to be established, including in particular legal requirements, options that will be explored during 2011 include

- removing the current restriction on the recovery of overpayments, including the amount it can recover each week
- where persons who have overpayments are in employment, matching earnings data against debt holders with a view to accelerating recovery or modifying their tax credits
- examining the potential to withhold tax rebates from individuals with recorded overpayments
- recovering overpayments from other payments made by the State including redundancy, student grants, and farm payments
- pursuing overpayments from other EU Member States where foreign nationals with overpayments assessed against them have returned home.

## Conclusion

The number and value of welfare overpayments has increased steadily since 2007. By 2010, the value of overpayments recorded in the year had increased to €83.4 million – an increase of 65% in the three years. Over the same period, overall social welfare expenditure had increased by 30%.

Between 2007 and 2010, about 25% of overpayments recorded were recovered. The total value of overpayments due for recovery increased from €211 million at the beginning of 2007 to €315 million at the end of 2010.

In 2010, over half of recoveries were collected by way of deduction from current welfare payments with the balance collected by way of direct payments from claimants or from the estates of deceased claimants.

€26 million or 31% of overpayments recorded in 2010 were classified as fraud. The Department could not provide a breakdown of recoveries in 2010 relating to fraud and those that were due to error. Between 2% and 3% of overpayments classified as fraud are referred for prosecution. In 2010, the Department introduced a new system for vetting cases for prosecution in order to ensure that the more serious cases, where there is strong evidence of fraud, are referred for prosecution.

The Department has signalled its intention to review its overall approach to the recovery of overpayments and, in particular, those that are due to fraud. It indicated that the terms of this review will extend to

- options to remove current restrictions on overpayment recovery
- the recovery of overpayments through the tax system, from State payments such as redundancy payments, farm payments and student grants
- the pursuit of overpayments from other Member States to which foreign nationals with overpayment debts have returned.

# Chapter 35

# Regularity of Social Welfare Payments

**Vote 38 Social Protection**

# Regularity of Social Welfare Payments

35.1 The Department of Social Protection (the Department) is required to ensure that

- expenditure it incurs has been applied for the purposes for which the money was made available by Dáil Éireann, and
- its financial transactions conform with the authorities[290], under which they purport to have been carried out.

Financial transactions are considered to be 'regular' when both of these conditions are satisfied.

35.2 While the Department detected a significant number of welfare claims where it found that payments were in excess of entitlement, it does not record the financial impact of the consequential payment reductions or claim terminations. Overpayments are not recorded in all such cases and, therefore, do not represent a reliable measure of the irregular payments in a year.

35.3 I reported last year that the evidence from the fraud and error surveys that have been carried out by the Department indicated that there was a significant problem of excess, and therefore irregular, payment in relation to many of the welfare payment schemes it operates. While the scale of the problem is evidently greater for Vote-funded schemes, the estimated level of irregular payments under the social insurance funded State Pension (Contributory) and State Pension (Transition) schemes are also material. Figure 155 presents an estimate of the scale of irregular welfare payments in 2010 based on the survey results.

**Figure 155 Estimated Irregular Welfare Payments, 2010**

| | Survey year[a] | Level of irregularity | Scheme cost 2010 | Potential monetary impact |
|---|---|---|---|---|
| | | % | €m | €m |
| **Vote-funded schemes** | | | | |
| Child Benefit | 2004 | 1.8 | 2,213 | 40 |
| Family Income Supplement | 2005 | 3.3 | 186 | 6 |
| Disability Allowance | 2005 | 7.0 | 1,110 | 78 |
| State Pension (non-contributory) | 2007 | 2.1 | 977 | 20 |
| One-Parent Family Payment | 2007 | 7.3 | 1,110 | 81 |
| Jobseekers Allowance | 2009 | 4.1 | 2,809 | 115 |
| | | ***4.0*** | ***8,405*** | ***340*** |
| **Social Insurance Fund schemes** | | | | |
| Illness Benefit | 2006 | 0.4 | 943 | 4 |
| State Pension (Contributory/Transition) | 2009 | 1.1 | 3,560 | 39 |
| | | ***1.0*** | ***4,503*** | ***43*** |
| **Total for all schemes surveyed** | | **3.0** | **12,908** | **383** |

Source: Department of Social Protection methodology, updated by Office of the Comptroller and Auditor General
Note: a Base year for fraud and error survey.

290 These eligibility criteria derive from legislation.

35.4 There is wide variation in the level of irregular payments between Vote-funded schemes, but the materiality of the level of the problem across the surveyed schemes suggests that the situation is likely to be similar in un-surveyed Vote-funded schemes, many of which are means-tested.

35.5 The results of the fraud and error surveys completed in relation to Vote funded schemes identified a fraud and error rate of 4%. In 2009, the Department advised that it would expect the remaining schemes, with the exception of Supplementary Welfare Allowance, to be relatively low risk.

35.6 Based on a conservative estimate of the level of fraud and error in unsurveyed schemes[291] the average rate across all Vote funded schemes is estimated at 3.4% of 2010 scheme expenditure. The Department has stated that the margin of error for its survey results may be of the order of ± 1%. Applying this margin of error to the estimates produced, the overall rate of irregular payments would therefore be in the range 2.4% to 4.4% of overall scheme expenditure.

## Conclusion – Level of Irregularity

I am required, under Section 3 (5) of the Comptroller and Auditor General (Amendment) Act 1993, to refer in my audit certificate on an appropriation account to any material case in which

- a Department has failed to apply expenditure recorded in the account for the purpose or purposes for which the appropriations made by the Oireachtas were intended, or
- transactions recorded in the account do not conform to the authority under which they purport to have been carried out.

I have referred in my certificate on the Department's Appropriation Account for 2010 to the level of irregularity, which I consider material in the context of the overall expenditure recorded in the Vote.

### *Views of the Accounting Officer*

35.7 The Accounting Officer drew attention to the fact that fraud and error surveys had not been conducted recently in relation to many of the schemes. She stated that to extrapolate a survey result dating back over four years (when the Department was operating in a different environment) against current day expenditure does not give a reliable estimate of the current level of irregular payments.

35.8 The Accounting Officer stated that in order to address this, the Department plans to conduct more up to date fraud and error surveys. She indicated that

- The first results in relation to a survey of Disability Allowance will be available in September 2011. This, for the first time, includes as part of the survey a review of the medical eligibility by a medical referee.
- A survey of One Parent Family Payment is currently being undertaken and initial results will be available in October 2011.
- A survey of Jobseekers Benefit will commence in the final quarter of 2011.
- The Department is developing a medium term programme of surveys, and will publish this as part of the Control Plan in the Autumn 2011.

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291 The level of fraud and error in respect of Supplementary Welfare Allowance was estimated at 2% — half of the rate for surveyed schemes. A 1% fraud and error rate was assumed in respect of all other Vote funded schemes — a quarter of the rate for surveyed schemes.

35.9 The Accounting Officer also noted that fraud and error surveys are resource intensive, particularly at inspector level and more frequent surveys could only be achieved if variable approaches to the methodology can be developed. This will be considered for some schemes.

35.10 The Accounting Officer stated that the Department will

- calculate a percentage overpayment rate based on the initial survey results
- recalculate the percentage overpayment after six months taking account of changes in cases, which may be due to a variety of factors (e.g. appeal in respect of another payment).

35.11 The Accounting Officer outlined the Department's objectives in conducting fraud and error survey in the following terms

- a fraud and error survey highlights the risk of non-compliance with the rules of the schemes being surveyed
- the survey results allow the Department to target that scheme, and its particular risk areas, for stronger control measures, where necessary.

35.12 She distinguished between the level of irregular payments at the point of the survey and the financial loss to the Department. She noted that the survey results (or the calculation of irregular expenditure in this chapter) do not take account of the financial effect of customers returning to the scheme following an appeal or transferring to another benefit.

35.13 She instanced a re-examination in January 2011 by the Department's Central Control Section of 149 cases where claims had been stopped or where rates had changed as a result of the 2009 Jobseekers Allowance fraud and error survey. In relation to 26 cases that had been terminated, 11 (42%) had re-entered payment on the same scheme or other schemes. Based on these results, the Accounting Officer concluded that the actual financial loss to the Department would be less than the level of irregularity initially noted and that reported overpayments, which represents the value of detected unwarranted recourse to welfare payments is the most accurate and reliable method of reporting the net misspend across all Departmental schemes.

## Conclusion

Reviews of representative samples of cases selected randomly provide a well-tried means of assessing the effectiveness of a scheme control system. Case reviews of this kind are used to inform control planning and implementation in Revenue and in EU-funded schemes in the agriculture area, as well as in welfare systems in other jurisdictions.

The Department has in the past undertaken fraud and error surveys of randomly selected claims on some welfare schemes. Some major expenditure schemes have not been subject to this kind of survey, and the latest survey results in relation to some schemes go back to 2004 and 2005.

It is important that the Department carry out fraud and error surveys on an ongoing basis in order to inform itself on the current level of fraud and error in its payments. The identification of the level of irregular payment needs to be followed by on-the-ground measures to reduce the incidence of fraud. From an accountability perspective, the burden of proof is on the Department to demonstrate that any subsequent measures have reduced the rate of irregular payment. More frequent surveys are necessary to inform departmental administration and control activity, and to allow it to demonstrate the discharge of its accountability for the regularity of its payments.

While reliance on older survey results is not ideal and is unlikely to accurately reflect the current position, it would not be appropriate to ignore them in the absence of more recent results. Furthermore, other available evidence tends to confirm the persistence of excess and irregular payments.

- Previous reports have drawn attention to the fact that at administrative level, considerable information was available to the Department that would have detected long running overpayments.
- Chapter 36 suggests that illegal payments could be addressed by ensuring that claimant entitlement is fully evidenced at take-on or as soon as possible thereafter and that certain management checks need to be carried out consistently.
- Chapter 37 reports a review of the extent to which centrally-generated control information issued to prompt checks is subsequently actioned. Again, there is considerable scope for better utilising this information to reduce the level of unwarranted recourse to the welfare system.

The results of the Department's fraud and error surveys, taken together with a conservative estimate of the levels of fraud and error in unsurveyed schemes, would suggest an overall level of irregular payments of between 2.4% and 4.4% of total payments from Vote funded schemes. This exceeds the 1% materiality level my Office employs in its audit planning.

It is, of course, accepted that the level of irregular payment at a point in time is not equivalent to the cash-savings potential. The Department's planned approach to future surveys as outlined by the Accounting Officer should position it to estimate the loss of public funds with greater precision.

At the level of design, fraud and error survey results can lead to improved overall control and management, the impact of which can only be tracked by regular surveys conducted to a consistent standard. It is also important that the level of irregular payment be tracked and the financial effect estimated so that any necessary control improvements can be targeted at the areas of greatest financial exposure. The Department should also consider structuring its response to survey findings so as to address the three key drivers of irregular payments i.e. fraud, client error and departmental error. The optimal response to each of these is likely to be different.

I intend to audit the Department's future surveys and results against the criteria set out in Annex A, and to report my findings as they are completed.

# Annex A Criteria for the Successful Implementation of a Survey of Underlying Fraud and Error

The criteria necessary for successful implementation of a survey of underlying fraud and error on a claim scheme are

- All cases for inclusion in the survey must be selected randomly from the population of cases in payment at a specific time.
- The sample size must be sufficiently large to yield reasonably reliable estimates.
- The reviews should be carried out quickly or samples may be affected by clients signing off.
- Cases should be tested fully for all possible breaches of regulations. This usually requires the reapplication of all the normal checks and tests – including interviews, home visits, re-certification of means or medical reviews, as appropriate – with a fresh determination by a Deciding Officer.
- The monetary values of any changes as a result of each review together with the monetary value of the sample should be captured so that the results can be extrapolated to draw conclusions about the estimated value of the loss.
- The results of the survey should be capable of being audited.

# Chapter 36

## Control Measures at Scheme Level

# Control Measures at Scheme Level

36.1 Payments to Jobseekers are administered at local offices. Responsibility for control measures relating to those payments rests with the following layers of management.

- Managers of local offices are responsible for the processing and payment of all claims for the schemes they administer.
- Regional Managers have responsibility for the overall control of claims and the implementation of Department policy and procedures throughout the network of local and branch offices[292]. Regional Managers also have responsibility for an inspectorate that investigates and reviews claims.
- The Regional Support Office (RSO) has a designated control support unit, which has responsibility for supporting, examining, monitoring and raising awareness of internal control practices and procedures throughout the regions. It also carries out inspections on the operation of internal controls at local offices.

36.2 The Special Investigation Unit (SIU) carries out a range of control activities including reviewing claims and entitlements, investigating fraud and abuse and carrying out employer inspections.

36.3 Some schemes such as Child Benefit and Disability Allowance are administered at headquarter offices and control units are in place at those offices. In those schemes, control work is focused mainly on targeted review projects.

36.4 Reducing unwarranted recourse to the welfare system involves

- ensuring that all required documentation and proof of eligibility is supplied and checked in order to verify entitlement at the outset of a claim
- checks by management to confirm, on a sample basis, the accuracy and validity of claims in payment.

In addition, risk rating measures can hold out the prospect of reducing the extent and level of unwarranted recourse to the welfare system.

## Chapter Focus

The chapter reports the results of a review of

- the effectiveness of controls to prevent and detect invalid claiming in respect of Jobseekers payments, Invalidity Pension and Disability Allowance
- the Department's progress in implementing a risk rating mechanism.

[292] The Department has 63 branch offices that are affiliated with the Department's 62 local offices. Up to the end of 2010, branch offices did not make decisions in relation to the award of claims or exceptional payments, did not conduct reviews or raise overpayments. There is provision for the expansion of the role of branch offices in 2011 to include decisions to put some categories of Jobseekers Benefit claims in payment.

## Controls at Application Stage

36.5 The audit reviewed take on controls at

- local offices in Cork and Tallaght in respect of Jobseekers Benefit and Jobseekers Allowance
- the scheme headquarter offices for Invalidity Pension and Disability Allowance.

### *Jobseekers Benefit*

36.6 When an application for Jobseekers Benefit is being processed, the claimant must have paid sufficient PRSI contributions. Fundamental entitlement provisions involve proof of identity and residence as well as evidence of unemployment and of the claimant's efforts to seek employment.

36.7 In relation to proof of identity, historically the Department required primary identification documentation in the form of a passport or birth certificate, with supporting documentation such as a driving licence or bankbook.

36.8 These requirements were relaxed in December 2008 and a customer's identity could be confirmed in any of the following ways

- by providing a passport or driving licence
- where the claimant is personally known to the person accepting the claim
- where the claimant has supplied photographic identification in the past
- where the claimant provides other documentation including bank cards, medical card, work identification card, club membership card or similar identification and this can be validated by reference to information already held on the Department's systems.

36.9 Proof of address is required in instances where a claimant is new or although registered with the Department has changed address. A variety of documentation is accepted as proof of address, including but not limited to, recent correspondence[293] from utility companies, banks, other State organisations, rent books or any form of evidence considered by the Deciding Officer to be appropriate in the circumstances.

36.10 Historically, the claimant had to provide proof of unemployment, such as a Form P45 or a letter from an employer stating that the employee has stopped working and giving the reason. The requirements changed in February 2009. The revised guidelines stated that where there was a doubt that the claimant was unemployed, evidence of unemployment should be sought but this was expected to arise only rarely.

36.11 Other than in exceptional cases, the claimant must not be in receipt of payments under another welfare scheme and the Department must be satisfied that the claimant is genuinely seeking work. Evidence of seeking work would include copies of job applications and interviews with claimants to ascertain efforts to obtain employment.

[293] A recent document is one issued within the preceding two months.

36.12 The audit sought to examine the extent of evidencing of these qualifying conditions and checks in a sample of 50 cases[294]. For the cases examined the audit found that

- Proof of identity which complied with the revised procedures introduced in December 2008, had been provided. The proof of address requirement was satisfied in all cases.
- In five cases, where a P45 form was deemed necessary, this had not been received. In those instances, the claims were put into payment pending the receipt of the required documentation. The Department accepts that not all cases were followed up in 2010 and stated that staff are now complying with the procedure and, in addition, a monthly computer extract is used to ensure that all cases pending a P45 or letter from the employer are followed up.
- In both Cork and Tallaght, audit staff were assured that checks were conducted on a regular basis to ensure that claimants were genuinely seeking employment. However, no evidence in this regard could be located on the file in relation to 52% of claimants — 26 of the 50 examined. The remaining claimants had provided evidence such as copies of job applications and/or replies from employers. While the system provides for the issue of questionnaires to claimants at predefined intervals in order to obtain information in relation to the claimant's effort to obtain employment, there was no evidence that this had operated in the sample examined.

36.13 The Department stated that

- In Tallaght, where evidence of genuinely seeking employment could not be located for 17 of the claimants, the number of reviews at predefined intervals has been substantially increased in 2011.
- In Cork, it was accepted that current evidence of genuinely seeking employment could not be located in nine cases.

### *Jobseekers Allowance*

36.14 When an application for Jobseekers Allowance is being processed, the same evidence and checks as for Jobseekers Benefit apply, with the exception of those relating to payment of PRSI contributions. In addition, the claimant must satisfy habitual residency conditions and must undergo a means assessment.

36.15 Individuals claiming Jobseekers Allowance come from a variety of previous situations. They may have just completed their education, returned from abroad, have been in employment but do not have sufficient contributions to claim Jobseekers Benefit or were previously self employed. Consequently, proof of the fact that they are not employed is provided by a variety of sources.

36.16 The audit examined the application of the Department's procedures in a sample of 50 cases[295].

36.17 58% of files included evidence that claimants had attended FÁS courses, had meetings with FÁS facilitators or provided documentary evidence of job applications. In the remaining 42% of files examined, evidence could not be located on file in relation to checks that the applicant was genuinely seeking employment. As with Jobseekers Benefit, the local office's personnel stated that such checks were being conducted but no evidence was retained on file.

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[294] 43 of these cases went into payment in 2010 and 7 in 2009. One file was not available for audit.

[295] 19 of these cases went into payment in 2010, 13 in 2009 and 18 predated 2009.

36.18 In 47 of the 50 cases examined, the file contained evidence that the claimant had provided a P45, a letter from a former employer or other evidence regarding the claimant's recent employment history. In the remaining three cases, no evidence could be located on the file. As with claims for Jobseekers Benefit these claims were put in payment pending subsequent receipt of required documentation. However, no follow up procedures appeared to be taken to ensure that this occurred.

36.19 In one case, the required proof of address had not been provided where the circumstances would have required it. Evidence that compliance with the habitual residency condition was checked (in cases required) would show that the applicant's residence, nature and pattern of employment and future intentions had been considered. These were not evidenced in one of the 17 cases where it was required. Departmental staff acknowledged that this requirement had been overlooked in this instance.

36.20 Claimants' means had been incorrectly assessed in two cases. This occurred for the following reasons

- One claimant whose claim had been put into payment had not had a means test. This occurred as Departmental staff had misinterpreted the results of a previous means test as being satisfactory, when in that instance, the claim had been rejected on the basis of inadequately documented means.
- In the other case, the means test relied on related to a different claimant. Had the correct means test been used, the claimant would have received a lower payment.

36.21 In examining the files, it was also noted in two cases that an existing overpayment had not been pursued either prior to the award of a claim or when the claim went into payment.

### *Disability Allowance*

36.22 Disability Allowance is a weekly allowance for those with a disability and aged between 16 and 66. The disability must be expected to last at least one year. When an application for Disability Allowance is being processed, the following controls are applied.

- Evidence supporting eligibility on medical grounds must be provided by the claimant's GP and each case is reviewed by the Department's Medical Assessor who issues an opinion – decisions are made by Deciding Officers based on those opinions.
- The claimant must undergo a means test.
- The claimant must provide evidence of age and must be in compliance with the habitual residency conditions.

36.23 The audit sought to examine the application of these conditions in a sample of 30 cases.

- One file could not be located and two files were not available for inspection as they were in use for other Department work.
- In six cases, the claims examined had been put into payment by the HSE prior to the transfer of responsibility for this scheme to the Department in 1996. The need to review entitlement in approximately 35,000 such cases had previously been highlighted by Internal Audit in 2008. Such a review would consider entitlement on the basis of medical and means criteria.
- In the remaining 21 cases reviewed, take on controls appeared to be operating as required.

36.24 In relation to the 35,000 Disability Allowance claims put into payment by the HSE prior to the transfer of responsibility for this scheme to the Department in 1996, the Accounting Officer stated that 9,400 cases still in payment have yet to be reviewed for means purposes and 11,900 have yet to be medically reviewed.

36.25 She stated that a review of this number of claims would be very resource intensive and as the relative risk of this group of claimants is not established, it is planned to review (medical and means) a sample of 100 of these claims in the near future. The outcome of this sample will assist the scheme area to assess the relative risk and appropriately prioritise the reviewing of this cohort in the context of finite resources.

### *Invalidity Pension*

36.26 Invalidity Pension is a payment to persons who are permanently incapable of work because of illness or incapacity and who satisfy PRSI contribution conditions. When an application for Invalidity Pension is being processed, in addition to proof of identity, the Department must satisfy itself as to the sufficiency of contributions paid by the claimant and medical evidence must be provided indicating the claimant's permanent incapacity for work.

36.27 The audit examined the application of these conditions in a sample of 30 cases and found that, in general, take on controls were operating satisfactorily.

## Conclusion – Controls at Application Stage

Audit work noted some shortcomings in the application of take on controls for both Jobseekers Benefit and Jobseekers Allowance. While these deficiencies in the evidential requirements would not necessarily lead to overpayments, the level of the shortcomings point to an increased risk arising out of incomplete validation. This would suggest a need to review claims at local office level as the claimload stabilises.

In a large number of Disability Allowance cases, the HSE had in the first instance decided on eligibility. Responsibility for this scheme transferred to the Department in 1996, but in many cases the Department had not conducted its own independent review of eligibility. The Department, in response to audit enquiries, stated that it plans to review a sample of 100 claims to assess the relative risk posed by this cohort.

The control system as currently constituted provides for the review of Jobseekers claims within specified time periods. Prioritising the review of cases where take on controls were not fully implemented by having identifying markers on the system and setting review intervals for this type of case should be considered.

## Management Controls

36.28 The computerised system that is used to process payments in respect of Jobseekers payments and Invalidity Pension and Disability Allowance has a logging and auditing capability. This allows amendments to claims to be recorded to a separate file for later retrieval as required. The review of this data facilitates control at two levels. It allows the Department to verify transactions and to ensure a level of user accountability. The application of this control takes the form of

- a management audit designed to review 1% of the claimload
- a daily verification procedure which examines a proportion of daily transactions.

36.29 The audit sought to review the operation of those checks at two local offices in the Southern Region (Cork) and the Dublin South Region (Tallaght), and at the scheme head offices for Invalidity Pension and Disability Allowance.

### *Management Audit*

36.30 Checks of the 1% sample of claims which is computer selected are designed to ensure, among other things, that the authorised rate of payment is correct, that transactions on the claim are in order, that date of birth and identity have been verified and that claim review dates are being observed.

36.31 In March 2009, the Department eased the requirement to carry out these audits from a monthly basis to a bi-monthly basis.

36.32 This control had not been operated at Cork local office during most of 2010 and in Tallaght the audit findings would suggest that 95% of the lists produced for management checks were not subsequently reviewed. The control does not apply in scheme headquarter offices[296].

### *Daily Verification Procedures*

36.33 Daily verification procedures are designed to verify the validity of transactions input to the Department's system and the procedure is that, the IT system randomly selects a sample of daily transactions for verification on the following day. The sample is designed to include some work completed by every system user each day. Changes made in the course of transaction processing are then independently verified against source documentation. The follow up procedures include

- referring the matter to a supervisor or manager in instances where a discrepancy arises
- the generation of exception reports in respect of unresolved items which are escalated ultimately to the relevant regional office.

36.34 The control had not been operated at Cork local office during most of 2010, only being re-instated in November of that year.

36.35 The control was being operated satisfactorily at Tallaght local office and in the Disability Allowance and Invalidity Pension scheme areas.

### *System Generated Reviews*

36.36 An additional control provides for the automatic review, by local offices, of all claims in payment for seven months or more. The review is designed to check continuing entitlement to payments in respect of individual claimants. This requirement was relaxed in July 2009 to facilitate processing the large volume of claims then being made. The control was reintroduced in January 2010.

36.37 However, during the audit at Tallaght, in February 2011, my staff were informed that while large numbers of cases were being selected for review on a weekly basis only a small proportion — around 5% of cases were examined.

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[296] These areas have a dedicated control unit that checks samples of cases in payment.

## Conclusion – Management Controls

Management checks and daily verification checks are fundamental elements of a controlled processing system.

The management controls were not fully operated in respect of Jobseekers payments during 2010 even at the reduced levels that were permitted from March 2009 onwards.

The daily verification procedures had not been operated at the Cork local office for most of 2010.

In the absence of these controls, the Department's exposure to incorrect or invalid payments being made and remaining undetected is substantially increased.

There is a need to reintroduce these checks where they have lapsed and ensure they are fully implemented.

System generated reviews are an important control to prompt the Department to review all claims after an interval. In the main, these reviews were not being conducted at the Tallaght local office during 2010 in relation to Jobseekers payments.

### *Views of Accounting Officer*

36.38 The Accounting Officer stated that the Chapter presents evidence of insufficient control which she is concerned about and has instructed her officials to address.

36.39 The Accounting Officer stated that there was a need to consider the shortcomings in control in the context of the significant increases in claimload and stated that the focus on 2010 in this report cannot be considered to be representative of general management of internal control. She also stated that the stabilisation of the claimload in 2011 would facilitate a greater focus on control activity.

36.40 She stated that in August 2011, as part of the Department's focus on control and in meeting the Government's approach of a zero tolerance for fraud, the Department is undertaking eight regional one-day seminars for investigative and control staff. The Department's Deputy Secretary, with the assistance of a number of Assistant Secretaries, will lead the seminars, which will focus on control and transformation.

36.41 She provided the following contextual information in relation to the workload at the Cork and Tallaght local offices, which were reviewed as part of this audit.

36.42 Cork local office had an active claimload of 22,500 to manage. New claim inflows had increased from 600 in 2008 to a peak of 3,000. During the summer of 2009, staff were deployed from the claim maintenance area to the fresh claims area. The Accounting Officer stated that as a result of this pressure, some controls had to be lapsed.

36.43 She added however, that in July 2010 management in Cork sought a control review by the Department's Internal Control Unit. This action was taken after claims backlogs had been successfully targeted by changes in work processes in the claims processing area.

36.44 With regard to the Tallaght local office, the Accounting Officer stated that acknowledged control lapses must be viewed in light of significant increases in workload with only a modest increase in staff. Staff numbers increased by 18% between 2008 and 2010. She stated that

- The number of people on the live register registered at Tallaght local office increased by almost 200% from 4,000 in 2007 to a peak of 11,300 in 2010. This level of increase put considerable pressure across all functions in the local office including control.
- The One-Parent Family Payment claimload administered by the office almost doubled from just over 2,000 in January 2008 to just under 4,000 in January 2010 due mainly to the transfer of these payments from the scheme headquarters in Sligo.
- Due to limited resources, it was necessary to prioritise control measures to areas of greatest risk and in this context, the Accounting Officer instanced a number of control exercises undertaken during 2010 and stated that since September 2010, an Executive Officer has been assigned, on a full-time basis, to manage the control regime in the local office.

## Risk Rating of Claimant Population

36.45 The Department has signalled its intention to move to a risk based system of claim processing, which it hopes will achieve better value for money by focusing scarce resources on the most appropriate cases. The basis for focusing review activity lies in assessing two risk elements

- the level of risk inherent in the scheme
- the risk attaching to the claimant as a result of their claim profile.

### *Scheme Risk*

36.46 In order to position itself to focus its review activity, the Department needs accurate information in relation to the relative levels of risk in each of the schemes it operates. In this regard, in 2003, the Department commenced special fraud and error surveys to provide periodic estimates of the levels of fraud and error in individual schemes.

36.47 The results of fraud and error surveys carried out between 2004 and 2009 are set out at Chapter 35.

36.48 These surveys indicate that the scale of the excess payment problem varies across schemes. The extent of the irregular payment is influenced by the entitlement conditions set for schemes, the circumstances of the target populations and the processes used by the Department to assess claims and to exercise control over ongoing payments. In general, fraud and error is found to be higher for means tested schemes than for benefit schemes.

36.49 No fraud and error surveys were conducted during 2010. Up to date accurate estimates of the level of fraud and error in individual schemes is a key input to any risk rating system. The Department needs to address this matter in order to position itself to do this type of rating work. Chapter 35 outlines the Department’s plans in this regard.

### *Claimant Risk*

36.50 The Department’s commitment to attaching a risk rating to individual claimants as part of a new review policy introduced in 2009, has been progressed in the case of Disability Allowance claims in the areas of means and medical grounds. At January 2011, of the 101,000 scheme claimants, 26,130 had been risk rated on means grounds and 15,366 on medical grounds.

36.51 In relation to Invalidity Pension, although risk rating is not used, claimants are categorised according to the planned frequency of medical review. The audit sought to examine the actual reviews conducted by reference to the numbers of claimants in each review category.

36.52 The non-recording of reviews in the first six months of 2010 due to industrial action meant the audit could not conclude fully on the extent to which required medical reviews were conducted. However, data from the final six months in 2010 and the full year for 2009 provides some evidence of the proportion of required reviews that were actually completed.

- 3,982 claimants had been categorised as requiring an annual medical review. In these cases, 926 reviews were conducted in 2009 and 558 in the second half of 2010.
- In 6,284 cases, a medical assessor has recommended a further medical review after two years. In 2009 and 2010 no medical reviews had been conducted in respect of claimants in this category.
- A total of 8,041 claimants have been categorised in a miscellaneous category without a predefined review frequency. No reviews of this category of claimant were conducted in 2009 or 2010.

36.53 The Department stated that in accordance with policy and in the context of finite resources, priority is given to reviewing cases with a one-year referral. It plans to review a sample of claims with a referral date of two years or more or where no category is recorded, with a view to assessing the relative risk and appropriately prioritising the reviewing of this cohort.

36.54 32,599 claimants are deemed not to require further medical review — Do Not Refer Again (DNRA) cases. Categorising a claimant as not requiring any further medical review can lead to significant overpayments. Instances have arisen where it is subsequently discovered that the claimant has in fact been in employment.

- Four of the highest overpayment cases in Invalidity Pension arose in cases classified as not requiring further medical review that were found subsequently to have been working.
- Two of these cases had been in employment for six and nine years, respectively. The claimant who had been in employment for nine years had undergone a medical review in 2002 and was classified as not requiring further review. The resultant overpayment totalled €73,500.

36.55 The Department stated that, in instances where claimants are categorised as not requiring further medical review, it is believed that the risk of the claimant defrauding the system is quite low. Nevertheless, it is accepted that some claimants may choose to work (and not inform the Department) even though their medical condition indicates permanent incapacity, which is unlikely to improve. Consequently, medical status alone may not be the best determination of risk. Other factors will be considered for inclusion in the risk rating system such as age and occupation and it sees the matching of claim details with commencement of employment data as the best control tool for this cohort.

36.56 In addition, in cases categorised as not requiring a further medical review where the claimant is found to have been concurrently working, the Department's current approach is to raise an overpayment and offer the claimant the choice of signing off Invalidity Pension or ceasing to work. If the claimant opts to cease employment and continue to claim Invalidity Pension, a medical review is not required to ascertain incapacity to work. The Department accepts that a medical review should be conducted in instances where the claimant continues to claim Invalidity Pension and plans to put appropriate procedures in place as soon as possible.

36.57 In relation to Invalidity Pension, concurrent working and claiming cases account for 43% of the value of overpayments but only 6% of the number. The average such overpayment is €40,000.

## Conclusion – Risk Rating

Risk rating of claims has only been implemented in a limited way. Even where it has been implemented, it has not been followed up by a systematic review process.

The absence of regular fraud and error surveys means that scheme risk is not being accurately measured.

The absence of an assigned medical status in relation to 16% of Invalidity Pension claimants means the Department is not in a position to develop a review frequency for that cohort of the population. No medical reviews were conducted in respect of these claimants in 2009 or 2010.

In the invalidity area, the risk of incorrectly categorising claimants as low risk can be seen in the level of overpayments for some cases so rated.

Consequently, any implementation of a risk rating scheme needs to be comprehensive in the first place so that the rating itself does not give an incorrect signal.

## Conclusion

In recent years, there has been a considerable increase in the Department’s claimload, in particular in relation to Jobseekers.

The Department responded to this by introducing revised procedures in relation to take on controls which resulted in less onerous requirements in particular in relation to proof of identity.

Taking account of the revised procedures, an audit of payments to Jobseekers found that take on controls were not being fully operated and ongoing review of cases was not being carried out at prescribed levels.

Management checks and daily verification checks are fundamental elements of a controlled processing system. The management controls were not fully operated in respect of Jobseekers payments during 2010 even at the reduced levels that were permitted from March 2009 onwards. The daily verification procedures had not been operated at the Cork local office for most of 2010. In the absence of these controls, the Department’s exposure to incorrect or invalid payments being made and remaining undetected is substantially increased.

The Department has acknowledged these control weaknesses and has signalled its intention to strengthen both take on controls and ongoing review of cases now that the claimload has stabilised.

In order to target control resources on the basis of the risk of fraud and error, the Department has sought to introduce risk rating at both the scheme and claimant level.

Risk rating at scheme level is based on the results of fraud and error surveys and scheme risk assessments. However, both the fraud and error surveys and the scheme risk assessments in respect of the main schemes were completed a number of years ago and may not reflect the changed environment or the application of additional controls since the surveys or risk assessments were completed.

In order to position itself to allocate resources to control activity on the basis of scheme risk, the Department would need to devise a cycle for conducting fraud and error surveys and risk assessments for the main schemes, with a provision to revise the risk assessments more frequently if there were significant changes in the environment.

Risk rating of claims allows the Department to target its control activity within schemes. This type of system would seek to categorise claimants by reference to particular characteristics and devise a control strategy, which allocates the majority of resources at those claimants who present the highest risk.

The Department commenced risk rating in the case of Disability Allowance claimants. To date, only a small proportion of claims have been risk rated and it has not been followed up by the development and operation of a structured review process.

## Chapter 37

# Information Driven Controls

# Information Driven Controls

37.1 Third party information can be used to focus review activities on claimants who may be accessing welfare payments fraudulently. The Department of Social Protection (the Department) receives a variety of data from third party sources including the following.

- The Revenue Commissioners provide it with data relating to the commencement of employment, annual earnings and property conveyancing.
- Student registration information is received from third level colleges.
- The Commission for Taxi Regulation provides information in respect of taxi and hackney licence holders.
- The Private Residential Tenancies Board provides owner and address details in relation to rental properties.

37.2 Information is also received from the Department of Justice and Law Reform, the Irish Prison Service, FÁS, the Private Security Authority, the General Register Office, the Department of Environment, Heritage and Local Government and other sources. Reports are also received from the general public.

## Chapter Focus

The chapter reports the results of a review of the extent to which certain information received was screened and referred to local offices for further investigation and the results of those investigations. The information reviewed in the course of audit related to Jobseekers payments.

## Central Control Unit

37.3 The Department's Central Control Unit matches third party data with the Department's own information in relation to claims in payment. It forwards possible overlap cases for investigation to local offices and scheme management.

37.4 Commencement of employment information is matched on a monthly basis with claimants' records in respect of all schemes. In relation to Jobseekers Benefit the comparison also takes account of qualified adults claimed for. In respect of individuals in receipt of Jobseekers payments and One Parent Family payments, the Central Control Unit writes to all of the employers involved for confirmation of commencement of employment data received from Revenue. Based on the replies received, the cases are referred to the Department's Special Investigation Unit or local office managers as appropriate. Instances where the commencement of employment data suggests that a claimant is concurrently working and claiming welfare payments are referred for investigation.

### *Shortcomings in Matching*

37.5 Under Departmental guidelines, one of the functions of the Central Control Unit is to compare annual earnings data received from Revenue, for claimants in respect of Jobseekers and One Parent Family payments, with the Department's own information. There is no evidence that this exercise was carried out in 2010.

37.6 The Department stated that the Unit plans to undertake a data matching exercise on earnings for the Jobseekers schemes later in 2011.

37.7 A number of issues were identified in relation to the timeliness of data matching and the subsequent follow up of cases as a result of such matching.

- In relation to commencement of employment, a review of matched data forwarded to the Southern Region for investigation in January 2010 revealed that 321 of the 4,129 cases referred had an effective employment commencement date in June 2009 or earlier. Of these, eight had commenced employment in 2008 and two had commenced employment in 2007.
- Information relating to third-level student registrations is generally not received by the Department of Social Protection until well into the academic year. Data for September 2009 registrations was forwarded for investigation in February/March 2010.

37.8 In relation to the timeliness of matching to commencement of employment data, the Department stated that this is, in some cases, down to delays in notification of employment by the employers but acknowledged that due to the pressure of work in Control Unit and limited skilled resources, there were some delays in data matching and forwarding of cases for investigation.

37.9 In order to address this, the Department's Control Unit is investigating more extended automation of this data matching process with a view to having cases matched more quickly and significantly reducing cases of concurrent working and signing. In addition, the Department is piloting a project whereby contact will be made directly with the customer in the first instance (rather than the employer as happens at present) to enable a more structured and timely approach to be taken.

37.10 In relation to matching with student registrations, the Department stated that the delay was due to the required information not being transmitted promptly, gaps in the information provided and in particular in instances where PPSNs were not supplied, as well as the Department's approach, which was to complete the matching exercise when all of the data had been received.

37.11 The Department stated that it has been in contact with all the colleges in an attempt to raise the awareness of the need to send in the student data as early as possible. From 2011, the Central Control Unit will make specific requests to all colleges. As the data is received, the Department will aim to match it – particularly in the case of the data from the largest colleges first – and to deal with matching as the data is received, as opposed to waiting until all information is available.

37.12 While the Department records information in relation to the types of data matching it conducts and the numbers of cases referred for investigation in relation to each category of third party data received, it does not monitor the extent to which cases referred result in payments being reduced or terminated.

37.13 The Department stated that in order to enable it to assess the overall value of the different types of matching, its Control Unit is examining how it can capture the outcome of these data matching exercises. In that regard, it aims to capture information at a regional level in relation to the type and number of cases referred, the number investigated and the outcome in terms of the number of payments reduced or terminated.

37.14 Details of new entrants to courses provided by FÁS are forwarded by that agency to the Department on a regular basis. The information is sent to local offices. The audit at the Southern and Dublin South regions indicated that the information had not been acted on in 2010.

37.15 The Department stated that

- procedures have been introduced at the Dublin South region to ensure that the FÁS list is checked against the claim records
- in the Southern region, while local arrangements operated in 2010, whereby local FÁS offices contacted local office staff directly, these procedures have recently been formalised and the list forwarded by the Central Control Unit is systematically checked against the claim records.

37.16 The Department is limited in its ability to match commencement of employment information with Non-contributory pension payments that include amounts in respect of qualified adults. This is because the IT system used to administer those payments has not got the facility to extract details of qualified adult dependants, for subsequent comparison with the commencement of employment data. As such, no use can be made of commencement of employment data which might relate to them.

37.17 The Department stated that the transfer of this scheme to a new computer system in 2011 will eliminate this restriction. The Department added that in any event, only 3% of claimants are being paid in respect of a qualified adult dependant and a large proportion of those are over 60 years of age.

## *Referral of Cases for Investigation*

37.18 Data matching using commencement of employment data identified almost 62,000 cases for further investigation. 12,400 of those were because replies to employers' questionnaires had not been received. The remaining 49,500 related to cases where overlapping payments were apparent from a comparison of scheme records and the commencement of employment data.

37.19 The information supplied indicated that persons in receipt of welfare payments had commenced employment in the following instances.

- 25,000 persons in respect of whom Jobseekers payments were being made had commenced an employment. 4,500 of those cases related to instances where qualified adults in payment under Jobseekers Allowance had commenced employment.
- 12,000 recipients of Supplementary Welfare Allowance had commenced work.
- 9,200 persons in receipt of either Disability Allowance or Illness Benefit were reported as starting an employment.
- In 2010, 13,300 recipients of One Parent Family payments had commenced work. 7,700 were subsequently referred for investigation either because the employer had not responded to the questionnaires issued by the Department (3,420 cases) or the replies to the questionnaires issued indicated the claimant was earning in excess of €160 per week (4,280 cases).

37.20 Claimants identified for investigation as a result of matching with data other than commencement of employment included

- 26,372 students identified out of a total of 201,540 student registrations as being on welfare schemes.
- 2,735 individuals identified from Private Residential Tenancies Board (PRTB) information out of a total of 103,492 notified. In these cases, landlords included in the database provided by the PRTB were identified as being in receipt of payments under means tested schemes.
- 13,176 claimants identified from a total of 73,683 cases notified by the Commission for Taxi Regulation.

## Conclusion – Central Data Matching

Significant delays occurred prior to data being forwarded by Central Control Unit for investigation. In many cases, events had overtaken the investigation. The Department drew attention to delays in notification of employment from the employer but it acknowledged that delays on its part occurred during 2010 and stated that it has developed a number of revised procedures in this regard.

The timing of the receipt of some information militates against the Department's efforts to identify and minimise payments in excess of entitlement. While the data matching with student registrations identified about 26,400 cases requiring investigation, the information is received well into the academic year. This means that significant overpayments can have occurred by the time the case is investigated and there may be little prospect of recovery. The Department has stated that it intends to intensify its efforts to ensure that more timely data matching is achieved.

Matching payment data with commencement of employment information in 2010 identified about 62,000 cases requiring further investigation. About 20% of those arose due to a lack of response to employer questionnaires and the balance represented apparent overlaps.

Data matching in relation to earnings data supplied by Revenue had not been carried out in 2010.

The Department does not collect information in relation to the proportion of cases referred that are investigated and result in a reduction or termination of the relevant claimant payments. This information would allow it to evaluate the relevant usefulness of the different data received in identifying material payments in excess of entitlements. The Department has indicated that it intends to address this issue.

## Extent of Follow Up

37.21 Following its data matching, the Central Control Unit forwards lists of cases for investigation to local offices, Special Investigation Units and scheme headquarter offices as appropriate. During the audit a sample of individual cases referred to local offices and the Special Investigation Units in the Southern Region (Cork) and the Dublin South Region (Tallaght) were reviewed to establish

- whether there was evidence of the case having been referred
- whether the case was actually investigated and
- to what extent investigations had identified overpayments.

37.22 Figure 156 sets out the extent to which the referred data was recorded in the Southern Region, the extent to which it was investigated and an indication of the types of information that leads to the identification of overpayments. Figure 157 gives the equivalent information for the Dublin South Region.

**Figure 156 Disposal of Referred Cases, Southern Region**

| Type of case referred | Sample size | Data from Control Unit on file | Investigated | Overpayment[a] |
|---|---|---|---|---|
| ***Local Office*** | | | | |
| Commencement of employment | 25 | 20 | 17 | 11 |
| | **25** | **20** | **17** | **11** |
| ***Special Investigation Unit*** | | | | |
| Commencement of employment | 10 | 6 | 6 | 5 |
| Students | 5 | 1 | 1 | - |
| Taxi licence holders 2009[b] | 5 | 3 | 3 | - |
| Anonymous reports | 10 | 8 | 4[c] | - |
| | **30** | **18** | **14** | **5** |
| **Sample Result** | **55** | **38** | **31** | **16** |

Notes: a These relate to cases where an actual overpayment was raised. In one further case, a claimant had his payment reduced without an overpayment being raised.

b 2010 data in respect of taxi licence holders was received by the Department in September 2010 but was not distributed to local offices until March 2011. It had not been investigated at the time of audit.

c These cases were already being investigated by the Special Investigation Unit as part of special projects which had not been finalised at the time of audit.

**Figure 157 Disposal of Referred Cases, Dublin South Region**

| Type of case referred | Sample size | Data from Control Unit on file | Investigated | Overpayment[a] |
|---|---|---|---|---|
| ***Local Office*** | | | | |
| Commencement of employment | 30 | 16 | 6 | 2 |
| | **30** | **16** | **6** | **2** |
| ***Special Investigation Unit*** | | | | |
| Commencement of employment | 10 | 8 | 4 | 3 |
| Students | 15 | 11 | 11 | — |
| Taxi licence holders 2009[b] | 11 | 7 | 6 | —[c] |
| | **36** | **26** | **21** | **3** |
| **Total** | **66** | **42** | **27** | **5** |

Notes: a These relate to cases where an actual overpayment was raised. In a further seven cases, claimants had their payment reduced without the raising of an overpayment.

b 2010 data in respect of taxi licence holders was received by the Department in September 2010 but was not distributed to local offices until March 2011. It had not been investigated at the time of audit.

c In one of the seven cases examined, it was established that the claimant had received payment in excess of entitlement. The Department suspended payment from a current date but did not raise or pursue an overpayment. Two further claimants had ceased claiming by the time their case was investigated. Again, the Department did not raise or pursue an overpayment in either case.

37.23 The audit carried out at the two local offices found that in 66% of cases some evidence of this referral could be found on individual files.

37.24 Overall, 63 of the 121 referral cases had not been investigated. In five cases, the claimant was no longer in payment at the time of investigation which may have led to the decision not to investigate further. In the remaining 58 cases, there was no recorded reason for the lack of investigation.

37.25 Where investigation had occurred, overpayments were raised in 36% of cases. In a further eight cases, overpayments were not raised although the claimant had been deemed to be in receipt of payment in excess of entitlement.

## Conclusion – Follow up of Cases Referred for Investigation

Audit findings indicate that only 48% of cases referred from Central Control Unit had been investigated.

In the audit sample, 36% of cases actually investigated had resulted in an overpayment.

## Conclusion

The Department receives a significant amount of information from third parties. Matching this information with the Department's own information in relation to claims in payment allows it to identify instances of apparent fraudulent claiming of welfare payments.

A review of the Department's activities in this area during 2010 identified delays in the receipt and matching of some categories of information.

In response to the audit enquiries, the Department stated that it is putting new procedures in place to ensure more timely receipt of third party information and more efficient data matching.

The audit review found data matching identified large numbers of claimants where further investigation was required.

While a significant proportion of cases referred for investigation to local offices were not followed up, in those cases where investigations were completed, overpayments were raised in 36% of cases and in a further 14% of cases, claims were terminated or reduced.

# Chapter 38

# Measuring Review Outcomes

# Measuring Review Outcomes

38.1 Once claims are in payment the Department carries out reviews to ensure that that the full amount of the payments to an individual are appropriate. These control activities include

- casework carried out by the Department Inspectorate
- desk reviews carried out at local offices and in sections in the Department
- interviews by Department officials and Inspectors
- medical assessments
- reviews as a result of matching data from other organisations, such as commencement of employment information from Revenue and notification of deaths from the General Register Office.

38.2 Following a control activity the Department reports a monetary savings figure in those cases where invalid claiming is detected. Using this as a measure of the success of control activities would require that

- any savings claimed are demonstrably related to actual control activity
- the measurement of savings is based on a reasonable view of the likely extent of State cash outflows halted by actions following the review activity.

38.3 Savings reported include both overpayments assessed as a result of control activity and the amounts the Department estimates it will save, in the future, as a result of detecting irregular payments. Over the past five years the Department has reported €2.3 billion in savings (€483 million in 2010).

## Chapter Focus

From the viewpoint of recoverability and bankable savings, the return from review activities would be maximised in conditions where the greatest amount of overpayments possible was listed for recovery and actually recovered.

This chapter examines the extent to which the savings measure used to report review effectiveness is evidence based.

## Savings based on Recorded Overpayments

38.4 During 2010, the Department raised €83 million overpayments related to scheme payments that had been made in excess of entitlement. €38 million of those overpayments related to control activity.

38.5 Recovery of overpayments may occur a number of years after the overpayment is assessed and in a significant number of cases the overpayment is not recovered at all. Chapter 34 outlines the Department’s performance in recovering those overpayments that have been raised.

38.6 The Accounting Officer stated that, in principle, all debt as a result of overpayments is recoverable. She stated that since the introduction of a new computer system to manage overpayment debt in 2006, all recorded overpayments will remain recoverable either from future entitlements or from the debtor’s estate on their death.

38.7 The Department considers that, over time, the actively recoverable debts will increase as more debt holders begin servicing their debt. The Department noted that where debt holders die without an estate, debts owing are necessarily written off. In 2010, approximately €8.5 million was written off in this way.

38.8 Since the beginning of 2007 the Department has succeeded in recovering around one quarter of all debts that were due.

## Conclusion – Savings based on Recorded Overpayments

The Department's current practice is to count all overpayments raised as a result of control activity as bankable savings. Since the beginning of 2007, the Department succeeded in collecting about one quarter of the overpayment debts due. While a larger proportion of debts may be recoverable over the longer term, the Department's current practice of including all of these overpayments arising from control activity as savings is questionable.

## Estimated Future Savings

38.9 In order to determine whether the cases reported as future savings were likely to represent bankable amounts the audit reviewed

- whether the savings claimed were consistent with the Department's own rules
- the extent to which claimants removed from payment stayed off welfare for the period used for saving calculation
- the validity of claiming future savings for deceased claimants.

### *Reported Future Savings*

38.10 The Department's policy is that estimated future savings as a result of control activity can be claimed in instances where

- the control activity results in a decision to change the rate of payment and the incorrect rate arose from customer fraud or error that was not reported to the Department by the customer
- the claim has been terminated within four weeks of the control activity and the claimant has not transferred to another scheme
- the claim was in payment at the time of the control activity.

38.11 In order to examine the accuracy of reported savings, the audit reviewed, by reference to the Department's guidelines, a sample of 96 cases where savings were reported. The results of those tests are outlined in Figure 158.

**Figure 158 Validity of Future Savings Claimed**

| Payment Type | Number of Cases Reviewed | | | Proportion Valid |
|---|---|---|---|---|
| | Reported Savings Valid | Reported Savings Invalid | Total | % |
| Child Benefit | 19 | — | 19 | 100 |
| Illness | 19 | 1 | 20 | 95 |
| Pension | 18 | 2 | 20 | 90 |
| Jobseekers | 12 | 7 | 19 | 63 |
| One Parent Family | 10 | 8 | 18 | 56 |
| **Total** | **78** | **18** | **96** | **81** |

38.12 Overall, it was found that just under one fifth of savings examined were not within the guidelines for reporting savings. Jobseekers and One Parent Family payments accounted for most of the invalid savings claimed. The main reasons were that the savings were claimed where

- there was no evidence of control activity associated with the change in the claim
- the claim was not in payment at the time that the saving was assessed.

38.13 The audit findings, to a large extent, align with the results of reviews conducted by the Department in recent years.

- In the case of Jobseekers, reviews of five local offices in 2008 confirmed that reported savings were valid in between 54% and 96% of cases.
- In 2009 reviews of Jobseekers payments in two local offices, selected randomly, confirmed that reported savings were valid in 94% and 98% of cases respectively.
- In 2010, reviews of Jobseekers payments in two local offices, specifically selected as a result of recognised deficiencies in relation to the correct recording of savings, found that only 8% and 34% of savings reported could be validated.
- A review, conducted in 2008, of a sample of reported savings in relation to One Parent Family payments concluded that the claimed saving in only 43% of cases was valid.
- In relation to Pensions, a review in 2009 of savings reported in respect of Free Schemes confirmed that in 61% of cases, the claiming of a saving was valid.
- A review, in 2008, of Child Benefit savings concluded that it was only valid to claim savings in 48% of the cases.

38.14 In relation to the local office where only 8% of reported Jobseekers savings were valid, the report, while noting the considerable pressure on staff due to increases in the live register, stated that the staff in that local office did not have a good understanding of the conditions that must be satisfied for reporting a valid saving.

38.15 In relation to the Department’s reviews of reported control savings, the Accounting Officer stated that following on from the savings validations in local offices in 2008, the Central Control Unit issued revised guidelines to all relevant areas of the Department in 2009. This has been supplemented by

- meetings between staff in Control Unit and staff in local offices in 2010 to re-emphasise the importance of reporting control activity inclusive of control reviews done, reviews with savings, control savings and overpayments
- further training undertaken and planned in 2011

- commencing the development of a webpage which will provide information in relation to recording control savings
- follow up validation in respect of local offices where validation exercises completed show that savings are being incorrectly recorded.

## Conclusion – Validity of Savings Claimed

Audit results suggest that 19% of savings claimed did not meet the Department's own rules in relation to countable savings. The Department's own reviews have also reported similar shortcomings.

### *Measurement of Savings*

38.16 The actual calculation of savings involves using a multiplier and applying it to the detected overpaid amount. Multipliers used range from factors of four to 136 and are applied to the weekly or monthly reduction in payment depending on the scheme[297].

38.17 The rationale for the use of a multiplier is that it gives a view of the average amount of time that the person who 'signs off' as a result of control activity is likely to remain off the books of the Department which, in turn, is taken as a measure of money saved.

38.18 The Accounting Officer stated that the method used by the Department to calculate savings uses internationally recognised and practiced calculations and is similar to the models used in the UK and Australia.

38.19 However, a number of conceptual difficulties arise in employing a performance measure such as that used by the Department.

- It is the duty of the Department through active control to ensure that invalid claims do not exist in the first place.
- The Department, in times of increasing claimload, sometimes has to relax the level of claim take on controls and management checks (see Chapter 36 – Control Measures at Scheme Level). This increases the risk of overpayments occurring.
- Most businesses view control in a holistic way with post-processing controls akin to the Department reviews, being favoured only in cases where there is a strong likelihood that any unwarranted payments will be recovered – only one quarter of overpayments raised are recovered and a high proportion of cases that are counted as savings are not the subject of any recovery action.

38.20 The fundamental premise underlying the use of a multiplier is that the person who signs off will remain off the system for an average period of time. There are likely to be complex factors impacting on a person's decision to have future recourse to the welfare system, including financial need which is related to the economic condition of the time. Notwithstanding this, and taking the measure at its face value, the audit examined the subsequent history in a number of cases where savings were claimed by reference to the multiplier, to establish how the multiplier used aligned with claim patterns.

[297] Different multipliers are used for outright termination and reduction in payment.

38.21 The examination looked at a sample of 498 claimants where savings had been reported in order to determine if they had come back onto the books of the Department or had a reduction reinstated within the multiplier period. For schemes that have a multiplier period of 136 weeks (34 months) the samples were selected from savings claimed in 2008. The results of the reviews are outlined in Figure 159.

**Figure 159 Number of Savings Cases that Claimed within the Multiplier Period**

| Scheme | Multiplier Used | Savings Reported in 2010 €m | Number of Savings Cases Reviewed | Reinstated within the Multiplier Period |
|---|---|---|---|---|
| Illness | 24 weeks | 95 | 100 | 73 |
| Jobseekers | 32 weeks | 57 | 100 | 60 |
| Child Benefit | 34 months | 108 | 100 | 32 |
| One Parent Family | | | | |
| - Claim stopped | 136 weeks | 71 | 19 | 9 |
| - Reductions | 52 weeks | | 81 | 53 |
| Pensions | 136 weeks | 111 | 98 | — |
| **Total** | | **442** | **498** | **227** |

38.22 None of the Pensions cases examined were found to have come back into payment. This is because most of these savings arise in the case of deceased claimants. Overall, excluding pension cases, 46% of cases reviewed had begun claiming or received increased payment within the multiplier period (57% excluding pension cases).

38.23 Taking a view on savings in One Parent Family cases is complicated by the fact that claimants are allowed to work, so long as earnings do not exceed specified thresholds. As a result, reductions in payments, as opposed to ceasing of claims, result from review activity in a large number of cases. Approximately 81% of cases with savings arose as a result of reductions in payment in 2008. Many of the reductions are reversed within a short time as a result of changes in circumstances.

38.24 Illness Benefit and Jobseekers claimants were either reinstated or claimed from another scheme within the multiplier period in about two-thirds of cases. One third of Child Benefit cases were back claiming within the period of the multiplier.

## Conclusion – Basis of Savings Measurement

In its savings calculation, the Department estimates future savings – its estimate of the average amount that would otherwise be paid out had the incorrect payment not been detected. This is taken as a measure of the success of its review activity. The audit found that two-thirds of persons whose illness or jobseekers payments were ceased or reduced did not stay off the claimload for the time periods used in savings calculations.

38.25 The Accounting Officer stated that control savings are an estimate of the value of control work since if that work did not take place, social welfare expenditure would increase by at least that level over time.

### *Savings based on Death Notification*

38.26 The Department becomes aware of claimant deaths through notification by the claimant's next of kin or through data matching exercises with information provided by the General Register Office. Control savings are claimed in instances where the termination of the claim was a result of data matching with data supplied by the General Register Office and the death had not been notified by next of kin.

38.27 The Department reports that

- In 2009, it terminated payments in relation to Contributory Pension in respect of 1,362 claimants whose death had not been notified and took action to recover overpayments that had arisen.
- In 2010, savings of €80.3 million were claimed in respect of the termination of about 3,000 pension claims where deaths had not been notified to the Department.

## Conclusion – Death Notification

The Department's current procedure is to claim future savings equivalent to 136 weeks of pension payments in respect of deceased pensioners whose deaths have not been notified to the Department and which are detected by the automatic transfer of information from the General Register Office. This appears to assume that in all such cases, an average unrecoverable outlay equivalent to two and a half years pension would occur. Since such electronic processing should now be the norm in public administration it should be seen as a normal administrative control.

## Reliability of Management Information

38.28 The Control Division gets returns of the number of reviews conducted and the associated savings being claimed from the areas that are responsible for conducting the reviews.

38.29 The audit found an inadequate trail linking scheme level information with the savings that are centrally collated into control reports.

- The details of payments ceased or reduced submitted by local offices and scheme sections do not include totted and extended listing of savings.
- In disability cases the information supporting the savings claimed consisted only of numerous diaries that noted claimants found capable of work by a medical referee.
- Ultimately, the savings claimed could not be reconciled with calculations made on audit as part of reperformance testing.
- Apparent collation errors in both directions were noted.

## Conclusion – Reliability of Management Information

The Department did not carry out a reconciliation of savings included in the Control Reports with the savings recorded by the individual sections and offices.

The information management of the Department needs to be reviewed. If the savings measure is retained, a clear trail should exist between scheme level adjustments to payments and the summarised information at control level.

38.30 In relation to deficiencies in management information about control savings, the Accounting Officer stated that the Department's Central Control Unit has, since the middle of 2011, conducted a quarterly reconciliation of savings included in Control Reports with the savings recorded by individual sections. In addition, the Central Control Unit is examining the development of a new computer system in order to improve the recording of control savings and allow for more detailed reporting by type of review.

## Cases Yielding Savings

38.31 An alternative measure of the success of control activity is the proportion of reviews resulting in savings which provides some indication of the Department's success in focusing review activity and addressing the risk of unwarranted recourse to the system. However, in its present form, it is nonetheless a crude indicator, due to shortcomings in the savings calculation methodology and the fact that reviews of different type and intensity are aggregated.

38.32 The numbers of reviews and the proportion that result in savings, as reported by the Department are set out at Figure 160. The main trends emerging are

- The number of reviews of Child Benefit cases increased from 87,900 in 2008 to 514,400 in 2010. A large proportion of these reviews are conducted by way of mailshots to parents to confirm ongoing eligibility.
- When reviews of Child Benefit are excluded, the remaining reviews decreased from 476,500 in 2008 to 415,000 in 2010. A large proportion of the drop is accounted for by a decrease in the number of reviews of Jobseekers and One Parent Family payments, which decreased by 33,100 and 10,100 respectively.
- When reviews of Child Benefit are excluded, the proportion of reviews resulting in savings decreased from 22% in 2008 to 16% in 2010. Including Child Benefit, the reduction was from 19% to 9% over the same period. The largest drop in yielding cases related to reviews of One Parent Family payments where the proportion of reviews resulting in savings fell from 31% in 2008 to 12% in 2010.

**Figure 160 Reviews Resulting in Savings by Scheme[a], 2008-2010**

| | 2008 | | 2009 | | 2010 | |
|---|---|---|---|---|---|---|
| **Scheme** | **Number of Reviews** | **Proportion with Savings** | **Number of Reviews** | **Proportion with Savings** | **Number of Reviews** | **Proportion with Savings** |
| | | **%** | | **%** | | **%** |
| Jobseekers | 167,040 | 12 | 141,859 | 9 | 133,913 | 13 |
| Child Benefit | 87,850 | 6 | 288,050 | 3 | 514,429 | 4 |
| Illness | 75,902 | 14 | 80,846 | 16 | 71,166 | 17 |
| One Parent Family | 64,771 | 31 | 72,247 | 18 | 54,638 | 12 |
| Family Income Supplement | 28,902 | 21 | 24,611 | 38 | 25,581 | 17 |
| Free Schemes | 24,223 | 98 | 24,529 | 30 | 15,797 | 45 |
| Pensions | 15,246 | 12 | 10,010 | 30 | 12,571 | 26 |
| Carers | 2,790 | 22 | 2,948 | 20 | 2,374 | 34 |
| | **466,724** | **19** | **645,100** | **11** | **830,469** | **9** |
| Savings not calculated[b] | 97,630 | | 105,714 | | 98,914 | |
| **Total** | **564,354** | | **750,814** | | **929,383** | |

Source: Department of Social Protection

Notes: a These results should be read in the light of the caveats in the report about the accuracy of savings and the type of reviews.

b These include Illness Benefit reviews that do not lead to reporting of savings, such as appeals of Medical Referee decisions and desk reviews of illness related schemes.

## Conclusion – Cases Yielding Savings

The Department needs to distinguish reviews by type and intensity and ensure that accurate savings are compiled if the yield from reviews is to act as a reliable measure of performance. In response to audit enquiries, the Department stated that it has put a project in place with a view to addressing this.

## Conclusion

Following control activity where invalid claiming is detected, the Department reports a performance measure known as ‘savings’. This reported saving takes account of both overpayments recorded by the Department and estimates of future savings that are based on the reduction in payments and the amount of time the claimant is expected to remain off the Department’s books.

In the case of certain deceased pensioners, where death notification is received from the General Register Office 136 weeks payments are reckoned as savings.

Overall, the Department reported savings of €483 million in 2010 – made up of €38 million in detected overpayments and €445 million in estimated future savings. The audit sought to examine the extent to which these were bankable savings.

Notwithstanding the fact that the rate of recovery of overpayments is relatively low, in calculating control savings, the Department currently includes the total value of overpayments raised as a result of control activity. The Department should develop, based on historic evidence, an estimate of the proportion of overpayments that it expects to recover in order to compute the level of bankable savings arising from overpayments raised as a result of control activity.

Future savings are calculated on the basis of predetermined multipliers for each scheme which estimate the amount of time a claimant is expected to remain off the Department’s books. The audit found that two thirds of claimants whose Illness or Jobseekers claims were stopped or reduced had not remained off the Department’s books for the time periods used in estimating the savings.

Audit results suggest that about one fifth of savings claimed did not comply with the Department’s own rules because some offices are incorrectly claiming savings in instances where the claim had not been terminated or reduced as a result of control activity or the claim was not actually in payment when the saving was assessed.

The audit identified deficiencies in the information systems used to record control savings. In order to address these issues, the Department has commenced a reconciliation process, since mid-2011 – which will reconcile local data with the total reported – and plans to develop a new computer system for recording savings which will allow for enhanced management information. It also plans to conduct further training with local office staff in 2011 to re-emphasise the importance of recording savings correctly.

# Chapter 39

# Bank and An Post Reconciliation

# Bank and An Post Reconciliation

39.1 The Department of Social Protection (the Department) processed around 85 million welfare payment transactions in 2010 with a combined value of the order of €20 billion. These included electronic fund transfers direct to clients' bank accounts and electronic information transfer payments through An Post, which acts as a payment agent for the Department[298] as well as cheque payments.

39.2 Arising out of difficulties in reconciling its authorised and paid transactions, the Department began work in 2002 on a project to address the deficiencies[299]. The reconciliation systems in use, at that time, had been in operation since 1986 and were not linked to the Department's main financial recording system. Key objectives for the replacement system were that it would be capable of posting the Department's expenditure to its general ledger, matching issues and encashments, identifying unmatched encashments for investigation and resolution, and carrying out automated reconciliation of the Department's accounts with those of its banks and of An Post.

39.3 The replacement system, known as the Payment and Agency Reconciliation Platform (PARP), was delivered at a cost of €9.1 million and was commissioned at the beginning of June 2009.

39.4 I reported following the audit of the financial statements of the Social Insurance Fund (the Fund) for 2009, which was completed on 29 December 2010, that there were deficiencies in the bank reconciliation processes operated by the Department. In that regard, I stated that

> *Deficiencies were noted in relation to the timeliness of preparation, format and review of bank reconciliations and in the procedures relating to the cancellation of cheques. The same deficiencies had existed at each month end since the adoption of a new computerised reconciliation process in June 2009.*
>
> *The Department is carrying out work to reproduce accounting trails, fully reconcile the bank transactions and improve its business processes around bank reconciliations. At the time of my report, certain items have not been fully investigated. The net amount subject to investigation is of the order of €330,000. Accounting adjustments, which are not considered to be material in the context of the Fund's turnover, may be necessary in future years in order to address any errors identified.*

39.5 System and process improvements made by the Department early in 2011 did not have retrospective effect. As a result, the same shortcomings with regard to bank reconciliations were evident in the course of the 2010 audits of the Vote for Social Protection and the Fund. In addition, there continue to be differences in the balances claimed as due by An Post and those recorded by the Department.

## Chapter Focus

The chapter outlines the deficiencies in the bank reconciliation processes noted on audit and the shortcomings in arrangements to independently confirm balances due to An Post.

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[298] Social welfare payments of around €10 billion are paid annually through An Post under an agency arrangement.

[299] See Annual Report of the Comptroller and Auditor General 2004.

## Bank Reconciliation

39.6 It was noted in the course of the audits that the PARP system posts transactions to the ledger, and has improved the Department's ability to trace individual transactions and to identify unmatched encashments quickly for further investigation. However, it had not yet succeeded in delivering a functioning bank reconciliation in the standard format.

39.7 The system's reporting output was not in the standard format for a bank reconciliation because

- The reconciliation module, as implemented, did not report transactions by reference to the periods of account to which they relate.
- An up-to-date report of the status of the bank reconciliation for a particular day, adjusted for items that were subsequently matched or processed, could not be produced from the system.
- It had accumulated rather than eliminated a considerable portion of cashed payment instruments. The value of these accumulated non-matched items at 31 December 2010 was of the order of €22 billion.
- It did not distinguish between cancelled and outstanding cheques.
- Bulk posting of cancelled cheques meant there was no one-to-one matching within the system of those transactions.

39.8 Consequently, work-arounds were necessary to help construct a standard format bank reconciliation — these involved using other software packages.

39.9 Following completion of the process, the total of unverified differences at 31 December 2009 was €361,000 (Vote €28,000; Social Insurance Fund €333,000). While the audit of the Social Insurance Fund for 2010 is not yet complete, the unverified difference on the Vote at 31 December 2010 was €35,000.

### *Views of the Accounting Officer*

39.10 The Accounting Officer stated that the system allows for tracing of individual cheques, at any point in time. However, she acknowledged that certain factors had contributed to the system not delivering a standard format bank reconciliation. These included

- the non-commissioning of the cheque status identifier when the PARP system was implemented meant summarisation of uncashed cheques by cheque status category was not possible
- the system was unable to match batched cancellations with corresponding cheques in the outstanding cheques lists
- a coded rule for PARP to apply in automatically matching cancelled cheques with issues was not included in the system
- it was also difficult to examine unmatched records outside the system because the system set up limited the Department's capacity to extract more than 50 records at a time (a fraction of the total unmatched).

39.11 The Accounting Officer stated that adjustments or enhancements to the PARP system either commissioned or planned for 2011 include the following

- With effect from February 2011, the status attaching to cheque payments on the PARP system differentiates between outstanding, cancelled and stopped cheques. Uncashed cheque listings can now be exported from PARP for summarisation and analysis by status category using other software packages.
- Cancelled cheques will no longer be bulked when posting to the general ledger. This will enable the individual cheque reference to be maintained through the posting process, facilitating one-to-one matching of cancelled cheques and their removal from reconciliation reports.
- A facility will be provided (a period identifier) to update transactions historically and update the period end reconciliation.
- The setting which previously restricted extraction of unmatched records to 50 records at a time was a default setting. A change in business procedures has eliminated this restriction and no additional development work was required.

## Conclusion – Bank Reconciliation

The Department needs to address its capacity to comprehensively and transparently reconcile its account balances with those of its banks. It is important that reconciliations be done at each month end within an accounting period.

Despite introducing a new computerised process, the Department continues to require additional work-around procedures to generate a standard format reconciliation and unverified differences following the reconciliation process continued to exist at 31 December 2010.

## An Post Reconciliation

39.12 The Department has considerable unreconciled amounts representing the differences between the version of transactions recorded by An Post and that recorded in its own records. There was a difference of €2.2 million between the balances recorded by the two organisations at the end of 2010.

39.13 A functional specification for the PARP system drawn up in March 2006 envisaged automated production of a daily reconciliation between the Department's and An Post's accounts. However, the system as implemented does not produce such reconciliations.

39.14 In the course of developing the system, it was concluded that the planned An Post reconciliation could not be compiled in the same way as the bank reconciliation.[300] The reasons stated were because the data supplied each day by An Post did not include a statement of balances or a record of payment advances by the Department, and because posting to the general ledger is on an encashment basis i.e. only when a payment reported by An Post matches an authorised payment instruction. Instead, it was proposed that the system would produce a monthly An Post cash account, to be sent to An Post by the fifth working day of the following month. However, this account is not being produced.

[300] The basis for the conclusion is outlined in a functional solution design report (November 2008) compiled by the contractor that implemented the PARP system.

39.15 A further problem is that An Post encashments processed through PARP are in certain instances being attributed to the incorrect period because the system bases its posting to the general ledger on the date the encashment information is processed rather than upon the actual date of the encashment by An Post. Manual adjustments in the Department's accounts are required to rectify this.

### *Views of the Accounting Officer*

39.16 The Accounting Officer acknowledged that while PARP does not produce automated cash accounts in respect of An Post, manual cash accounts are produced in conjunction with An Post on a monthly basis using information supplied by PARP and the Department's general ledger.

39.17 The Accounting Officer has stated that arrangements are in place to enhance PARP in 2011 in order to produce an automated monthly reconciliation of cash accounts produced by the Department with cash accounts produced by An Post. A further proposed enhancement is to change the posting period of reconciled encashments from reconciliation date to date of encashment in the post office.

## Conclusion – An Post Reconciliation

A key element of the planned PARP system that was intended to ensure that the An Post balances could be independently validated was not delivered. Considerable differences exist between the balances recorded by both organisations.

## Conclusion

While the PARP system implemented by the Department provides for enhanced traceability of individual payments, it is weak in aggregating those payments in a manner that provides standard format bank reconciliations. The enhancements outlined by the Accounting Officer will be reviewed in the course of future audits.

In the meantime, extended audit procedures give reasonable assurance that the bank balances of the Department are not materially misstated.

Initiatives that might be considered by the Department include

- from a control perspective, putting in place procedures to reconcile bank balances on a monthly basis and to identify any period-to-period divergences
- from a governance perspective, having internal audit carry out annual year end projects to assure the Accounting Officer as to the accuracy and completeness of the reconciliations underpinning the accounts of the Department that are being presented for audit.

Because the payment administration of assistance and benefit schemes is integrated, it would be desirable that the accounts of the Vote and those of the Social Insurance Fund be produced and audited simultaneously. This would eliminate the risk that certain adjustments impacting on the Vote might not be detected in the course of its audit.

The Department needs to bring to a conclusion the work of reconciling the balances in the records of An Post with those in its own records. This would position it to better manage its banking relationship with An Post.

# Chapter 40

# Rural Social Scheme

# Rural Social Scheme

40.1 The Rural Social Scheme (RSS) was introduced in May 2004. The initial aims of the scheme were

- to provide income support to low income farmers and fishermen on certain social welfare payments
- to allow for the provision of certain services of benefit to rural communities by harnessing the skills and talents of eligible participants.

It was also expected to free up Community Employment (CE) scheme places, so that others wishing to avail of training on CE schemes could avail of that training.

40.2 The RSS differs from the CE scheme administered through FÁS in that it is targeted at people who are actively farming or fishing but whose income from those activities entitles them to welfare payments. In contrast, the CE scheme is entirely targeted at the unemployed. It is an employment and training programme that is designed to position people to re-enter the workforce. A comparison of the RSS with the CE Scheme is set out at Annex A. The average working time under both schemes is 19.5 hours per week.

40.3 The Department of Community, Equality and Gaeltacht Affairs[301] had overall responsibility for the scheme up until September 2010 at which point responsibility transferred to the Department of Social Protection (the Department). The transfer was part of a wider adjustment of departmental responsibilities designed to incorporate all labour activation measures under one administration. Pobal[302], on behalf of the Department, provides a central payroll/payment function as well as providing other management and administrative services in respect of the scheme.

40.4 The scheme is managed at local level by 35 Local Development Companies[303] and by Údarás na Gaeltachta (in the Gaeltacht areas). These are known as the implementing bodies and are the employers of the RSS participants.

40.5 A set number of participant places are available under the scheme. The quota has been set at 2,600 for the last four years. In addition, there are 130 supervisor positions.

40.6 The distribution of the participant quota among implementing bodies is based on the proportion of individuals in receipt of 'Farm/Fish Assist' benefits in the respective areas at the outset of the scheme.

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[301] The functions previously carried out by that Department have now been transferred to the newly reconfigured Departments.

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

[303] Local Development Companies deliver rural development and social inclusion programmes.

40.7 In order to qualify for participation on the RSS, a person must be actively farming or fishing[304] and be in receipt of a qualifying social welfare payment[305]. Two other categories of person may also qualify for participation on the scheme. These are

- the dependent spouse of an eligible person who does not wish to participate in the scheme themselves or the spouse of a herd number owner who is themselves in receipt of one of the qualifying social welfare payments and is actively farming
- the child or a sibling of a herd number owner where they themselves are working on the farm and in receipt of one of the qualifying social welfare payments.

40.8 The relationship between the various parties to the scheme is managed through contract arrangements. The contract between the Department and Pobal originated with the first agreement made between the Department of Community, Equality and Gaeltacht Affairs and ADM Ltd (now Pobal) in 2005. The terms and conditions of that agreement automatically transferred to the Department of Social Protection when it assumed responsibility for the scheme. A further set of contracts renewable on 1 April annually govern the relationships between

- the Department and the implementing bodies[306]
- Pobal and the implementing bodies[307]
- the implementing bodies and the RSS participants
- the implementing bodies and the project sponsors
- the implementing bodies and supervisory staff.

## Chapter Focus

This chapter reviews

- the extent to which the scheme output and contribution has been evaluated and the results reported
- the results of on-site reviews by my Office.

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[304] In general, actively farming means the person has applied for the EU Single Payment Scheme while actively fishing means the person has a registered fishing boat or is in possession of a specific fishing licence.

[305] Qualifying social welfare payments are Farm/Fish Assist, Jobseekers Allowance, Jobseekers Benefit if previously on a FÁS Community Employment Scheme or the RSS in the previous 12 months, One-Parent Family Payment, Widow(er)/Surviving Civil Partners Pension (contributory or non-contributory), Disability Allowance. The adult dependent of a non-contributory State pensioner who themselves are under 66 years of age may also qualify.

[306] Referred to as a memorandum of agreement.

[307] Referred to as a letter of engagement.

## Features of the Scheme

40.9 The main features of the scheme are outlined in Figure 161.

**Figure 161 The RSS at a Glance**

| | |
|---|---|
| **Annual Participants** | 2,600 |
| Age Profile of Participants[a] | 79% between 25 and 60<br>21% over 60 |
| Gender Breakdown[a] | Male 80%; Female 20% |
| **Eligibility Route[a]** | Farm Assist – 45% |
| | JBCE[b] – 26% |
| | CE – 15% |
| Duration of Participation[c] | 42% for six years<br>22% for five years<br>15% for four years |
| **Cost** | |
| 2004 – 2010 | €257 million |
| 2010 | €44 million |
| Pay cost percentage | 91% |
| Compliance and Material Allowance | €5 per participant per week[d] |
| **Type of Work** | |
| ***Work Measures[a]*** | ***Percentage Participants[e]*** |
| Environmental maintenance work | 36% |
| Village and countryside enhancement projects | 29% |
| Social care and care of the elderly, community pre-school and after-school support groups | 12% |
| Maintenance and enhancement of waymarked ways, agreed walks, bog roads etc. | 8% |
| Community administration/clerical duties | 5% |
| Projects relating to not-for-profit cultural and heritage centres | 5% |
| Any other appropriate community-based projects that may be identified during the course of the Scheme | 4% |
| Energy conservation work for the elderly and less well-off | 1% |

Source: Pobal and Department of Social Protection

Notes:
a Data taken from 2010 Performance Indicator Report.
b Jobseekers Benefit from previous participation on CE scheme.
c At the commencement of the scheme in 2004, participants were expected to vacate their positions after three years of service. This requirement changed in July 2007. A participant may now remain on the scheme indefinitely provided eligibility is maintained.
d This is to cover health and safety requirements, insurance and travel expenses for supervisors. Prior to 2010, the amount paid was €15.24 per participant per week. It covered, in addition to the above costs, employer's PRSI (now paid directly to Pobal) and materials and tools.
e Percentages will vary according to the date the measurement was taken. For example, there may not be as many participants working on environmental maintenance work during the winter period. The data shown in Figure 161 represents the percentage of participants working on each measure during the week ended 26 March 2010.

## Scheme Cost and Contribution

40.10 The net cost of the scheme is the excess of the cost over the welfare entitlements that would be paid in its absence.

40.11 Figure 162 provides a basic comparison of the RSS costs for the year 2007[308] with the underlying welfare entitlements.

**Figure 162 Comparison of RSS Costs for 2007 with underlying Social Welfare Entitlements[a]**

| | Amount | Percentage |
|---|---|---|
| | €m | % |
| Payroll and Support Costs | 47.7 | 100% |
| Social Welfare Cost | 22.8 | 48% |
| Extra RSS Cost | 24.9 | 52% |

Source: Department of Social Protection and Social Cost Benefit Analysis Report 2009

Note: a This does not take account of payments which continue to be made directly to RSS participants with an underlying social welfare entitlement stemming from One-Parent Family Payment, Disability Allowance or Widow(er)'s Pension (contributory and non-contributory). The 2010 Performance Indicator Report estimates that less than 1% of participants fall into this category.

40.12 The additional cost to the Exchequer of the RSS scheme (excluding the effects of personal taxation and social insurance) when measured against the cost that would have arisen had participants continued to receive their underlying social welfare entitlements, was approximately 52% of the overall cost of the scheme. On this basis, an estimated €134 million of the overall cost of the scheme to date (€257 million) is attributable solely to the scheme. The balance of €123 million represents social welfare costs which are likely to have been incurred in the absence of the scheme.

### *Social Benefits and Costs of the Scheme*

40.13 While the net cost of the RSS represents extra outlay to the Exchequer, this investment gives rise to additional benefits at community level. A social cost benefit analysis of the RSS was carried out on behalf of the Department of Community, Equality and Gaeltacht Affairs[309] by an independent researcher and published in January 2009. This type of analysis is designed to simultaneously capture the non-financial and financial benefits and costs of the scheme. From the financial benefit viewpoint it focuses on the additional financial returns leveraged by the additional scheme outlay both at the level of individual income and community benefit. By extrapolation from a sample of local measures the financial benefits were estimated at 2.89 times the input cost.

[308] The 2007 data was taken from a Social Cost Benefit Analysis Report published in 2009. A similar result was obtained by this Office when estimating the cost attributable solely to the scheme, using data in respect of one weeks payroll in 2010.

[309] The contract for this work was managed by Pobal on behalf of the Department.

40.14 Overall the social cost benefit analysis found that

- the RSS produces a wide range of both financial and non-financial costs and benefits for individual RSS participants and their families, for communities, and for the State, at local and national levels
- non-financial benefits include quality of life improvements, through increased social contact, increased social capital and greater access to training, advice and information for individuals and their families
- for communities, activities are being supported and in some cases stimulated, which are vital to maintaining the fabric of rural communities.

## Social Cost Benefit Analysis

The methodology used by the researcher who drew up the report was as follows

- Six geographical areas were chosen within which a measure[310] level analysis could be undertaken, with one measure analysed in each. These six areas were chosen to represent a mix of geographical location and measure size, and therefore capture a range of RSS experiences, in terms of both scheme management and the rural contexts in which they are located.
- The non-financial costs and benefits of the RSS were identified through discussions with the implementing bodies and RSS teams in each of the six selected areas and through a review of supporting documentation.
- Estimation of the range of financial benefits and costs arising from the implementation of the measure reviewed was based on a combination of locally derived data (e.g. local costs, local financial benefits) and information supplied by the Pobal payroll system.

### *VFM Review*

40.15 The Evaluation Unit of the Department of Community, Equality and Gaeltacht Affairs began a value-for-money review of the RSS in early 2010 prior to the transfer of the scheme to the Department of Social Protection. However, the review has not been progressed following the transfer of functions. It may be included as part of a wider policy review of labour market activation measures by the Department of Social Protection which is being scoped at present.

### *Performance Information*

40.16 No targets are set at a local level or national level for the scheme. It would be useful to focus monitoring of the scheme on particular outputs related to the categories of work supported by the scheme. These might include, *inter alia*

- the number of man-hours engaged on specific activities. For example, the number of man-hours engaged on meals-on-wheels activities or on the maintenance and upkeep of playing pitches
- number of homes supported to avail of the Warmer Homes Scheme
- number of kilometres of walkways cleared.

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310 A measure is a category of work that is supported by RSS participants. There are eight measures under the RSS.

40.17 Pobal is responsible for developing and implementing a system for capturing and reporting performance information related to the scheme. In September 2007, a case studies report was published[311] illustrating the contribution being made by the RSS to the lives of participants and rural communities. In addition, performance indicator reports have been produced for the years 2006/2007, 2008 and 2010.

40.18 The performance data is captured based on a survey of implementing bodies and an analysis of the Pobal payroll system at a particular point-in-time. In 2006/2007 and 2010, a random sample of participants and community groups supported under the scheme was also surveyed. The type of information reported includes

- the number of community groups/organisations supported under the scheme and the allocation of participants to the eight categories of work supported by the scheme
- a gender breakdown of participants under each category of work
- a classification of participants by age, location by county, RSS payment rates and eligibility background (i.e. what was their underlying social welfare entitlement).

40.19 In general, the indicators captured relate to participants more so than to projects. The information captured is specific to a particular point-in-time and may not therefore be representative of the situation pertaining for the whole of the year. Pobal state that further metrics to capture community and project benefit are being developed.

40.20 Implementing bodies are required under the terms of their contract with the Department to submit progress reports on the operation of the scheme and, following contract year-end, a report outlining how the aims and objectives of the scheme were achieved in the context of agreed evaluation criteria and performance indicators and any other information which may be agreed with the Department. There was no evidence that the reports as referred to in the contract with the implementing bodies are sought or provided to the Department.

40.21 There is no single database of projects supported under the RSS. A national database of all projects approved for support under the RSS would position the Department to better monitor the work being carried out under the RSS at a national level and would provide key information for policy analysis and review.

### *Administrative Compliance*

40.22 While inspections of payroll administration by Pobal are carried out by the Department on a quarterly basis, no audits or inspections of the administration of the RSS payroll or the RSS scheme in general have been undertaken at the level of the implementing body since transfer of the scheme to the Department of Social Protection. Prior to March 2010, verification of the payroll data and inspections of non-payroll data were undertaken by the Inspectorate Division of the Department of Community, Equality and Gaeltacht Affairs.

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[311] The Rural Social Scheme – Making a Difference in Rural Ireland.

## Conclusion – Output and Performance

The outlay by the State on the scheme in 2010 was €44 million and €257 million has been spent on it since 2004.

The participants are persons with entitlement to various welfare benefits and the cost of those benefits would account for 48% of the overall cost of the scheme to date.

The financial benefits of the scheme to individuals, communities and the State have been estimated to be almost three times the additional outlay.

Because the scheme aims to achieve benefits at the project level it differs from other welfare schemes where the focus is primarily on participants. As such, it is important to consider whether measures of performance can be developed and reported that relate to the various categories of work encompassed in the scheme so as to inform allocation decisions and demonstrate value.

An audit or inspection function which extends to the administration of the scheme by local implementing bodies should be reinstated in order to inform the Department on scheme compliance matters.

40.23 In response to the report's findings on performance monitoring, the Accounting Officer stated that the nature of the work undertaken by RSS participants and the broad range of measures across which work is categorised had been recognised as imposing difficulties in applying targets and in developing data capture and reporting frameworks. Since transfer of the RSS to the Department, the RSS Unit had been examining the feasibility of Pobal extending its recently developed on-line reporting facilities for other programmes to include a performance management and project database for the RSS to be effective for 2012 at the latest. This, the Accounting Officer expected, would enable a more structured approach to planning the delivery of RSS resources locally with improved ability to set targets and measure performance across the activity measures.

40.24 In relation to the contractual requirement for implementing bodies to prepare annual progress reports the Accounting Officer stated that while this had been part of the annual agreement with implementing bodies up to the end of 2010, annual progress reports were not collected and analysed in a consistent manner due mainly to resource constraints in the RSS Unit within the former Department of Community, Equality and Gaeltacht Affairs. Part of the reason for non-pursuit of progress reports related to the publication of progress reports on the RSS as part of each implementing bodies' annual report and accounts.

40.25 With regard to the lack of RSS inspections at the implementing body level, the Accounting Officer stated that negotiations had been initiated with the Department of the Environment, Community and Local Government to avail of the services previously provided by the Inspectorate Services Division of the Department of Community, Equality and Gaeltacht Affairs[312] given their considerable experience and existing functions with respect to the implementing bodies under other programmes.

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[312] Functions now transferred to the newly reconfigured Department of the Environment, Community and Local Government.

## Result of On-site Audit Reviews

40.26 The audit reviewed administration of the scheme at the level of the implementing bodies. Three such reviews were carried out in April 2011.

### *Scheme Administration – Projects*

40.27 The scheme is not always advertised annually as required under its rules. Implementing bodies tend to issue application forms to community groups of which they are aware, prior to the annual renewal date or promote the scheme through the local press, the Community Forum operated under the aegis of each local authority and through public meetings.

> By not advertising the scheme annually in a comprehensive manner, there is a risk that potentially important projects may be lost to a community because of a lack of awareness on the part of potential project promoters of the RSS and the support it may be able to provide for projects with possible economic and social benefits for the local economy and community generally.

40.28 In responding to my report, the Accounting Officer stated that annual advertising of the availability of the scheme to community organisations is considered good practice and would be emphasised in the revised operational rules proposed for the scheme. In addition, the Department proposed to issue an annual circular to implementing bodies requesting them to advertise for new work.

40.29 Not all rules of the scheme are applied by the local implementing bodies. For example, one implementing body reviewed did not at the time of audit in April 2011 have contracts in place with its project promoters in respect of the year 2010/2011. Neither is there a standard contract template with project promoters, for use by all implementing bodies.

40.30 Where contracts were in place, their terms and conditions were not always adhered to. For example, in one implementing body, a number of projects/community groups covering a particular geographic area had been grouped together under one contract. The contract required each of the groups covered by its terms to sign the agreement. This had not been done. Furthermore, project promoters had not submitted formal quarterly reports to the implementing body on scheme progress (showing tasks completed and ongoing).

> The review identified the need for a standard contract template with project promoters for use by implementing bodies. The Department should periodically review compliance of implementing bodies with the requirement to have contracts in place to govern the relationship with project promoters.

40.31 The Accounting Officer stated that a revision in April 2011 to the agreement under which implementing bodies deliver the scheme, provided explicitly for valid contracts or agreements to be put in place with project promoters. She stated that the agreement was being supplemented with revised operational rules that included template agreements for use between implementing bodies and project promoters. With regard to the practice of grouping a number of project/community groups together under one contract, the Accounting Officer stated that the Department had sought and received assurances that this practice had been discontinued and that separate contractual arrangements were in place for the 2011/2012 contract year.

40.32 The type of work that may be supported under the scheme is not clear. For example, while the rules state that caretaking, secretarial, maintenance and minor works for which the Department of Education and Skills provides funding in the form of grants are not eligible for RSS support, it does not address grants provided by other government departments. For example, it was noted that one particular implementing body had provided support to the Western Regional Fisheries Board (a State body now incorporated in Inland Fisheries Ireland) for the ongoing maintenance and enhancement of the grounds of Aasleagh Lodge and angling access areas along the Erriff River.

It would be useful to clarify the RSS rules particularly in regard to the type of work that should or should not be supported under the scheme and to address the risk of overlap with other State schemes.

40.33 In this regard, the Accounting Officer stated that the Department proposed to refine the description of measures currently used and to define more clearly the range of bodies and community organisations that could access the scheme. Under the current operational rules, work undertaken must be additional to existing service provision and the associated project must not be in receipt of public funds for the same purpose or be eligible for funding from another public source. All implementing bodies were aware of the need to address deadweight and displacement when establishing whether a project should be supported. These requirements have been extensively addressed in the revised operational rules for the scheme.

40.34 The Accounting Officer noted that the work performed for the former Western Regional Fisheries Board had been agreed between the relevant implementing body and the Board. The implementing body considered the work to be fully compatible with the RSS and had agreed to take on elements of the work of a CE scheme that had ceased, as part of the development of the Western Way long-distance recreational walking route. The implementing body had a large number of RSS participants in that area of south-west Mayo.

40.35 There is a need for the implementing bodies to maintain better documentation of project evaluation and selection processes, including the criteria against which projects are assessed. Only one of the three implementing bodies visited had documented the project selection and evaluation process in 2010. The type of information which could be contained within an evaluation report includes - date the scheme was advertised, number of applications received, number of late applications, members of the evaluation committee, selection criteria used, and the project appraisal results.

Project selection should be based on a systematic evaluation of all project proposals.

40.36 In responding to this aspect of my report, the Accounting Officer stated that the Department proposed to set out requirements for more formal project evaluation and selection processes to be undertaken by implementing bodies. These requirements would form the basis for improved project tracking and performance monitoring.

40.37 While acknowledging the benefits of flexibility and the ability to respond to the needs of the most disadvantaged in communities when circumstances require, the core project deliverables in applications that go to contract need to be more specific and quantified. For example, the work to be carried out for a community childcare facility, as defined in its contract, was '*occasional auxiliary support to childcare as RSS resources allow*'. Projects should also clearly distinguish recurring work from once-off requirements and specify in respect of each type of work the number of hours of RSS support being requested and the timeframe for which that support is required.

Project deliverables should be clearly specified in project proposals and subsequent contracts.

40.38 The Accounting Officer stated that the Department recognised that improvements could be made in determining deliverables by more clearly defining the work to be undertaken, improving project selection processes and requiring better quality contracts to be put in place between implementing bodies and project promoters.

### *Scheme Administration - Participation*

40.39 Implementing bodies in general do not advertise the scheme annually, seeking applications to participate from eligible individuals. Instead, they tend to operate a waiting list system from which vacancies are filled.

| |
|---|
| There is a need to ensure that access to the scheme is open and transparent. |

40.40 The Accounting Officer stated that the advertising of vacancies to eligible persons is considered good practice and this requirement would be reflected in future guidance and in the revised operational rules for the scheme. She stated that the rate of participant turnover on the scheme was around 5% annually.

40.41 The continuing eligibility of participants was not subject to regular independent checks against Department of Social Protection databases and has been reliant to a large extent on participants informing the implementing body of any change in their circumstances that might affect their entitlement to continue on the RSS or the amount of their payment[313]. In the case of participants in receipt of certain underlying social welfare entitlements, (Farm/Fish Assist, Unemployment Allowance, Unemployment Benefit), the proper functioning of the scheme has been reliant on the relevant participants informing the Department of Social Protection of their participation in the RSS in order to identify any potential payment overlaps.

40.42 Independent verification of eligibility became possible with the transfer of the operation of the scheme to the Department of Social Protection. However, access to the relevant Department systems was only obtained by staff in the RSS Unit of the Department in early 2011 and, at the date of audit, had not been used for eligibility checking.

40.43 The audit examined the Department of Social Protection records for a sample of 65 randomly selected participants in order to verify, in particular, the underlying social welfare entitlement and to ensure that no invalid overlapping payments were made to participants while being paid under the RSS. Matters noted in the course of that examination were

- Two participants were claiming a Qualifying Adult Increase on the basic RSS payment rate while their spouses were in receipt of Carer’s Allowance payments. In one case, this resulted in an overpayment of €16,724. It is being repaid at a rate of €20 per week. Pobal is re-examining this participant’s entitlement to remain on the RSS. The second case also resulted in an overpayment. The amount currently outstanding is €14,753. It is being repaid at a rate of €15 per week.
- One participant left the scheme for several weeks during 2005 during which time he signed on for Unemployment Assistance. He applied to re-join the scheme later that year and was accepted. The Accounting Officer stated that this occurrence is considered unusual and relates to a particular set of individual and local circumstances.

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313 Since 2010, participants with a spouse or partner were required to obtain a completed declaration form from the Department’s local/branch office confirming the rates of any social welfare payment made in respect of themselves and their spouse or partner before a renewal of contract was permitted. This requirement was extended to all participants in 2011.

40.44 Other findings of the audit included

- Temporary contracts only, covering the two-month period up to the end of May 2011, and not the usual yearly contracts, had been issued to participants at the date of our on-site reviews. A means assessment by the Department of all participants had not been completed in time for the annual renewal of contracts in April 2011. By the closing date for submission of means declarations, only 85% of participants had complied. Subsequent actions by the Department secured a return of approximately 98% of declarations.
- One of the implementing bodies had not, at the date of our on-site review in April 2011, put contracts in place with its RSS participants, either for the year 2010/2011 or for the two-month period to end May 2011 under the temporary contract arrangement. This has subsequently been addressed. The implementing body in question informed us that the delay occurred due to the workload and the length of time it took to clear queries around renewals.

40.45 The amount of overpayments to scheme participants which have been recovered since 2006 is in excess of €250,000[314]. A further €231,782 remains to be recouped in relation to 54 live cases[315]. In 16 of those cases, (representing almost 75% of the total value of overpayments on live cases) the amount of the individual overpayment is in excess of €5,000. Two particularly large overpayments to participants were noted when reviewing one of the implementing bodies. The overpayments were caused by incorrect claims for a Qualifying Adult Increase on their basic RSS entitlement[316]. The ineligibility dated back to the participant's commencement on the scheme. One of the overpayments amounted to approximately €21,000 and the second was for €44,000. The amounts are being repaid in instalments in the amounts of €5 and €40 per week respectively.

Now that the Department of Social Protection has assumed responsibility for the scheme, a more independent and frequent verification of aspects of eligibility is possible. Roles and responsibilities of the various parties involved in implementing the scheme should be reviewed with a view to ensuring that the scheme is administered in a joined up way and that overpayments through ineligibility are eliminated.

The extension of means testing to the scheme needs to be completed as quickly as possible so as to lessen the possibility of ineligible payments being made to participants. A policy with regard to recoupment is needed for any ineligible payments discovered.

The Department/Pobal should review the compliance of implementing bodies with the requirement for participant's contracts.

314 There is no central record of the corresponding value of overpayments. Pobal are working to produce this information from a manual review of files. Overpayments cover both routine adjustments due to changes in a participant's circumstances and overpayments arising from incorrect claims for payment in circumstances where there is no entitlement.

315 Participants are currently making repayments through payroll deductions.

316 The participants had failed to notify their implementing body of their spouse's earnings which were in excess of the permitted income limit.

40.46 With regard to eligibility checking of participants, the Accounting Officer stated that prior to 2011, participants were not required to prove their continued eligibility for the scheme. She stated that following transfer of responsibilities for the RSS to the Department, the RSS Unit was enabled to undertake enquiries into the eligibility and means of all participants. She stated that a programme of eligibility checking began in early 2011 when renewal of participant contracts was made conditional on participants providing a completed means declaration. IT systems were put in place on 1 February 2011 and arrangements were made to ensure staff members were provided with appropriate access and training on the use of the various Department systems.

40.47 She stated that the Department’s work on assessing eligibility was ongoing and would form the basis for new control checks on the scheme in future. The examination of means had commenced and was intended to be completed in the Autumn of 2011 for the majority of participants. The requirement would still remain for individual participants to inform the implementing body of any change in circumstances that would affect their rate of payment on the scheme.

40.48 The Accounting Officer also stated that the Department’s work to revise the operational rules was designed to give clearer definition to roles and responsibilities and to update arrangements for establishing eligibility in addition to providing updated procedures for managing overpayments. She stated that internal procedures were being strengthened to improve compliance and control checks in order to reinforce existing arrangements for eligibility checking.

40.49 In relation to participants’ contracts the Accounting Officer stated that the Department had communicated the obligations on implementing bodies to ensure contracts were in place with each participant. She stated that future checks on implementing bodies would include a requirement to ensure that valid contracts were in place for each participant and supervisor.

40.50 Pobal stated that it applied a standard, agreed procedure for managing recoupment of RSS overpayments which arose, usually on a day-to-day basis as participants’ circumstances, and, therefore, their benefit entitlements, changed. It would liaise with the Department on the subject of compliance regarding participants’ contracts and implementation of a recoupment policy on foot of the means testing exercise.

## Conclusion

The total cost of the Rural Social Scheme is approximately twice the welfare entitlements of the participants. A social cost benefit analysis found that the financial benefits covered represented nearly three times the additional scheme outlay. This suggests that, providing that such a scheme meets the test of affordability, it can make a positive contribution to public value.

The audit results suggest a need to

- have greater rule clarity and consistent access practice for both projects and participants supported by the scheme
- improve project selection and evaluation processes
- improve monitoring and reporting of performance
- ensure that participant eligibility is regularly validated by reference to Department of Social Protection information
- ensure that audit and inspection of the scheme extends to administration by local implementing bodies.

The findings of this report, particularly in relation to administration of the scheme at project level and output and performance reporting, could inform the approach to implementation of the new Tús initiative[317], given the similarities between both schemes in terms of the type of project work which may be undertaken by participants.

317 A community work placement scheme providing short-term working opportunities in community and voluntary organisations for unemployed people.

# Annex A Comparison of the RSS with Community Employment Scheme

Community Employment (CE) is an employment and training programme administered by FÁS which helps long-term unemployed and other disadvantaged people to get back to work by offering part-time and temporary placements in jobs based within local communities (voluntary organisations and public bodies involved in not-for-profit activities). After the placement, participants are encouraged to seek permanent, part-time and full-time jobs elsewhere based on the experience and new skills they have gained while in the CE scheme.

The number of CE places available was 23,300 in 2010.

From 1 January 2011 policy and funding responsibility for FÁS functions in relation to community employment services (including the CE programme) was transferred to the Department of Social Protection. Under a Service Agreement/Framework Document with the Department, FÁS remains responsible for the day-to-day operation of CE.

There are two different categories of community employment, each with its own set of eligibility requirements – the Part-time Integration Option and the Part-time Job Option.

The Part-time Integration Option is for people of 25 or over who are receiving social welfare payments for one year or more. This option allows participants to work for a maximum of one year. The sponsor of the programme will plan and manage the placement and may also offer training and skills development opportunities during the placement.

The Part-time Job Option is for people who are 35 or over and in receipt of social welfare payments for three years or longer. This option provides participants with part-time work placements of up to six years in the case of over 55's and up to three years for those under 55. This option is designed to give extended access to employment to older people who may have been unable to secure regular employment for some time.

Voluntary organisations and public bodies may sponsor projects which are for community and public benefit. To facilitate the provision of development and training for participants, FÁS encourages projects to employ 15 or more participants and a full-time supervisor.

Evaluation of the CE scheme has been undertaken in the course of a Forfás review of labour market programmes. Key output data captured in relation to the CE programme include the number of participants who complete the programme and those that fail to complete it. It also captures data on the outcomes for participants – such as the number who moved into employment or into further education or training after finishing the programme.

Some of the key comparative features of the RSS and the CE scheme are

### *Points of Similarity*

- Both schemes stem from an underlying social welfare entitlement.
- The working hours and payment rates are the same under both schemes.
- Both support projects in the community where a need has been identified but not displacing or replacing existing jobs.

### *Points of Difference*

- In order to qualify for the RSS, an individual must be engaged in farming or fishing. No such requirement applies to the CE scheme.
- With the CE scheme, participants must be in receipt of qualifying social welfare payments for a minimum of one year or three years depending on the CE Option. The RSS participant can qualify for RSS after just one underlying social welfare claim.
- RSS participants can remain on the scheme up to retirement age. The maximum time a CE participant can remain on the scheme varies between one year and three to six years depending on the CE Option and the age of the participant.
- The number of participants on the CE scheme is approximately nine times the number on the RSS.
- There is a large training element associated with the CE scheme. In general, training under the RSS is limited to health and safety requirements.

Chapter 41

# Partnership Arrangements in the Health Service

# Partnership Arrangements in the Health Service

41.1 The Health Services National Partnership Forum (the Forum) was established in 1999 as a non-statutory consultative group consisting of management and trade union representatives. The rationale for partnership approaches is that through engagement of stakeholders they can lead to the development of a shared vision of the objectives and goals of the service and contribute to its modernisation. The Forum was established on foot of the provisions of Partnership 2000, the national agreement on social partnership then in place. It was dissolved with effect from 22 June 2011.

41.2 The Forum was funded by an annual grant from the Department of Health and Children until 2004 and thereafter by the Health Service Executive (HSE). In the period from 1999 to 2010 it received funding of around €41 million. The expenditure of the Forum was applied as set out in Figure 163.

**Figure 163 Forum Expenditure, 1999 to 2010**

| Cost element | €m |
|---|---|
| Grants to Partnership Committees and Projects | 15.9 |
| Action Plan for People Management | 1.7 |
| Salaries and related costs | 17.6 |
| Other administration costs | 5.9 |
| **Expenditure to 31 December 2010** | **41.1** |

41.3 The overall objective of the Forum was to promote a partnership approach to change and problem solving in the health service. The role of the Forum as set out in the Health Service Partnership Agreements[318] was to

- provide a national forum within which health service management and trade unions could agree the broad parameters to advance workplace partnership
- support initiatives with service wide application
- resource the partnership process including the provision of suitable training and facilities
- promote and develop measurement and evaluation with a view to learning and sharing information and developing protocols based on that learning and
- verify progress in the health service context in relation to implementation of the modernisation programme as set out in national agreements.

41.4 Because of its joint nature, the Forum was not constituted as a statutory health agency. It functioned with a constitution and rules and its key functions were discharged through trustees. Under its constitution and rules the Forum consisted of up to 24 members split evenly between health service management and staff representative bodies. The Forum appointed joint Chairpersons, one representative of health service management and the other a staff representative.

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166 The first Health Service Partnership Agreement was initiated in 1999 under the Partnership 2000 national agreement. It was updated in May 2006 and incorporated a Protocol on Handling Significant Change through Partnership and Statement of Common Interests.

## Administrative Arrangements

41.5 The Forum was obliged in accordance with its Constitution and Rules to account for its funding and make arrangements to ensure that expenditure was applied for the purposes for which it was allocated.

41.6 Day-to-day operations were overseen by a Director who was supported by a National Coordinator, an Operations Manager, a number of facilitators, a Project Liaison Officer and a small administration complement.

41.7 The Director, and from 2009, the National Coordinator was responsible to the Forum for operational management and the control of the Forum's affairs including internal financial control and reported to the Forum at regular meetings.

41.8 The Operations Manager reported to the Director and subsequently to the National Coordinator on all matters relating to the Forum's financial affairs including its budget, cash flow management, procurement, contracting, capital appraisal, acquisition and disposal of assets, financial reporting and accounting and compliance with relevant legislation.

41.9 The human resources of the Forum were HSE employees[319] assigned to its administration. Up to 2009 the cost of those resources were met from the Forum budget. With effect from 2010 they were charged directly in the HSE accounts.

41.10 The Trustees of the Forum oversaw its financial affairs and made recommendations on the financial matters brought to the Forum by the National Coordinator or the Director.

41.11 The Forum engaged, on a retainer basis, an accountant who assisted in keeping its accounts and an internal auditor who reviewed the financial controls and the integrity of the financial reporting and control systems and reports.

## Financial Outturn 2009 and 2010

41.12 During the final quarter of 2010, the HSE and Forum agreed on the financial integration of the Forum into the HSE. In October 2010 the Forum closed all bank accounts and transferred the remaining balances to the HSE. All expenditure by the Forum was subsequently reflected in the HSE accounts.

41.13 The Forum approved its financial statements for the year ended 31 December 2008 in late 2010.

41.14 At its meeting in March 2011 the Forum decided to commission a due diligence review by a firm of accountants in advance of adoption of the financial accounts for 2009 and 2010 and, following receipt of their report, the Trustees propose to sign those accounts.

41.15 Figure 164 sets out the income and expenditure of the Forum for 2009 and 2010 and the Forum's costs which were accounted for by the HSE since 2010.

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[319] Staff were initially drawn from the Health Service Employers Agency (HSEA) and became HSE employees upon the Agency's merger into the HSE in 2005.

**Figure 164 Partnership Related Expenditure 2009-2010**

| | 2010 €000 HSE | 2010 €000 Forum[a] | 2009 €000 Forum[a] |
|---|---|---|---|
| **Income** | | | |
| HSE Grants | | 411 | 3,507 |
| Deposit interest and other income | | 5 | 1 |
| | | **416** | **3,508** |
| **Expenditure** | | | |
| Grants to Partnership Committees and Projects | 326 | 110 | 596 |
| Salaries | 1,761 | 92 | 2,476[b] |
| Office expenses and administration | 101 | 191 | 466 |
| | **2,188** | **393** | **3,538** |
| (Deficit) / Surplus for the year | | 23 | (30) |
| **Balance at 1 January** | | **(23)** | **7** |
| **Balance at 31 December** | | **(0)** | **(23)** |

Notes: a The 2009 and 2010 accounts of the Forum have not yet been adopted.
b Net of staff superannuation contributions.

## Chapter Focus

I reported in chapter 37 of my report on the Accounts of the Public Services 2009 on the SKILL Programme. A set of similar audit concerns arose in the case of transactions of the Forum including matters relating to foreign travel, control of credit card expenditure and payments under the Action Plan for People Management (APPM).

An internal audit of those matters was completed and submitted to the Health Service Executive. The results have been made available to the Committee of Public Accounts of Dáil Éireann.

This chapter examines the overall work of the Forum and outlines

- the partnership arrangements that operated at national, area and local level
- the results of project evaluations
- how funding under the Action Plan for People Management was administered
- the arrangements to recover the balance of funding not utilised including funds from other State sources.

## Partnership Arrangements

41.16 Funding proposals were submitted to the Forum by hospitals, health agencies and local offices and from 2005 onwards by the relevant parts of the HSE in the case of national projects. Proposals were assessed and reviewed by the Forum prior to a decision to approve funding. In general, funding was paid directly to the health organisation that was responsible for the related human resource administration. Accordingly, accountability for the application of those funds rested with the relevant hospitals and health agencies.

41.17 Since its establishment almost €16 million in funding has been provided by the Forum to support partnership arrangements. €9.5 million of this was incurred on projects and initiatives and €6.3 million was paid to health agencies to fund the work of local Partnership Committees.

41.18 Local Partnership Committees operated in hospitals, voluntary health agencies, local health offices and in various sections of the HSE. Their function was to coordinate the partnership process generally, facilitate the development and implementation of workplace partnership and encourage long-term cultural change within the health service at local level.

41.19 Features of the process at local level included

- the establishment of Partnership Working Groups to advance improved patient services, strategic development and planning, new ways of working, communications and training, development and education as well as an improved work environment and quality of work life for staff
- linking with Area Partnership Forums in each of the four HSE administrative areas that had been established to enable and support active integrated partnership at all levels in the area and ensure productive networking among the partnership committees
- overall coordination through national working groups operating under the auspices of the Forum.

41.20 Partnership Committees also supported the verification process[320] under national agreements through the process of preparing actions plans and progress reports and engaging generally with the performance verification process.

41.21 Funding was provided for projects and activities at the local agency or organisation level and also at national level. Local projects focused on a range of initiatives such as

- better services for patients and clients – for example, extended opening hours in health centres, diversity awareness training and infection control initiatives
- quality of work life improvements such as implementation and review of a Dignity at Work[321] policy
- value for money initiatives such as waste management and efficiencies in patient processing.

41.22 The Forum typically supported 500-600 local projects annually, involving managers, union representatives, staff and service users across the health services.

[320] The verification of the achievement of a number of conditions contained in national pay agreements became part of the process for the awarding of pay increases in the public sector.

[321] The policy covers sexual harassment, harassment and workplace bullying and was originally issued by the HSE in 2004.

41.23 National projects mainly involved pilot programmes which had the potential to be mainstreamed through the health service and programmes to develop and disseminate best practice in the operations of various health sector projects. For example in 2007, the Forum supported a pilot initiative on training and quality for nursing homes in both the public and private sectors aimed at improving the level of residential care and with the intention of developing a foundation from which the pilot would be extended nationally. The project involved the delivery of a training programme for staff within the nursing homes and a range of other initiatives aimed at improving the quality of life of residents and the level of resident care. Another project supported by the Forum was the development of a set of guidelines and tools[322] for measuring and evaluating the delivery through partnership of better quality health services. Details of project activity were categorised and listed in the Forum's annual report each year.

## Project Review and Evaluation

41.24 All applications for project funding were required to identify the mechanism by which the project would be evaluated. The procurement, conduct and publication of the project evaluation was the responsibility of the organisation involved. Each organisation or project receiving funding was required to verify that the project was completed in accordance with the plans submitted to and approved by the Forum.

41.25 The Forum established procedures whereby each project was required to submit to it after the end of each quarter a report on the project in a standard form which outlined the progress being made and the funds spent. From a review of a selection of projects over the period of operation of the Forum the audit confirmed that organisations submitted reports in accordance with the Forum's procedures.

41.26 The Forum commissioned a number of external evaluations[323] over its lifetime to review projects and inform it on the performance of its activities. In general, these reports have been published on the Forum's website[324]. Some key findings and conclusions are outlined in Figure 165.

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322 ' Partnership – Measuring and Evaluating' published 2007.

323 The Evaluations were – Evaluating Workplace Partnership Report (OD2, 2007), Learning from Partnership in the Health Service Executive Report (IPA, 2008) and Participative Governance – An Integrated Approach to Organisational Improvement and Innovation in Ireland's Health Care System (UKWON/IPC, 2010).

324 www.hsnpf.ie

**Figure 165 Key Findings and Conclusions of External Evaluations**

## Partnership Working

The Partnership approach to joint problem solving and consensus decision-making is a process that appears to work well within the culture of the health service and partnership provides a framework within which contentious issues can be successfully progressed.

Existing Partnership structures in many hospitals play an important if low profile role in maintaining sound industrial relations and a climate conducive to change at local level. However, their impact on the capacity of frontline staff to contribute knowledge and experience to service innovation or quality improvement was very patchy.

The attitude towards partnership varied - some projects identified the partnership approach as a means of bringing significant changes which needed to be made in their organisations while others viewed the implementation of the approach as an end in itself.

Although many participative initiatives were identified which were improving patient care and hospital performance, there was no systemic approach, either at hospital level or national level, to introducing or disseminating participative practices even when there was evidence that they work.

## Performance Improvement

A number of correlations were found between participative practices and performance, particularly in relation to hygiene promotion, staff turnover and sickness absence. However, the lack of appropriate data, particularly in relation to quality of patient care and staff well-being, seriously impeded this aspect of the analysis.

In some cases, national performance management structures are leading to real improvement but there is also a widespread compliance culture based on ‘ticking boxes’ which undermines sustainable change.

Multidisciplinary working between health service professionals remains a major challenge, and its absence represents a significant area of weakness in many clinical areas. Clinical Directors appear to lack sufficient guidance or direction in this regard.

## Evaluation and Learning

Most projects reviewed did not provide for formal monitoring and evaluation which would have added significantly to the status of the project, transferred learning and enabled participants to reflect on the challenges and progress being made. Likewise most partnership groups did not formally review their processes during projects which would have brought similar benefits.

## Governance

Integrated governance was an emerging force for improvement and innovation in the health services with new clinical directorate structures becoming major drivers for organisational change in every acute hospital. Yet, in most cases hospital structures concerned with governance, quality improvement, innovation, industrial relations, partnership and staff engagement remain fragmented within discrete silos.

## Action Plan for People Management

41.27 An Action Plan for People Management (APPM) was developed by the Department of Health and Children and the Health Service Employers Agency (HSEA)[325] in consultation with the Forum who subsequently agreed to manage the administration and disbursement of APPM funding. The development took account of input from stakeholders including trade union representatives. Under the plan, key themes for improving people management in the health services were identified and responsibility for the various actions under each theme were assigned to the relevant bodies. The key tasks identified for the Forum were to

- review and assess current practice against recognised best practice benchmarks
- mainstream partnership as a core way of working
- increase staff involvement in service planning
- use a partnership approach to the management of change
- communicate the benefits of partnership working
- use partnership structures, through joint workshops to develop interest based problem solving and bargaining
- measure and evaluate the partnership process
- develop a strategic approach to education, training and development
- train shop stewards and line managers in the operation of the newly developed policies and procedures
- establish training, development and/or education programmes to address the human resource management competencies
- establish a Forum group to examine and report on the possible further use of mediation in resolving disputes.

41.28 A National Implementation Monitoring Committee (the Committee) was established comprising senior personnel from both management and unions in the health service. The Committee invited applications, from health agencies and unions, for funding of specific projects aligned to the objectives of the APPM. Union submissions were made annually to the Committee setting out the training and development measures that unions wished to implement for their members in the health services. The HSEA was assigned significant responsibilities in progressing the APPM until its absorption as a business unit into the HSE on 1 January 2005 and from that date support services to the Committee were supplied by the HSE.

[325] The Health Service Employers Agency was established under the Health Service Employers Agency (Establishment) Order 1996 to promote value for money in pay cost management in the health service, to support and represent health service employers in the management of industrial relations and to develop appropriate research, education and information initiatives to assist personnel management. It was amalgamated into the HSE in accordance with the Health Act 2004.

### *Advances to Levy Fund*

41.29 The composition of the APPM funding received and the related disbursements by the Forum are outlined in Figure 166. Payments made by the Forum initially consisted of direct payments to training providers and suppliers, payments to trade unions for project management costs and reimbursement to trade unions of vouched expenditure. Some of the reimbursements for vouched expenditure were initially paid to an account entitled the SIPTU National Health and Local Authority Levy Fund (SIPTU NHLALF). Overall, while €1.56 million had been made available to the Forum in the years 2003 to 2008 under APPM €1.65 million was paid out.

**Figure 166 APPM Activity 2003-2008**

| **Year** | **2003** | **2004** | **2005** | **2006** | **2007** | **2008** | **Total** |
|---|---|---|---|---|---|---|---|
| | **€000** | **€000** | **€000** | **€000** | **€000** | **€000** | **€000** |
| APPM receipts | **155** | **420** | **280** | **200** | **250** | **250** | **1,555** |
| Payments to SIPTU NHLALF | — | 59 | 118 | 248 | 250 | 250 | 925 |
| Direct payments | 173 | 360 | 86 | 109 | — | — | 728 |
| Total payments | 173 | 419 | 204 | 357 | 250 | 250 | 1,653 |
| **Funded by Forum** | **(18)** | **1** | **76** | **(157)** | **—** | **—** | **(98)**[a] |

Note: a This represents part funding by the Forum to specific activities developed under APPM.

41.30 The administration and disbursement of APPM funds allocated to the trade unions for training were managed by the Forum. The arrangements established in 2004 provided that requests for payments should be supported with backup documentation including invoices or copies of bills. However, this procedure was subsequently altered in that the trade union allocations were transmitted to the SIPTU NHLALF in advance of detailed vouching. Included in the 2006 expenditure of €248,000 is an amount of €200,000 accrued at the year-end and paid in early 2007 under the revised arrangements for the disbursement of funds in advance of detailed vouching.

41.31 The payment of €200,000 together with the subsequent payments of €250,000 in 2007 and 2008 each were made on foot of a signed application by a trade union official who was also a Joint Chair of the Forum, with the cheques made payable to the SIPTU NHLALF.

41.32 As shown in Figure 167 approximately €770,000 was advanced to the SIPTU NHLALF without detailed vouching of its application by the ultimate recipients who were, or were intended to be, trade unions who had submitted training and development plans under the APPM. Another €41,315 was disbursed to three trade unions in 2004 in respect of project management costs without detailed vouching.

**Figure 167 Payments made under APPM in advance of detailed vouching 2003-2008**[a]

| **Year** | **2003** | **2004** | **2005** | **2006** | **2007** | **2008** | **Total** |
|---|---|---|---|---|---|---|---|
| | **€000** | **€000** | **€000** | **€000** | **€000** | **€000** | **€000** |
| Total Payments to SIPTU NHLALF | — | 59 | 118 | 248 | 250 | 250 | **925** |
| Payments made in advance of detailed vouching | — | 20 | 50 | 200 | 250 | 250 | **770** |

Note: a In addition, €41,315 was paid in 2004 to three other unions in advance of detailed vouching.

41.33 The HSE confirmed repayment of grants totalling €275,283 were made to it by four trade unions - €255,283 in quarter four 2010 and €20,000 in January 2011.

## Recovery of Excess Funding

41.34 An internal investigation was conducted by SIPTU into the operation of the SIPTU NHLALF. The results were published in March 2011 and the investigation found that the balance remaining in the SIPTU NHLALF in March 2011 was €697,894. The report explains that the SIPTU NHLALF received funding from a variety of sources including the Forum.

41.35 The report notes that first recorded grants received in the SIPTU NHLALF were from the Office of Health Management (OHM)[326] in 2001 in respect of an arrangement entered into by the Department of Health and Children to fund the provision of training to frontline supervisors in the health services (frontline supervision programmes). OHM also paid grants to the SIPTU NHLALF in respect of research work. The report also notes funding received from the Local Authority National Partnership Advisory Group (LANPAG)[327] of €788,703 and Beaumont Hospital of €100,000. The circumstances of the payment to and disbursement by Beaumont Hospital of the grant funds are set out in Annex A to this chapter.

41.36 In April 2011, the Department of Finance wrote to SIPTU seeking the return to the Exchequer of the unexpended amount of €697,894. That Department received payment in full on 29 June 2011. The Accounting Officer of the HSE informed me that the balance of €697,894 in the SIPTU NHLALF account is not solely attributable to the Forum. The SIPTU report into its investigation of the SIPTU NHLALF, which was published on 26 March 2011, identified that the bank account was the recipient of funding from various sources, for example SKILL, the Forum, LANPAG and Beaumont Hospital as well as refunds from individuals and miscellaneous receipts and rebates. As the SIPTU report does not analyse the bank account balance by individual funding sources it is not possible to determine the proportion of the refund which relates to the Forum.

## Vouching of Expenditure out of Advances

41.37 The Accounting Officer of the HSE informed me that since September 2010, the HSE has endeavoured to obtain supporting documentation from SIPTU in respect of the transactions in the SIPTU NHLALF. While the SIPTU report of March 2011 outlined at a very high level the various types of income and expenditure administered by the SIPTU NHLALF, it did not categorise the income and expenditure referred to in the report. On receipt of the SIPTU report the HSE sought clarification and further information about a number of details in the report and requested SIPTU to provide a full listing of the categories of expenditure (including the total amount disbursed under each category) and full details of income receipts. SIPTU was not in a position to provide the information requested by the HSE.

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[326] The OHM was established by the Department of Health and Children (DOHC) in 1997 to implement a Management Development Strategy for Health and Personal Social Services.

[327] LANPAG was similar to the Forum in that it was a national partnership committee which arose from the Local Government partnership programme under the Partnership 2000 National Agreement. It comprised equal numbers of senior management and union representatives, representatives of the Department of the Environment, Heritage and Local Government and from a range of Local Authorities. Its role was to co-ordinate, advise and support each local authority in developing partnership arrangements. Funding was made available to LANPAG by the Department of the Environment, Heritage and Local Government.

## Conclusion

The establishment of the Health Services National Partnership Forum arose from national agreements which involved partnership between management and staff as a mechanism for managing change in the public health sector. Over the period it operated it incurred expenditure of over €41 million on various partnership related activities including the supporting of the verification of progress in relation to implementation of the change programmes in the health sector under national agreements. It was disbanded in June 2011.

The Forum made payments of over €800,000 in advance of detailed vouching. The cumulative unvouched amounts are largely attributable to the adoption from 2007 onwards of a practice of issuing the allocation to Trade Unions under the Action Plan for People Management, en bloc (including a retrospective 2006 grant), for payment into a bank account under the name of SIPTU NHLALF. Taking account of the amounts which have subsequently been refunded by four unions, the residual amount of advances paid by the Forum that remained unvouched in August 2011 was of the order of €536,000.

The funds provided were intermixed with funding from the SKILL Programme and the Local Authority National Partnership Advisory Group. A report by SIPTU found that €697,894 remained in the account of SIPTU NHLALF and, following a demand by the Department of Finance, this sum has been refunded to the State. There has been no progress in vouching the payments that were made out of the Fund.

In general, public funds should not be disbursed in advance of detailed vouching nor should accountability for the use of those funds be devolved to other bodies unless there are valid reasons for so doing. Where funds are disbursed in advance, moneys should only be made available in line with ascertained cash needs. Where, exceptionally, advances are made, commitments should be given by the appropriate authority in the assisted entity

- confirming responsibility to be accountable for and safeguard the public funds
- confirming that appropriate financial systems are in operation in order to ensure that funds are spent for the purposes intended and accounted for
- to facilitate accountability to the Oireachtas for any funds disbursed and
- to allow access to both the funding body and the Comptroller and Auditor General to its accounting records to confirm application of the funds for the purposes intended.

## Annex A Payment by Beaumont Hospital to SIPTU NHLALF

In 2007, the Beaumont Partnership Committee made a grant application to the Forum to fund a Work Placement and Best Practice Exchange Programme which involved 16 staff (senior nursing personnel, staff nurses, night superintendents and shop stewards) from Beaumont Hospital and St. James's Hospital travelling to New York to work in two hospitals for a period of two weeks.

The main objective of the programme was '*to create the conditions for the transfer of learning and best practice between the two healthcare systems*' and it involved a number of phases including pre-visit research, joint needs assessment, design of specific work placements, selection of personnel, debriefing and evaluation by steering committee and on-going sharing of learning and agreement of joint working initiatives.

The funding application sought €100,000 to cover accommodation costs estimated at €56,000, travelling costs of €16,000, daily allowances of €6,000 and Steering Committee costs (flights, accommodation, subsistence and evaluation) of €22,000.

The application was approved by the Forum and a payment of €100,000 was received by Beaumont in 2008. In April 2008, Beaumont issued a payment of €100,000 to the SIPTU NHLALF.

The Chief Executive of Beaumont Hospital stated that the programme was first proposed to the nursing teams in Beaumont and St. James's Hospitals by the Union Joint Chair of the Forum and it was initially the understanding of the Hospital that SIPTU would be reimbursed directly by the Forum in respect of programme expenditure and would have no involvement with the finances of the programme. He stated that the Forum subsequently contacted the Hospital and requested it to submit an application for funding on the grounds that, although the trade union was paying for the programme, reimbursement could only be made through the Beaumont Hospital Partnership Committee. This placed the Hospital in the position of paymaster to the trade union in respect of the Programme.

He stated that the Union Joint Chair of the Forum participated with the nursing team in Beaumont Hospital in completing the application for funding to the Forum and all discussions with the Forum in relation to funding for the programme were carried out by the Union Joint Chair of the Forum who made all arrangements in respect of the programme. He stated that as CEO of Beaumont Hospital acting in his capacity as Joint Chair of the Beaumont Hospital Partnership Committee he signed the drawdown request in February 2008 requesting the grant funding. He stated that in processing the request the Forum contacted the Hospital asking if it held receipts in respect of the programme but it was explained by the Hospital that the programme had been organised and paid for its entirety by the Union Joint Chair of the Forum and referred the query back to him.

He stated that as the grant was subsequently paid, the Hospital assumed that the Forum had received the required receipts and explanations, however this assumption later proved to be unfounded as the Forum subsequently confirmed that it required only the drawdown request and not the receipts in order to issue payment. He also stated that while the Forum may have relied on the Hospital in disbursing the grant monies the sequence of events and the contacts between the Forum, the Union Joint Chair of the Forum and the Hospital created the impression that this was a project originated in the Forum and, as a result, Beaumont Hospital was unaware of this reliance and assumed that the Union Joint Chair had satisfied the Forum in relation to the expenditure.

He stated that the report on the programme was completed by the participants from St. James's Hospital and Beaumont Hospital and submitted to the Forum in accordance with its requirements and is a factual description of the programme and of the key learning points which the teams identified.

In relation to the vouching of expenditure by the Hospital the CEO stated that while receipts were not attached to a breakdown of costs, the Hospital satisfied itself that the majority of costs listed were reasonable in the light of what the Beaumont and St. James's Hospital participants knew of the facts of the programme. Correspondence and booking information relating to travel arrangements confirmed the costs for Steering Committee flights and accommodation. The payment of daily allowances were confirmed with senior project participants. He stated that the only substantial unvouched item was the cost claimed for the evaluation of the project and conference costs of around €26,900 and the Hospital has sought SIPTU's assistance in relation to any receipts it may hold for the Programme.

Subsequently SIPTU informed the Hospital that it does not hold any vouchers in respect of the programme.

# Chapter 42

## Procurement in the HSE

Vote 40 Health Service Executive

# Procurement in the HSE

42.1 The HSE is the largest purchaser in the State, spending in the region of €7.2[328] billion in 2010 on a diverse range of goods and services. These goods and services range from food to professional services, to medical and surgical supplies.

42.2 Ultimately, around €1.3 billion of the 2010 spend is amenable to ongoing procurement management with the remainder accounted for by

- voluntary hospitals[329] who had a non-pay spend of approximately €800 million
- drugs and medicines costing approximately €2 billion and which are covered by an agreement between the HSE and the Irish Pharmaceutical Healthcare Association (IPHA) on the pricing and supply of medicines to the Irish Health Service that came into effect in September 2006[330]
- payments to contractors (GP's, Pharmacists, Dentists, Optometrists and Ophthalmologists) of approximately €880 million under the general medical services scheme and other community drug schemes
- other payments of approximately €1.1 billion comprising, *inter alia*, nursing home and contract beds, capitation payments, clinical indemnity insurance, foster care and other allowances
- grants to other outside agencies of approximately €1.1 billion.

42.3 This chapter relates to ongoing procurement and does not extend to the specific arrangements outlined above.

## Organisational Structure

42.4 In 2007, the HSE established a Procurement Directorate with responsibility for managing its entire procurement function. The Procurement Directorate which became operational in November 2010 has three delivery divisions[331]. At March 2011 those divisions were

- Portfolio and Category Management
- Logistics and Inventory Management
- Communications, Training, Customer Relationship Management and Business Support.

42.5 The HSE has stated that the procurement restructuring was designed to

- strategically source goods and services and centralise the tendering and contracting processes to increase contract coverage
- improve service to customers
- provide better visibility and control of stocks
- improve efficiencies in terms of reduced staffing

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328 This figure is based on the HSE accounts for 2010.

329 For the voluntary hospitals, there is a Hospital Procurement Services Group (HPSG) in place. The HPSG provides a forum for the voluntary hospitals to work together to lever their purchasing power.

330 This framework is in place until March 2012. It applies to all medicines that can be prescribed and reimbursed under the community drugs schemes and all medicines supplied to the HSE, HSE hospitals, voluntary hospitals and other State bodies that provide medicines.

331 The delay was due to industrial relations issues.

- improve sourcing options
- reduce surplus stockholding by improving logistics and inventory systems
- promote a professional approach to procurement with education and training
- implement a procurement shared service to provide support to the procurement divisions and other stakeholders.

42.6 The restructuring involved combining 360 staff with dedicated procurement and logistics roles with around 320 other staff that had full-time procurement roles. Prior to the change a large number of staff also had partial procurement roles. By June 2011 the vast bulk of procurement personnel were operating within a single directorate[332].

42.7 The new operating model was to be underpinned by defined procurement processes and procedures throughout the HSE with a particular emphasis on

- having procedures for putting frameworks in place as well as a process to allow full visibility of spending
- standardisation of the processes of requisitioning, ordering and master data maintenance
- having procedures in place to deal with parliamentary questions and customer queries and a structured training process for all procurement staff.

## Chapter Focus

This chapter reports the results of a review of

- the extent to which framework agreements and contracting have been implemented since 2007
- the changes in inventory management
- information systems to support procurement management
- the savings being achieved on procurement adjustments by the HSE.

It also examines conformance with Department of Public Expenditure and Reform Circular 40/2002 (see Chapter 9 for a general outline of that matter).

The audit findings are based on reviews carried out in March and July 2011. The operation of procurement was reviewed in two hospitals and two local health areas.

The scope of this chapter is limited to ongoing procurement of goods, supplies and services excluding arrangements for the purchase of drugs and medicines and services from doctors, dentists, voluntary hospitals and voluntary bodies.

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332 The move was facilitated by a Labour Relations Commission agreement of November 2010. Around 50 staff still have to be transferred.

## Framework Agreements and Contracting

42.8 The principal contribution of the Portfolio and Category Management Division is the putting in place of central contracts to facilitate procurement. While contracting is effected through a number of procurement officers, the aim of the reforms were to introduce an element of centralisation by creating a directorate that would put national and regional contracts and framework agreements in place and provide contracting support at local level (when frameworks are not applicable).

### *Framework Agreements*

42.9 Frameworks allow the HSE to place contracts with suppliers that are party to the framework without having to carry out multiple open tendering procedures. Where frameworks are put in place the aim is to provide an economic and efficient means of purchasing goods and services. This is potentially achievable through the opportunity it affords to place contracts with suppliers for multiple requirements with value being gained through

- reduced administrative costs of tendering
- bulk buying
- moving away from local to regional or national pricing and
- targeting areas where economies can be gained through awareness of market conditions.

42.10 Frameworks can also encourage competition by allowing suppliers to group together in submitting tenders or by having the purchase requirement broken down into lots.

## Framework Agreements

Expenditure by the HSE is governed by national rules, EU procurement rules and HSE procurement policy. Within the EU procurement rules, framework agreements were introduced as a means of facilitating cost effective procurement of goods and services. The Directive[a] provides guidance on the procedures for setting up frameworks, the types of frameworks that can be used and the procedures for awarding contracts based on a framework.

A framework is defined in the Directive as *'an agreement between one or more contracting authorities and one or more economic operators, the purpose of which is to establish the terms governing contracts to be awarded during a given period, in particular with regard to price and, where appropriate, the quantity.'* Framework agreements can be with one or more participants. A one party agreement for the provision of works, supplies or services can be put in place with a single supplier based on a competitive tendering process. A multi-party framework can be established by inviting and selecting suitable parties to participate.

Note: a Directive 2004/18/EC

42.11 The frameworks used to date by the HSE are multi-party frameworks agreements. The criteria for the award of subsequent contracts are set out in those frameworks and as requirements arise, the HSE contacts the participants in the framework and invites them to submit competititive bids in mini-competitions. An appropriate timeframe must be allowed for the submission of bids for the mini-competition. However, this timeframe is not prescribed. Bids received are evaluated and contracts awarded on the basis of award criteria indicated under the rules of the framework.

42.12 At July 2011, the HSE had 52 framework agreements in place. These frameworks fell into the categories outlined in Figure 168.

**Figure 168 Frameworks by Purchase Category**

| Purchase Category | Number in Place |
|---|---|
| Pharmaceutical and medical[a] | 4 |
| Professional services and office supplies | 14 |
| Hotel type services | 9 |
| Equipment, laboratories and diagnostics | 25 |

Note: a The products in question are outside the IPHA agreement.

42.13 In regard to overall use of frameworks, it is estimated by the HSE that 97 mini-competitions have taken place to the value of €217 million between May 2008 and July 2011.

### *Use of Framework Agreements*

42.14 From sampling conducted in two hospitals there was scope for extending the use of frameworks in that goods and services procured from 21 suppliers out of a sample of 45 were considered to be suitable for framework arrangements. The products which would be suitable ranged from waste disposal and X-ray products to printing and stationery. The spend in 2010 for these suppliers was approximately €6.47 million.

42.15 Overall, it was found that most hospital procurement was not done under frameworks. In the testing, three framework agreements were found to be in use. The reason for limited use appeared to be due to the fact that the use of framework agreements by procuring officers is not mandatory and HSE staff (outside of the Procurement Directorate ) making purchases indicated that they were unaware of their existence. On the other hand, the HSE Procurement Directorate stated that all frameworks are mandatory when they meet the requirement of the end user.

42.16 In the two local health areas reviewed, 27 of 101 suppliers were contracted under framework agreements (approximately 19% of the value of a sample of procurement had been sourced under framework agreements). Four companies made up 58% of the purchases under frameworks. These purchases were mainly incontinence products, bedding and mobility aids.

42.17 The Accounting Officer stated that the HSE plans to increase the use of frameworks in all categories as appropriate. The precise level will be determined as part of the roll out of a portfolio and category analysis strategy. He stated that it is not possible to provide an exact figure until each category is fully analysed.

## Conclusion – Framework Agreements

The audit noted considerable scope to extend frameworks to other categories of procurement.

At hospital level, there appears to be room for further extension of frameworks to supplies and services where they are not currently utilised. It was noted that supplies and services from 21 of 45 suppliers reviewed would be suitable for framework arrangements. The products which would be suitable ranged from waste disposal and X-ray products to printing and stationery.

### *Contracting Arrangements*

42.18 It was found that hospital level procurement was not covered by valid, in-date, contracts in the case of 25 of the 45 suppliers reviewed.

42.19 In the two hospitals, eight of the 45 suppliers had no contracts in place[333] (approximately 21% of the value of the sample). A further 17 suppliers had contracts that were out of date (approximately 26% of the value of the sample).

42.20 The audit noted that there continues to be factors impacting on procurement efficiency. For instance, a consultant may have a clinical preference for a certain product but be unaware of the financial cost of that product in relation to similar products.

42.21 Contracts were not in place for 63 of 101 suppliers in the local health areas (approximately 69% of the value of the sample).

## Conclusion – Procurement

There is scope to improve the extent of formal contracting and ensure that contracts are up to date. Only 18 of the 45 contracts reviewed in the two hospitals were covered by a current contract.

As in the case of hospitals, considerable scope exists to use formal contracts and framework agreements in the local health areas.

The Accounting Officer stated that those conclusions are acknowledged by the HSE Procurement Directorate and are key objectives of the HSE's current strategies.

## Inventory Management

42.22 A review of logistics and inventory management was carried out by PricewaterhouseCoopers[334]. At the time of the review, a variety of manual and computerised requisitioning and replenishment processes were in place across the HSE. Frontline staff were involved in the processes and it was estimated that these processes can take up to a half a day each week to implement in each ward. The processes used and information systems deficiencies led to

- lack of visibility of what was being ordered and by whom
- inability to manage deliveries in an economic way
- using staff to manually match invoices with delivery dispatch dockets.

333 The bulk of suppliers examined had supplied goods to a value greater than €25,000. Two procurements were below the limit necessitating formal contracts.

334 Review of Logistics and Inventory Management April 2010 – PricewaterhouseCoopers.

42.23 The audit also noted that a wide variety of inventory systems are in use across the HSE. Consequently, there is considerable scope for streamlining systems and procedures in order to ensure that a joined-up, timely stock distribution system is in place. The HSE has taken initial steps towards introducing a Point of Use system (POU). As well as facilitating just-in-time replenishment through its on-line capability, the POU model generates stock-holding savings, because only operational usage levels are maintained and these goods are delivered directly to the end users (i.e. hospital wards and other service delivery units).

## Point of Use Systems in HSE

The HSE is implementing a Point of Use (POU) stock system at certain sites. The POU model is built on the 'Kan-Ban' system of local bar-coded rolling forward bin systems. These bins are scanned at least on a weekly basis by on-site stores staff and electronic requisitions are produced and processed.

This requires ICT infrastructure and adaptation to replace manual requisitions with automated processes. The HSE estimate that 750 locations would benefit from POU management. By December 2010, a POU system was in place in 146 locations across all four regions. In 2011, 80 other locations are being targeted for implementation.

42.24 It is estimated by the HSE that for every instance where POU has been introduced substantial benefits have been achieved including

- demand for products was reduced by 7% on average over time since stockholding is reduced as users get confident about availability
- once off inventory cash saving of approximately 30%
- a clinical time saving of approximately 10%.

42.25 The Tullamore warehouse has this facility in place and it also exists to degrees in three hospitals[335] in that region. These three hospitals are the only sites currently being enabled for the POU system in this region. During the audit the operation of the POU system in Tullamore was reviewed. The audit found that the system had been put into use and was operating satisfactorily.

42.26 In May 2011, the HSE estimated that approximately 70% of transactions are processed outside the Logistics and Inventory Management systems. Addressing this would require the introduction of either a new centralised ordering system or a user friendly self-service ordering system. Both systems would need a uniform coding system for stock items to be developed and a computerised system that would have the capacity to deal with approximately 12,000 stock items. If a centralised ordering system were introduced, it would require more staff. Accordingly, the Accounting Officer has informed me that rather than centralising spend, which would have resource implications, the HSE medium to long-term strategy[336], is to enable effective self-service requisitioning which, in turn, is dependent on acquisition of a user friendly purchasing system.

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[335] The implementation of the POU model is almost finished at Tullamore General Hospital, with both Mullingar General Hospital and Portlaoise General Hospital expected to be finished by the end of 2011.

[336] This is articulated in its National Finance and Procurement System Business Case.

## Conclusion – Inventory Management

A wide variety of inventory systems are in use across the HSE. Benefits from introducing computerised inventory systems have been identified. However, these benefits must be weighed against the resource implications. A cost benefit analysis should be done to inform the longer term development of inventory management.

## Information Systems

42.27 Purchases by the HSE are varied extending to 400 categories of products and services. Most of these categories require a specific approach – for instance, the market for medical and surgical supplies is organised on a different basis to that for food. Across the procurement categories there is variability in the frequency of recourse to the market and the level (national, regional or local) at which that market approach occurs. Within the €1.3 billion spend, the subject of this report, there are three major buying categories that each involve expenditure of over €100 million per annum and a further 12 which involve expenditure of between €25 million and €100 million per annum.

42.28 The three major categories of expenditure (in excess of €100 million per annum) are

- medical equipment, supplies and services including orthopaedic, renal dialysis, dental, ophthalmic, cardiac, medical gases, radiotherapy, continence products, aids and appliances
- professional services including medical, accounting, legal and management services
- office expenses, rent and rates.

42.29 It is difficult to accurately gauge how many different products and suppliers are involved because of the absence of national product and supplier codes.

42.30 The absence of a co-ordinated ordering system within the HSE has hampered the generation of accurate, timely and consolidated information on vendors, products, use and user locations across HSE. This works against the desirable approach of constructing strategies for categories of procurement and tenders that accurately reflect the buying power of the organisation.

42.31 In the absence of a single system with a single national catalogue, there are multiple coding systems. In practice, there is considerable duplication, and in some instances, a single code is used for a group of products. The capacity of the HSE to match these codes between systems is limited. Each time a new contract is put in place it has to be mapped to all the legacy systems which is time consuming and results in duplication of effort. This also makes it difficult to extract information about spend as it is necessary to have extracts from all systems to ensure comparison.

42.32 According to the HSE, although there is automation in some regions, more than 55% of invoices are processed manually. It is estimated that less than 10% of invoices, goods received notes and purchase orders are electronically matched.

42.33 During the period April to June 2011, a functional specification for a computerised National Finance and Procurement System was developed. According to the HSE, further progress will be dependent on initiation and successful progression through peer review. The peer review process has not occurred to date.

42.34 The current status of other technology to support the new operating model is that

- The redevelopment of the e-tenders website to include on-line tendering and bid quote management was being finalised. While it was anticipated that it would be fully operational in December 2011, the procurement process has not yet been completed.
- The development of a procurement portal to provide a single point of contact for all procurement related queries has been completed. An area within the HSE intranet serves as a repository for all standard procurement documents. The portal also provides a facility for procurement e-learning.
- A customer relationship management toolkit to support, capture and track customer queries in the new shared service environment is being tested and it is anticipated that it will be rolled out in late 2011.
- The development and maintenance of a single national material master product list had commenced and up to 32,000 products were recorded and mapped within the category structure. However, this project ceased in 2007. At that time there were still at least another 70,000 products to be mapped.
- A prerequisite to having a master product list is having an electronic system to host it on. Under a financial information system project (FISP), a common version of SAP was to be introduced, upon which the product list was to be hosted, however, FISP was suspended in October 2005, pending a review by the HSE. Currently, there is no platform to hold the national master product list of 12,000 codes[337].
- The development of a single national vendor master file was commenced and the top 100 vendors were identified, but further work is required to complete this project. However, in this case also, a prerequisite to utilising a national vendor master file is an electronic system upon which to host it.

## Conclusion – Information Systems

The control and management of procurement arrangements is hampered by the fact that

- a consolidated view of HSE procurement is not available
- timely and relevant information to allow for the better management of purchasing is not available to management
- there is lack of process standardisation
- processes including updating of permanent details of suppliers are duplicated by virtue of the use of 12 different procurement systems
- visibility over stock levels and control over ordering is impeded by the absence of a national centralised inventory system. These deficiencies are compounded by the fact that there are over 140 stores in the system and there are non standard approaches to ordering across product lines.

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337 When the mapping exercise is completed, approximately 12,000 codes will be required to cover all products.

## Achievement of Savings

42.35 The HSE has targeted savings in the area of procurement since 2008. It has gradually increased the number of areas targeted.

42.36 The audit found that the savings reported for 2010 were based on calculating

- the savings arising out of the prices renegotiated
- the reduction in prices on the new contracts awarded in that year compared with the 'old prices' in the previous contracts
- savings achieved by reducing stock levels.

42.37 There was no system in place to target all procurement areas in 2010 and there was no integrated system in place to ensure that the reported savings were realised.

42.38 Figure 169 sets out the reported results for 2010.

**Figure 169 Reported Procurement Savings 2010**

| Activity | Target €m | Achieved €m |
|---|---|---|
| Stock level reductions | 8 | 18 |
| Savings | 54 | 41 |
| **Total** | **62** | **59** |

Source: Health Service Executive

42.39 As part of the HSE 2011 Service Plan, €98 million in savings from the Procurement Directorate were targeted.

42.40 The main approaches to the targeting of savings were

- contract renegotiation with existing suppliers to achieve lower prices
- implementing new contracts following either a tendering competition or undertaking mini-competitions under framework arrangements
- stock reduction by reducing central stock levels and implementing POU projects
- reviewing areas of discretionary spend such as maintenance
- reviewing leasing arrangements.

42.41 By mid-2011 the HSE reported having achieved €50 million of the targeted €98 million savings for 2011. Its approach is more intensive than in 2010, since, in 2011, procurement staff are visiting sites to ensure that new contract prices are being implemented and the savings are being realised.

## Conclusion – Reported Savings

As part of the audit, a review was done to validate the supporting documentation to ensure proper processes were in place and that projected savings were valid. Projected savings of just over €2 million were reviewed.

It was found that the recorded notified savings were supported by back up documentation and the savings reported were being realised.

## Tracking Conformance with Central Government Rules

42.42 Department of Public Expenditure and Reform Circular 40/2002 requires the HSE to complete a report in respect of contracts above €25,000 (exclusive of VAT) that have been awarded without a competitive process. On foot of this requirement, a report was made to the Department of Public Expenditure and Reform and my Office in April 2011. That report recorded 59 instances of departure from competitive procurement. The full report was reviewed and the HSE were requested to validate the information. The HSE sent a revised version with 60 instances. This contained ten instances where the contracts should not have been included (see chapter 9). The HSE has been requested to submit a further revised version. On the other hand, audits carried out indicate that many instances of non-competitive procurement that should be reported are not returned.

- In the hospitals and local health areas reviewed, 63 suppliers were found that should have been recorded on the return but were not.
- In one local health area a return had been made to the relevant line manager but the details were not recorded in the central return submitted to my Office.

42.43 During the audit of Consultancy and External Support reported at Chapter 45, it was found that four cases should have been reported on the 2010 return but were not and in 2009, 12 of the consultancies should have been reported in the 40/2002 return for that year but again were not. Separately, it was noted that payments were made to a firm which should also have been included on both reports.

42.44 Overall, the HSE has no system in place to ensure that all its functions and units have compiled and reported details of their non-competitive procurement and to ensure that returns are consolidated into an organisation wide return. This needs to be addressed by the HSE and the validation procedures suggested by the Department of Public Expenditure and Reform e.g. reviews by internal audit implemented.

## Conclusion – Tracking Conformance with Central Rules

The HSE needs to put additional procedures in place to capture the full extent to which procurement is conducted without competition and implement the full requirement of the Department of Public Expenditure and Reform Circular 40/2002. This could also position it to improve its procurement outcomes from a value perspective.

### *General Views of the Accounting Officer*

42.45 The Accounting Officer stated that the HSE has developed proposals for a revised national logistics and procurement strategy. The implementation of these proposals will lead to increasingly effective use of healthcare resources and support the elimination of waste within the health system. The HSE also intends to focus on building its management capacity and capability in procurement. Specific objectives include

- extension of contract coverage through continued roll-out of the portfolio and category management strategy
- increased point of use management at ward level supported by an efficient warehouse distribution network
- development of modern ICT system to improve visibility, control and efficiency.

## Conclusion

The HSE is in the initial stages of reorganising its procurement function. Evidence from on-the-ground audit review suggests that

- There is scope to use national frameworks more and ensure that purchasers use existing frameworks.
- Contracting needs to be improved and procurement based on current contracts as opposed to roll over purchasing.
- The HSE is hampered by not having an organised classification of its common purchases nor the dynamic capacity to manage its inventory through joined up computer assisted requisitioning and logistics.

While benefits have been identified in the case of inventory systems a weighing of those benefits against additional cost of new systems would help inform further investment decisions.

Most savings reported to date have been due to contract renegotiation or achieving keener prices in subsequent tendering rounds.

The HSE has not put an adequate system in place to track non-competitive procurement. Audits have noted considerable non-reporting of contracts/purchases in excess of €25,000 which were not the subject of a competitive process and should have been reported.

The change management process involved in the reorganisation of procurement would benefit from the creation of a specific programme with a set of change goals and associated savings targets.

# Chapter 43

# Primary Care Teams

Vote 40 Health Service Executive

# Primary Care Teams

43.1 A core element of the Health Strategy 2001 was the development of Primary Care as a basis for the delivery of health and personal social services. The concept was set out in Primary Care: A New Direction which was published alongside the Health Strategy. As the first point of contact that people have with health and personal social services it saw primary care as the appropriate setting to meet 90-95 per cent of service needs. It also noted that the provision of these services within a primary care setting had the potential to prevent the development of conditions that might later require hospitalisation and also facilitate the earlier discharge of people from hospital.

43.2 The general objective was to create an integrated primary care service which would lead to better outcomes, better health status and cost-effectiveness. Central to delivery of such an integrated service was the concept of a Primary Care Team (PCT).

43.3 A PCT is a group of healthcare professionals including general practitioners (GPs), public health nurses (PHNs), registered general nurses (RGNs), home helps, physiotherapists, occupational therapists, administrative personnel and other professionals. The team composition was to be determined through needs assessment.

43.4 In order to function at optimum effectiveness, it was envisaged that teams would

- be located on the same site or in close proximity
- have electronic communication and record storage systems
- be part of a wider Health and Social Care Network (HSCN) – these networks would comprise a range of health and social care professionals linked with at least three PCTs.

## PCT Programme

43.5 Currently, PCTs are being developed in the context of aims set out in the HSE Corporate Plan for 2008-2011. That plan envisages the development of an integrated health and social care model, under which services will be more accessible locally and centered around the patient rather than around hospitals. In order to facilitate such a move it would be necessary to have greater diagnostic capacity available at primary care level and expand community services to enable more people to be treated at home through multidisciplinary teams.

43.6 In 2001, it had been estimated that as many as 1,000 PCTs were required to cover the population. It was envisaged that 40 to 60 teams would be operational by 2005 and that by 2011 approximately two-thirds of the targeted number would be in place.

43.7 In 2001, for the implementation of two thirds of the planned number of teams, the additional staff resources required to provide the service as envisaged were 500 GPs, 2,000 nurses/midwives and a significant number of health and social care professionals, administrative staff, home helps and health care assistants. These staff were required as more services were expected to be delivered at this level. No consequent savings at hospital level were identified. The additional cost was estimated in 2001 at €615 million per annum by 2011.

43.8 In January 2009, the HSE stated its aim was to have all teams in place by December 2011. According to the HSE, following a mapping exercise, PCT population size ranged from approximately 7,000 to 10,000 depending on the location, with an average population size of 8,000 and the indicative team size for planning purposes was 30 (including GP and GP support staff).

## Chapter Focus

Moving to PCTs involves reconfiguring primary care in a way that moves from having a set of independent disciplines to one where those professional staff would function in a team setting. It would also involve linking the team to wider HSCNs and to the hospital system. This chapter reports the current status of development including

- how the overall change is being managed
- the arrangements for resourcing and locating of teams
- the linkage of PCTs with other services.

Chapter 44 reviews the arrangements for the provision of primary care centres.

## Methodology

43.9 The methodology included the issue of a survey to the PCTs that were in operation in December 2010 and interviews with relevant personnel in the HSE. The survey gathered data on PCTs[338] such as staffing resources, diagnostic resources and information technology, the care plans in use and the development to date of PCTs. A designated person completed the survey on behalf of each PCT.

43.10 Two PCTs were also visited, in the course of which, interviews were conducted with key personnel including Transformation Development Officers (TDOs), GPs, PHNs, physiotherapists, and occupational therapists. A number of reports on this subject were also reviewed.

## Managing the Change

43.11 The key change in the creation of PCTs involves moving from the previous structure which was a care group[339] model to a new configuration based around PCTs and HSCNs. This entails establishing the teams and networks, linking them to other services and coordinating service providers.

### *Establishment of HSCNs*

43.12 The effective functioning of PCTs as envisaged would involve functioning as part of networks that include a range of specialists. These specialists in the wider network would include speech and language therapists, social workers, community pharmacists, dieticians, mental health staff, staff from the disability services, dentists, chiropodists and psychologists with each network supporting three or four PCTs.

43.13 At 31 December 2010, no HSCNs were in place. The HSE stated that the development of HSCNs would be progressed in 2011.

338 Data was compiled from 279 replies.

339 The five main Care Groups are Children and Families, Older Persons, Mental Health, Disabilities and Social Inclusion.

### *Establishment of PCTs*

43.14 HSE Service Plans aimed to have 394 PCTs in place by 31 December 2010 and all of the 527[340] PCTs to be operational by the end of 2011. According to National Primary Care Service Office, a number of mapping workshops were held in three Regional Director of Operations (RDOs) areas which resulted in further refinement of boundaries, with a reduction to 518 in the number of PCTs to be operational by the end of 2011.

43.15 The survey conducted as part of the audit found that a considerable amount of overall coordination remains to be done. In particular, it found that

- The reported number of teams did not appear to exist. Of the planned number of 394 which were to be in place by end 2010, an estimated 319 were in place.
- It appears that of the 350[341] teams the HSE reported[342] as functioning, a number have already merged with others. 31 such situations were identified in the course of the audit.

43.16 The Accounting Officer has stated that, following a review, he has established that the reason for this variation is that while two teams may hold joint clinical team meetings they still operate as two separate teams. He stated that each of these teams have separate staff assigned to each, especially GPs, PHNs and RGNs. The population coverage is not affected by these mergers.

43.17 He also stated that the HSE is in the process of reviewing the current team boundaries, particularly in terms of the newly formed Integrated Service Areas[343] and the recent census results.

### *Change Process*

43.18 Managing substantial change of the order required to embed a new way of working requires a change management plan backed by focused actions. Central to successful establishment of a PCT would be

- team building activities and joint planning involving PCT members in order to develop effective partnerships, team identity and a shared understanding of roles and boundaries between members
- engagement with communities, involving them in development proposals for their area
- awareness of their community's health needs
- adequate team briefing sessions on how the PCT should operate
- coordination and integration between primary and secondary care services.

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[340] The projected number of teams was reset at 527 in 2010.

[341] 62% of the population is served by these teams.

[342] According to the HSE Performance Report for December 2010, 350 teams were holding clinical team meetings at December 2010. Holding such meetings is regarded as the primary indicator that a team is operating.

[343] Integrated Service Areas will be the basic units within which healthcare will be managed across both primary and secondary care.

43.19 The survey conducted in the course of the audit suggests that a considerable amount of work needs to be done to achieve cohesive functioning and establish new relationships. It found that, for PCTs holding clinical team meetings at 31 December 2010

- 27% of those that replied, reported that there had been local community/population consultation when developing the PCT
- as low as 15% of the PCTs that replied reported that a community health needs assessment had been carried out prior to the PCT's first clinical team meeting and of the remaining PCTs that replied, 7% indicated a community health needs assessment was carried out after the PCT's first clinical team meeting
- only 18% of those that replied believed that integration with local secondary care has improved since the PCT was established
- 71% of teams that replied considered that there were adequate briefing sessions provided to the team on the operation of the PCT prior to commencing work in a PCT
- 60% of those that replied had formal team development activities in advance of the PCT coming into operation
- only 31% of teams that replied considered that adequate additional training was provided to staff on working in a multidisciplinary team prior to holding the first clinical team meeting.

43.20 Central to the management of change are resources to coordinate the process. There is currently no single manager for each PCT or a standard management structure. However, the Accounting Officer has informed me that the HSE management team recently approved a management and clinical governance structure for PCTs which includes the introduction of the role of manager for PCTs. Each manager will be responsible for between three and five PCTs. These managers are expected to be in place by December 2011 pending consultation with relevant unions.

43.21 The intention was that 32 Transformation Development Officers (TDOs) would assist in change management on an area basis. TDOs are managers who are responsible for the development of PCTs, development of primary care initiatives, coordination of services and developing integration with hospitals. At national level, there are currently 25 TDOs and three primary care specialists covering 32 local health office areas and the four RDOs areas[344]. The three primary care specialists provide support to the National Primary Care Office, the RDOs and the TDOs.

43.22 In the context of PCT development, the role of the TDO is principally

- to initiate and develop the PCTs and associated primary care services
- to manage the human and monetary resources of the PCT
- to work with GPs and HSE staff on the training and change management of multidisciplinary team working and
- to promote a coordinated approach to the delivery of the Primary Care Strategy with both providers and users of the service.

43.23 The audit survey found that 53% of PCTs reported having a designated full time TDO.

43.24 There is one consultant with a general practice background advising the HSE on the development of primary care services, including PCT development.

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344 Regional Directors of Operations have responsibility for the management of health services in the four regions of the HSE.

### *Functioning of PCTs*

43.25 PCTs have a set of core members. These usually consist of GPs, PHNs, RGNs, physiotherapists, occupational therapists and administrative personnel. A person nominated by the members usually chairs the meetings. In order to set the process in motion the TDO attends the initial meetings. The chair is usually rotated after a fixed period. Other health professionals such as speech and language therapists, dieticians, social workers and community mental health professionals were expected to be assigned to work within the HSCNs which would have linkages to the PCT and have formal working relationships with each of its members.

43.26 A PCT is considered to be operational when it is holding clinical team meetings. Clinical team meetings are the forum for the development of care plans for patients and for the assignment of a Key Worker who is the patients' single point of contact for health services. A primary function of clinical team meetings is to draw up patient care plans for individual patients. This is central to the move towards patient centered care. Based on the survey conducted in the course of the audit, 48% of PCTs reported they had no care plans.

43.27 The Accounting Officer has informed me that each patient discussed at a clinical team meeting will have a plan of care developed and that this is standard practice at all clinical team meetings. He stated that some ambiguity does exist in relation to the definition and interpretation of the terms 'plans of care' and 'care plans,' as in the disability sector, the term 'care plan' refers to a far more comprehensive process involving case conferences and very in-depth care planning[345]. For purposes of this report, a care plan was considered to be as set out below.

## Care Plan

A care plan is developed from a review of patient's needs at the clinical team meeting. These discussions generally demand multidisciplinary participation. A care plan will outline what care is required for the patient, what health professionals are responsible for that care and what actions are required. It allows for all relevant health professionals to discuss the patient together at the clinical team meeting and take action based on a holistic review of the patient.

43.28 All core members are expected to attend each meeting with at least one representative from each participating general practice. Other service professionals (such as mental health professionals) attend if their expertise is required in relation to a patient's care plan.

43.29 The audit survey found that 76% of the teams were meeting monthly or less frequently. This would militate against timely coordination of care planning.

43.30 As part of the Primary Care: A New Direction documentation, extended working hours were envisaged for teams. The audit survey found that 11% of HSE staff that replied operate extended weekday hours i.e. hours that were in excess of those operated before the PCT structure was put in place and that 3% of HSE staff that replied operate extended weekend hours.

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[345] Monthly performance reports in 2009 and 2010 recorded the number of patients/clients with a care plan. However as the Accounting Officer pointed out there is considerable ambiguity about their content. In 2011 the performance indicator used is the number of patients/clients discussed at a clinical team meeting.

## Conclusion – Change Management

There appear to be considerable gaps in the arrangements to manage the change and reconfigure the service in a way that evolves the new way of working and relating envisaged in the Health Strategy.

The audit survey results suggest that there are information deficits about the number of teams and to what extent they are functioning. Without active dynamic participation of members there is a risk that the structure and functioning envisaged will not become embedded in practice.

The HSE needs to consider how best to cost effectively facilitate the change distinguishing the appropriate resources for permanent support and those for once-off team building exercises.

It would be useful if a clear definition of a care plan in the primary care setting could be established in order to ensure that there is no ambiguity in its implementation or reporting.

## Resourcing and Location of Teams

43.31 The full implementation of PCTs would entail the reorganisation of existing staff working in the primary and community services areas from a care group model into PCTs, HSCNs and community services. At 31 December 2010, 52,348 staff worked in these three areas. 9,490 of those staff were recorded by the HSE as working in primary care. However, the primary care figures understate the extent of reconfiguration that remains to be effected as staff in other care groups such as those caring for older people will also need to be reassigned to the new primary care structure as more teams and HSCNs are resourced.

43.32 All staff, whether reassigned to PCTs or not, continue to report within the existing management structure. This indicates that much of the assignment to date has not created self organising teams but is rather a virtual organisation structure which may in time develop into a team based mode of delivery. At the accountability level there are no cost centres for PCTs. The HSE has stated that it is progressing work on the governance of PCTs and HSCNs and consulting with staff representative bodies.

43.33 It is acknowledged that all the primary care staffing categories will not be reconfigured into PCTs. However, although two-thirds of the projected number of PCTs have been established at December 2010, only 29% of staff categorised under primary care have been assigned to the new structures which would include PCTs, HSCNs and Community Nursing Units.

43.34 At 31 December 2010, the status of assignment in the four HSE regions was as outlined in Figure 170.

**Figure 170 Extent of Assignment to PCTs at 31 December 2010**

| Staff description | Current resources | Reconfigured resources | | | | |
|---|---|---|---|---|---|---|
| | | West | Dublin Mid Leinster | Dublin North East | South | Total |
| **Primary Care Teams** | | | | | | |
| Public Health Nurses (PHNs) | **1,575** | 278 | 234 | 210 | 217 | **939** |
| Registered General Nurses (RGNs) | **560** | 87 | 88 | 56 | 68 | **299** |
| Physiotherapists | **468** | 93 | 63 | 46 | 64 | **266** |
| Occupational Therapists | **476** | 70 | 63 | 49 | 44 | **226** |
| Home Helps [a] | — | 22 | 220 | — | — | **242** |
| **Other Health and Social Care Professionals** | | | | | | |
| Speech Therapists [b] | **478** | 44 | 39 | 37 | 27 | **147** |
| Social Workers | **381** | 34 | 21 | 18 | 5 | **78** |
| Dieticians | **60** | 7 | 5 | 4 | 8 | **24** |
| Psychologists | **220** | 7 | 18 | 11 | 2 | **38** |
| Porters | | — | 11 | — | — | **11** |
| Health Care Assistants | | — | 28 | — | — | **28** |
| **Administration** | | | | | | |
| Administration/Clerical Staff | **3,025** | 17 | 12 | 20 | 9 | **58** |
| **Other Staff** | | | | | | |
| Medical/Dental | **521** | | | | | |
| Director of Nursing | **28** | | | | | |
| Social Care Grades | **202** | | | | | |
| Community Mental Health Nurses | — | 20 | — | 2 | 1 | **23** |
| Director/Asst. Director PHN/Manager | **242** | 29 | 36 | 17 | 5 | **87** |
| Other [c] | **1,254** | 99 | 23 | 108 | 40 | **270** |
| **Total** | **9,490** | **807** | **861** | **578** | **490** | **2,736** |

Source: HSE Census Unit

Notes:
a Home help staff are not included in the census returns.
b Speech therapists can be members of teams in some cases.
c These include other health and social care professionals and general support staff.

43.35 Based on team norms set in August 2008 which exclude GPs and their support staff for accommodation purposes, the actual resources in place falls well short of that projected as outlined in Figure 171.

**Figure 171 Primary Care Team Staff Resources at 31 December 2010**

| Staff description | Planning norm | Average team resources[a] | Proportion of resources in place |
|---|---|---|---|
| Public Health Nurses/ Registered General Nurses | 5 | 3.54 | 71% |
| Physiotherapists | 1 | 0.76 | 76% |
| Occupational Therapists | 1 | 0.65 | 65% |
| Speech Therapists[b] | 1 | 0.42 | 42% |
| Home Helps | 3 | No figures available | |
| Social Workers | 1 | 0.22 | 22% |
| Health Assistants | 3 | No figures available | |
| Administration/Clerical Staff | 5 | 0.16 | 3% |

Source: Health Service Executive

Notes: a Actual resources are derived from data supplied by the HSE as set out in Figure 170.

b Speech therapists are normally members of the HSCN rather than the PCT.

## *General Practitioners and PCTs*

43.36 According to the Irish College of General Practitioners (ICGP) there are over 3,000[346] GPs in Ireland. GPs are independent practitioners and self-employed[347]. Currently, GPs join PCTs on a voluntary basis. Achieving 100% GP involvement and enrolment in existing and new PCTs does not appear imminent. The HSE estimate that 100 GPs have declined to join a PCT. Reasons cited to the audit team for this non-engagement was lack of time, funding and IT communication.

43.37 The HSE statistics record a PCT as operating when at least one GP has agreed to participate in the team and attends a clinical team meeting. Participation is dependent on the GP formally agreeing to participate[348] and to having the GP's patients discussed at clinical team meetings. PCTs continue to be counted as an operating PCT, even if the GPs have ceased to attend the clinical team meeting. Consequently, the number of functioning PCTs is likely to be overstated since only 54% of PCTs reported that all GP practices in the PCT had a representative regularly in attendance at clinical team meetings at 31 December 2010.

43.38 A number of PCTs have no GP involvement. However, notwithstanding the non participation of GPs, HSE staff may operate as a team in their absence. Such teams are not included in the statistics for operating PCTs and are regarded as under development. In December 2010, there were 31 teams holding clinical team meetings without any GP involvement. Apart from encouraging greater GP participation there is considerable change demanded of HSE staff who have, heretofore, worked in their separate care groups.

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[346] ICGP estimate that their membership would include over 90% of practicing GPs in the Republic of Ireland.

[347] The General Medical Services (GMS) Scheme was introduced in 1972 to provide free GP services for public patients. The scheme was last revised in 1989.

[348] As part of this process, a GP may have attended development meetings and introductory team meetings prior to the commencement of first clinical team meetings.

43.39 There are certain resourcing anomalies in that a further set of staff involved in primary care are employed by GPs. GPs may employ staff nurses and administration staff. They receive allowances from the General Medical Services scheme towards the cost of secretarial and nursing staff. Grants may also be provided towards the cost of practice premises.

## Conclusion – Resourcing of Teams

The assignment of staff to teams has not been fully progressed. As yet, there does not appear to be sufficient resources assigned to teams especially in the areas of occupational therapy, speech therapy, social workers and in administration.

The HSE should definitively decide the categories of staff that will be assigned to the new configuration based on a detailed analysis of its employment census reports. There has not yet been a change at the level of control and management that would put PCTs at the centre of primary care delivery. Most staff are still managed through existing structures.

Thought needs to be given to the future direction, coordination and control of teams. It is unlikely that fundamental change will occur in the absence of a new management structure.

Some GPs have not joined a PCT and some that had initially joined do not take part regularly. It would be necessary to ensure that changes required to facilitate team based primary care be taken into account in future contractual arrangements.

54% of PCTs reported that all GP practices in the PCT had a representative regularly in attendance. In the remainder, it is difficult to see how team effectiveness would not be affected by their absence. It would be useful to monitor the extent that GPs are attending clinical team meetings.

### *Diagnostic Resources*

43.40 In order to be the appropriate setting for the bulk of the health service needs of the population, a key requirement would be that a PCT be in a position to access a wide range of diagnostic and treatment services. It was noted from the survey that 50% of all PCTs that replied provided some minor surgery. In the course of the audit, the range of services that are currently provided by PCTs, either within a Primary Care Centre or through direct access to other local facilities (for example a local hospital) was established. Figure 172 sets out the detail.

**Figure 172 Services available to PCTs at 31 December 2010[a]**

| Diagnostic and treatment description | Equipment located in PCTs own base[b] | Direct access at other facility (Including hospital) | No current direct access[c] |
|---|---|---|---|
| | % | % | % |
| X-Ray | 3 | 84 | 13 |
| Ultra-sound | 5 | 78 | 17 |
| CT Scan | — | 68 | 32 |
| Bone Density Measurement | 8 | 67 | 25 |
| Spirometers | 27 | 49 | 24 |
| Phlebotomy | 37 | 49 | 14 |
| STD Screening | 22 | 62 | 16 |
| ECG | 35 | 51 | 14 |

Source: Survey of PCTs

Notes: a The number of teams responding ranged between 209 and 250.

b The PCT base refers to the Primary Care Centre, GP Surgery or Health Centre in which the PCT is based.

c Direct Access means that a GP can have direct access to the diagnostic facilities in a hospital or other facility without consultant input.

## Conclusion – Diagnostic Resources

Most PCTs rely for the bulk of diagnostics on local hospitals. Even then, a good proportion reported that access to these services is through a consultant.

### *Co-location of PCTs*

43.41 A prerequisite to optimal functioning of PCTs is that all services are located at a common centre. At 28 February 2011 the accommodation status of the PCTs that are holding clinical team meetings is set out in Figure 173.

**Figure 173 Primary Care Team Status at 28 February 2011**

| Description | % of Overall |
|---|---|
| Team fully co-located (all members of the team in the same building) | 8% |
| PCT not fully co-located while awaiting completion of a centre under development | 21% |
| All HSE staff members co-located but GPs not in the same building | 19% |
| HSE staff not co-located and GPs not co-located | 45% |
| Other (HSE staff & GPs located in more than one building) | 7% |
| **Total** | **100%** |

Source: Health Service Executive

## Conclusion - Location

Only 8% of PCTs are currently fully co-located. It is estimated that 29% will be co-located if current accommodation development projects are completed.

In some circumstances, geographic and population dispersal factors may dictate that a PCT may need to operate from a number of different locations. The accommodation and operating implications in such situations (e.g. rotation and timetabling of services) should be articulated.

Chapter 44 reviews the development of accommodation to support PCTs in more detail.

## Linking Primary Care Services

43.42 The integration of primary care would entail linking

- GPs with other team members
- PCTs with other PCTs
- PCTs with members of the HSCNs
- PCTs with hospital services
- Out of Hours services with the PCT to the extent possible
- Community Intervention Teams (CITs) with the PCT.

43.43 Matters noted on audit included

- IT infrastructure is seen as a major block for sharing of information between GPs and other team members. For instance, GPs physically write a referral to other PCT members.
- Communication with hospitals is still not seen as adequate in that only 13% of PCTs reported that there was adequate communication from the hospitals regarding discharge and 43% reported that there is a liaison nurse/officer in place at the local hospital with responsibility for channelling communication to the PCT.
- No formal linkage between PCTs and the Out of Hours service has been established.
- Less than half of the PCTs that have a CIT in their areas reported that formal communication channels had been set up between the CIT and the PCT.

43.44 Communication continues to be an area needing development as is indicated by the survey results set out at Figure 174.

**Figure 174 Level of ICT Development [a]**

| Description | Yes % |
|---|---|
| PCT (GPs, GP staff or HSE staff) able to electronically refer patients to a hospital | 23 |
| PCT has the facility to send X-Rays electronically to hospitals or other primary care professionals | 1 |
| PCT has the facility to receive X-Rays electronically from primary care professionals or service providers | 13 |
| PCT has electronic/other communication channels set up with the local hospital to relay urgent information (for example to indicate when the hospital emergency department is at maximum capacity) | 6 |

Source: Survey of PCTs.

Note: a The number of PCTs responding to each question ranged from 255 to 259.

43.45 The capacity to share information is a prerequisite to efficient working. 6% of PCTs that replied to the audit survey reported that electronic files were stored on a shared server network within the PCT. Only 28% were reported as having secure email.

## Conclusion – Linking Primary Care Services

Considerable work remains to be done in order to ensure that primary care services are coordinated, team members linked through secure electronic communication that protects patient confidentiality and linkage with hospitals improved.

One possibility identified in the course of the audit was extending the use of the Healthlink system. The Healthlink system is a secure electronic communications system funded by the HSE and available free of charge to all GPs. Its services include the electronic communication to GPs of laboratory results and outpatient appointment updates. GPs can also send referral notices to secondary care providers over the system. The Accounting Officer has informed me that the HSE is now piloting the use of the Healthlink system for PCTs.

## Conclusion

The change involving movement from care groups that are structured as separate functions into primary care teams and networks is progressing slowly with the bulk of primary care staff not configured into the new mode. Currently, PCTs are designated as operational when they are holding meetings but the team basis of working has yet to take effect with only

- 54% of teams reporting that all GP practices in the PCT had a representative at meetings on a regular basis
- 52% of teams reporting that they have care plans in place.

In general, a considerable amount of work remains to be done to ensure that primary care

- is managed on a team basis
- has embedded systems of team working
- moves to a model that achieves efficiencies and effectiveness through improved shared care arrangements.

It is estimated that 29% of teams will be co-located if current accommodation developments are completed. Chapter 44 reviews the arrangements for the provision of primary care centres.

# Chapter 44

# Development of Primary Care Centres

Vote 40 Health Service Executive

# Development of Primary Care Centres

44.1 As outlined in Chapter 43, it is planned that area-based Primary Care Teams (PCTs) will be established across the country. A key HSE objective for PCTs is that the full team – general practitioner (GP) practices and HSE primary care and support staff – be co-located or in reasonably close proximity. The main perceived benefits of co-location are that it

- provides easier access for patients and carers to the range of services they require
- facilitates team consultation and communication, thus ensuring more holistic and efficient treatment
- has the potential to deliver savings and increased efficiency.

44.2 When the concept of development of PCTs was formally proposed in 2001, it was envisaged that the capital costs of accommodating teams would be in the range €1 billion to €1.5 billion (in 2001 prices) – around €2.5 million for each team. This was a broad projection of costs, in the context of a plan to provide accommodation for 400 to 600 PCTs by 2011, serving two thirds of the population of the State. Use of public private partnership (PPP) was flagged as one of the options for providing the required accommodation.

44.3 There was little progress in the development of centres to accommodate PCTs by 2007. Proposals for a programme to develop a network of primary care centres were included in the National Development Plan (NDP) 2007-2013. This indicated that capital funding for the primary care centres would be provided according to local circumstances and service needs and a range of approaches to the provision of the required new infrastructure would be taken. The options included

- 100% State-funded facilities
- joint projects with other interests involving a lesser degree of State contribution
- the HSE becoming a tenant in a third-party owned facility with no requirement for State capital investment.

44.4 In December 2007, the HSE advertised for expressions of interest by private developers for the provision of primary care centre accommodation in 131 locations on a lease basis. Ten pilot locations[349] were initially selected for development of primary care centres under lease arrangements. In July 2008, the HSE published another advertisement seeking expressions of interest for further locations, bringing the total of advertised target locations to 259.[350] The HSE has indicated that traditional procurement means may be used in certain circumstances – for example, for small rural centres – but its preferred means of procurement of primary care centre accommodation is through leasing.

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349 The selected pilot locations were: Letterkenny, Trim, Kinsale, Kilkenny, Newtownmountkennedy, Portarlington, Adamstown, Roscommon town, Ballina and Galway city East.

350 Some locations appeared on both the 2007 and 2008 lists, because the first invitation did not result in suitable proposals being submitted.

44.5 The HSE currently distinguishes between a core PCT and an extended PCT. These are comprised as follows

- core teams include GPs, public health nurses, registered general nurses, physiotherapists, occupational therapists and home helps
- extended teams include additional practitioners as required to meet the needs of the target population, and could include members such as a chiropodist and a community pharmacist, as well as specialists such as dieticians, dentists and orthodontists.[351] Community mental health services are being included in extended teams in certain centres.

44.6 PCTs have reported that, in many cases, community health needs assessments were not carried out in advance to identify locations where extended PCT teams were needed.

### Chapter Focus

This chapter examines

- the progress made to date in accommodating PCTs
- how the options for provision of accommodation were evaluated by the HSE
- the administration of the preferred option, which was leasing of accommodation.

## Accommodating Primary Care Teams

44.7 Achieving the aims of the primary care centre development programme would involve accommodating primary care service delivery in a way that facilitated patient access and efficient team-based delivery.

44.8 The primary care centre programme was developed in a context where the existing arrangements for accommodation of primary care services were varied.

- In general, GP practices provided their own accommodation in premises they selected. The GPs were responsible for payment of all the costs of that accommodation.
- In a small number of cases, GP practices occupied accommodation provided by the HSE, mostly without a formal contract being in place between the HSE and the practices concerned.
- HSE staff involved in the delivery of primary care services and supports in specific geographic areas were located in premises, either owned by the HSE or occupied under a variety of lease agreements.

44.9 By end 2010, a total of 24 primary care centres were operational (see Figure 175). A further 33 centres were in the course of construction. The HSE expects 20 of these to be completed and operational by end 2011 i.e. a total of 44 centres.

351 Specialist practitioners could serve a number of PCTs in an area, including PCTs at separate locations.

**Figure 175 Development of Primary Care Centres at end December 2010**

| Status of primary care centre | Developed by HSE | Developed under lease | Total |
|---|---|---|---|
| Operational | 10[a] | 14[b] | 24 |
| Under construction/agreement to lease | 3 | 30 | 33 |
| Being planned/letter of intent issued | — | 83 | 83 |
| **Total active projects** | **13** | **127** | **140** |
| Negotiations commenced | — | 88 | 88 |

Source: HSE Estates

Notes: a Three centres were purpose built. The others were existing HSE facilities that required limited adaptation for use as primary care centres.

b Includes three properties leased prior to the current leasing programme.

44.10 The NDP 2007-2013 envisaged investment in accommodation for 500 PCTs by the end of 2011. By the end of 2010, a total of 29 PCTs had been accommodated in the 24 operational primary care centres. The HSE currently expects that a total of 59 PCTs will be operating from 44 primary care centres by the end of 2011. If all active projects are completed as planned, there will be 140 centres accommodating around 200 PCTs.

44.11 The lead times for delivery of four centres being leased were examined. All four projects received HSE Board approval in September 2008 or in the first quarter of 2009. Two had opened by end 2010. A third centre was due for occupation by July 2011. In the fourth case, the project reached ‘agreement for lease’ stage in October 2010, with an agreed target opening date at end 2011. The agreement provided for a planning application to be submitted in November 2010, and for additional design documents to be provided in December 2010, but both deadlines were missed. The HSE has stated that construction work is now underway and that it expects the premises will open by end 2011.

44.12 The HSE has stated that the expected elapsed time from signing of the agreement for lease to completion of a centre (and lease term commencement) was around 30 months. This allowed for planning (12 months), procurement (about three months), construction (12 months) and a time contingency of three months. In practice, ongoing constraints around the availability of funding for developers have typically added a further six to nine months to the elapsed time to completion i.e. 36 to 39 months from signing of the agreement to lease. This is in addition to the time required to negotiate the deal, prior to signing.

## *Progress in Co-Location of Services*

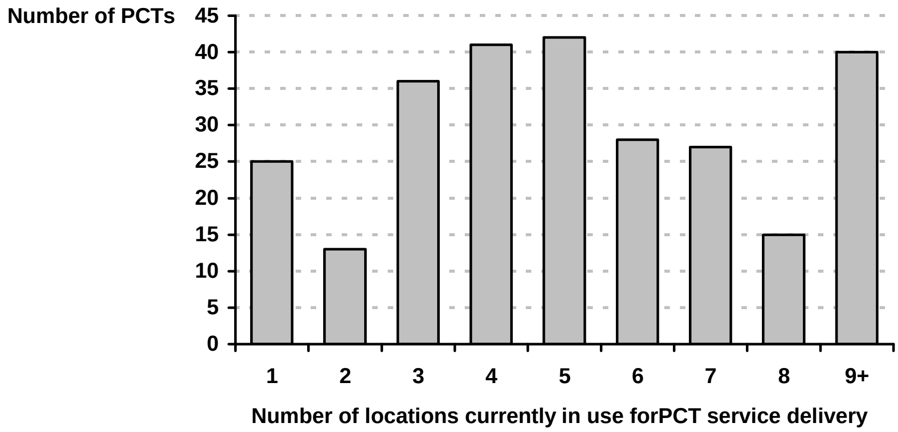
44.13 Co-location of PCT services has been a key objective of the HSE’s since the inception of the PCT strategy, in line with international best practice for primary care delivery[352].

44.14 In practice, PCTs are being formed in advance of single-location centres being provided. While developments in information and communications technology (ICT) have provided opportunities for better integration and exchange of information between team members at separate locations, the location of services remains a key factor in the access by patients to services and in facilitating team-based delivery.

[352] However, the HSE has stated that a patient registered with a GP practice in one PCT may receive certain services (e.g. home help) from another PCT, where service delivery is based on the patient’s place of residence.

44.15 Figure 176 shows the number of PCTs that report operating out of multiple locations at end 2010. Only 25 (9%) said they were currently providing services from a single location. 193 PCTs (72%) reported they were working from more than three locations currently.

**Figure 176 Number of Locations used by PCTs for Delivery of Primary Care Services, end 2010**




Source: Survey by Office of the Comptroller and Auditor General (267 responses)

## Conclusion – PCT Accommodation

The development of primary care centres and the co-location of PCT staff is lagging well behind schedule.

While it is accepted that there can be situations where a PCT will operate from a number of locations – for example, where the target population is widely dispersed over a large geographic area – the very large number of locations currently in use for delivery of primary care means that the planned centralisation of PCT services in the communities they serve has substantially not yet been achieved.

## Appraisal of Accommodation Provision Options

44.16 Department of Finance guidelines require comprehensive economic analysis to be carried out in advance of commitments being made on major capital projects or programmes. This analysis should assess the policy options in a balanced way, including an evaluation of whether the proposed investment is socially and/or economically worthwhile and if so, what is the most economically advantageous way of carrying it out.

44.17 The HSE Estates Unit carried out an appraisal of the options for development of primary care centres, which was completed in August 2008. The report on the appraisal was submitted for consideration by the HSE Board in September 2008, along with proposals for approval of lease offers in 38 locations.

### *Options Considered*

44.18 The appraisal report outlined five options for delivery of accommodation for a single PCT. These were

- do nothing or do the minimum – under this option, services would continue to be provided in the existing facilities (option 1)
- replace existing HSE health centre accommodation – accommodating only HSE services and staff, with GPs continuing to provide their own accommodation elsewhere (option 2)
- construct a new primary care centre, including provision of accommodation for the GP practice, rent free (option 3)
- construct a new primary care centre, including provision of accommodation for the GP practice at full market rent rates (option 4)
- leasing of the space required by the HSE in a privately developed primary care centre (option 5).

44.19 The appraisal sought to simultaneously weigh up a number of procurement and operational elements. These included

- the cost effectiveness of alternative methods of procuring a (centralised) primary care centre
- the benefits of centralising PCT–based primary care for a community into a single centre, compared to continuing with a dispersed delivery model
- whether or not to charge GPs for their practices' accommodation in HSE-owned centres.

44.20 This combination of operational and policy issues made it difficult to separate out the implications of the accommodation procurement options for expected benefits and for HSE costs. Despite the range of issues covered, the options analysed in the evaluation report did not capture some key procurement and service configurations that have emerged in practice.

- The option of combining a number of primary care centres into bundles for procurement – whether by direct HSE procurement, through a lease or a PPP – was not considered in the appraisal. The HSE has stated that this was discussed but was not considered a feasible option due to the complexities of dealing with different groups of GPs in different locations.
- The relative costs and benefits of co-locating a number of PCTs in single primary care centres were not assessed, even though it was expected that some centres would accommodate two or three PCTs.
- There was no assessment in the appraisal report of the likely impacts on cost or benefits of different service configurations — core versus extended teams, or different combinations of services e.g. whether or not to incorporate mental health services.

### *Appraisal Methodology*

44.21 The procurement options identified in the appraisal were scored based on an assessment of the relative benefits they were expected to deliver under six headings: clinical effectiveness, clinical efficiency, quality of facilities, patient accessibility, information management and technology, and speed of delivery of infrastructure. Under each heading, options were assessed broadly as to the expected level of benefits they would deliver[353].

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353 Integer scores on a scale of 0 to 6 reflected assessments of benefit achievement as follows: none, some, less than half, half, all with some risk of failure, all with no risk of failure.

44.22 The appraisal report presented the projected costs of each of the options using a 25-year discounted cashflow model. For options where new accommodation was to be provided, the costing model assumed that HSE staff and services would require 990 $m^2$ of space and that the related GP practice would require 505 $m^2$. This implied a total primary care centre size of 1,495 $m^2$.

## Outcome of the Appraisal

44.23 The appraisal report concluded that, in terms of the potential health and service benefits, the optimum strategy for delivery of PCT accommodation would be for the HSE to build all primary care centres across the country, and to provide free accommodation to GPs. However, the cost of this strategy was identified in the report as being over €1 billion more than a strategy of leasing the primary care centre space the HSE required from the private sector – identified in the report as GPs and/or developers. Because the private sector/leasing approach was assessed as delivering almost the same benefits as the HSE-build option but at lower cost, it was recommended for adoption by the HSE Board.

## Review of the Appraisal

44.24 The assessment of the benefits did not quantify the expected impacts of the various accommodation options on the operation of the PCT and on the service users. For example, impacts on patient travel time, numbers treated, patient waiting times or medical outcomes were not quantified.

44.25 The cashflow analysis was presented without building in inflation. This was not consistent with the discount rate used[354]. As a result, it favoured the lease option over other options where most of the costs would be front-loaded.

44.26 It was assumed that the operating costs of the PCT would be the same for all the identified options, and consequently, they were not factored into the analysis. In practice, the nature and timing of costs borne by the HSE in respect of the PCTs' operations are likely to be different depending on the way accommodation is provided. As a result, it is not clear that the cost analysis properly differentiated between the procurement options.

44.27 The costing model also assumed that, under option 5, leased premises would be available to the HSE at a market rent of €258 per $m^2$ but with a discount of 18% i.e. €212 per $m^2$. [355] It was assumed under option 1 that the HSE would pay rent at the rate of €258 per $m^2$, and under option 4 that GP practices would pay rent to the HSE at the same rate.

44.28 It was assumed in the appraisal that the HSE's cost of construction of a primary care centre would be around €4,520 per $m^2$ (excluding VAT) but no details were given of the composition of that rate. The report stated that the rate was derived from information presented in tender proposals received by the HSE for construction of primary care centres or similar facilities procured directly. Based on this assumption, the total cost of construction of a one-PCT primary care centre would be €6.76 million.[356]

44.29 The HSE's appraisal included a test of the sensitivity of the projected costs of options to lower construction costs (€3,165 per $m^2$) and to a lower discount rate. It concluded that the results of the analysis were robust, since there was '*little alteration to the ranking of the options*'. However, the cost differences between the options were much narrower, which means that the policy choices to be made were less clear cut, and the reversal of the option rankings that occurred in one scenario was not explored.

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[354] The selected discount rate — 4.6% — was based on long-term German Government bond rates in mid-2008. At that time, the spread between the Irish and German bonds was around 0.4%.

[355] These rates were stated in the evaluation report to have been derived from the deals agreed in the pilot locations.

[356] Site costs were assumed to be €1 million, which brought the projected cost for the centre to a total of €7.76 million.

44.30 The HSE's analysis of the cost of the various options also assumed that HSE-built accommodation would have no residual value at the end of 25 years, on the basis that refurbishment of the primary care centre at around year 15 would not be carried out. Given the assumed high construction cost, this was unrealistic. The cost of refurbishment at year 10 was included in the projected cost of option 1.

44.31 Apart from the 2001 projection of a ten-year programme costing €1 billion to €1.5 billion (in 2001 prices), the HSE has not published any estimates of the overall costs of the primary care centre programme. Based on its assumed cost of construction of HSE-owned centres (€7.76 million), the full capital cost of a primary care centre network of 350 to 400 centres[357] would be in the region of €2.7 billion to €3.1 billion. The appraisal report did not scale up the costs of the delivery options to project the overall cost of the primary care centre programme, and no consideration was given in the appraisal report to the affordability of the programme, or the expected impact on HSE budgets.

## Conclusion – Appraisal of Provision Options

A detailed economic appraisal should have been carried out by the HSE before it launched its leasing programme. In the event, it was completed after leasing proposals had been invited from developers for 259 locations, but before letters of intent to take up lease offers were issued.

The HSE's evaluation of the options for procurement of primary care centres was deficient in a number of respects.

- The assessment of benefits did not quantify the expected impacts of the various accommodation options on service users or on the operation of PCTs.
- The assumptions used in projecting costs were not adequately substantiated.
- Some options for provision, such as procurement of centres as bundled PPP projects, were not explored.
- The scale of cost of the programme, and its likely affordability in the context of the HSE's overall budget, were not addressed in the evaluation.

Overall, these deficiencies would indicate that the appraisal carried out fell short of what would be required to guide decision-making in relation to a capital programme worth substantially in excess of €1 billion.

## Leasing of Primary Care Centres

44.32 The process developed by the HSE's Estates Unit for procuring a primary care centre through a leasing arrangement involved several stages. The key stages planned were

- public invitation of proposals for the provision of leased accommodation in specified locations (usually towns or specific suburbs of cities)
- evaluation of the proposals received in response to the invitation to submit expressions of interest to identify a preferred proposal (if any)
- the issue by the HSE of a letter of intent to the developer of the preferred proposal on indicative costs terms, allowing negotiation on and planning for a centre to proceed

[357] Because some centres accommodate more than one PCT, a total of around 350 to 400 centres could accommodate the national target of a network of 500 PCTs.

- signing of an agreement for lease, which commits the HSE to proceed with a proposal on agreed rental and service charge terms, subject to delivery according to agreed specification and stated conditions
- signing of lease, when the centre is ready to begin operation.

44.33 Under the leasing model, it was envisaged that the HSE would lease space for its own staff and services, and that the GP practices involved in the related PCTs would separately lease adjacent space for themselves. Accordingly, where a lease proposal was found to meet the HSE's criteria, the HSE required the relevant developer to secure signed declarations of interest from a minimum of three GPs registered with the General Medical Service (GMS) who were interested in co-locating with the centre. However, the declarations were not binding on the GPs or practices that signed them. Furthermore, the same GP or practice could provide declarations to a number of developers. A developer unable to provide signed GP declarations of interest was eliminated from the process.

44.34 Over 900 expressions of interest were received centrally by the Estates Unit in response to the two invitations of expressions of interest in December 2007 and July 2008. The proposals received were reviewed by the Unit to establish that certain specified criteria were met, including the suitability of the proposed location for the centre.

## *Rental Rates*

44.35 The HSE's 2008 guidelines for primary care centre leases outlined certain proposed commercial terms for the leases, which influence the likely rent to be paid. These included

- a lease term of 15 to 35 years, with an option to renew at the end of the lease – in practice, the standard lease term agreed is 25 years
- no break clause during the term of the lease (other than the HSE having an option to break the lease if GMS GP practices cease to be accommodated at the centre)
- rent levels at a significant discount to market rates
- rent reviews based on a link to the consumer price index (CPI) rather than market rents[358]
- a service charge payment to the developer, in addition to the rent, to cover routine maintenance, energy supply, cleaning, security (if necessary) and other identified services.

### *Market Benchmarking of Rents*

44.36 The Estates Unit commissioned an estate agency firm in 2008 to advise on the market rates for 'shell and core' office accommodation that prevailed in each of the locations where developers' proposals were being assessed. While internal fitting-out requirements for primary care centres would be somewhat different from those required for standard modern offices, the basic building type and related building services is similar.

44.37 The Estates Unit estimated that the additional cost of fitting out the shell and core accommodation to suit primary care centre needs would cost around €75 per $m^2$. In addition to normal fitting out costs, this includes requirements such as additional partitioning for separate offices, treatment areas and public waiting areas, and installation of water/waste water in treatment areas. The allowance for fitting out was added to the market rate advised by the estate agents to arrive at HSE assessed benchmark rents.

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[358] In many of the target locations for primary care centres, there may be only a very limited market for commercial property and therefore little information about market rate upon which to base a rent review. A link to the CPI is a more certain basis for review.

44.38 The Unit submitted spending proposals in relation to lease offers for HSE Board approval on eight occasions between July 2008 and July 2010. The assessed benchmarks shown for each batch of proposals tended to be within relatively narrow bands, with some outliers in individual cases. As Figure 177 indicates, higher rates generally were assessed for Dublin locations when compared to provincial locations. The spread of assessed rents between the different location types represents a lower rate of variance than is typical of the property market.

44.39 The HSE's assessed benchmark rates declined from their peak by around 22% for Dublin locations and by around 32% for provincial locations.[359] Based on published benchmarks, market rental rates for shell and core office property declined by 25% to 33% over the period.[360]

**Figure 177 HSE Benchmarks for Primary Care Centre Rents, 2008 to 2010**

| Date of submission to HSE Board | Number of locations assessed | HSE assessed benchmarks[a] (per m²) | |
|---|---|---|---|
| | | Greater Dublin locations | Provincial locations |
| July 2008 | 4 | None | €226 to €242 |
| September 2008 | 38 | €253 to €291 | €253 to €258 |
| January 2009 | 44 | €258 to €269 | €237 to €258 |
| February 2009 | 41 | €242 | €242 – €255 |
| March 2009 | 17 | €237 to €269 | €237 |
| June 2009 | 13 | €235 | €221 |
| November 2009 | 18 | €215 to €258 | €205 to €215 |
| July 2010 | 28 | €188 to €238 | €161 to €188 |

Source: Estates Unit submissions to HSE Board

Note: a Some of the ranges shown exclude a small number of untypical/outlier values.

### *Rent Discounts*

44.40 Market rate analysis of property rentals distinguishes between 'headline' rates – in effect, the landlord/property owner's asking price and achieved (or effective) rent levels, which often involve discounts on the asking prices. The level of discount and the manner of its application may vary – frequently, it is given as a rent holiday at the start of the lease period, so as to preserve the nominal rent amount in the lease. The discounts that may be provided typically depend on factors such as local supply and demand, duration of lease and size of property.

44.41 Because achieved rent levels emerge from negotiations and are usually not published, they are more difficult to identify than headline rates. However, a reputable market analysis report stated that the level of inducement increasingly available for prime Dublin offices in mid-2008 was six months rent free at the start of a five-year lease – effectively a 10% discount up front[361]. Following significant weakening in market demand for office property by mid-2010, inducements in the prime Dublin market had reportedly increased to two months per year of the certain term of a lease – an effective discount of around 17%. Such incentives were reported also to be available in the Dublin suburban office market.

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[359] Changes in rates are calculated using mid points of ranges.

[360] See for example, DTZ Sherry Fitzgerald periodic property market bulletins.

[361] Higher discount rates could be expected for longer leases.

44.42 The HSE's 2008 guidelines for development of primary care centres specified that developers' cost proposals must reflect a significant discount on local market rates for each location. Internally, a target minimum of 18% discount was specified. This was applied to the HSE's assessed benchmark rates reported above, to generate a ceiling for the rent level in each location, which was then approved by the HSE Board. In general, the rents agreed for individual leases were under the ceiling values set by the Board.

44.43 In January 2011, the HSE Board approved a proposal from the Estates Unit to reduce the discount level applied in setting the ceiling rent for individual locations from 18% to 5% 'in light of the current market conditions'. This represented an increase of around 16% in the level of rents the HSE was willing to pay for rent of centres, and reversed a significant part of the decline in benchmark rents, which had been tracking commercial rents in the market.

44.44 The HSE has stated that the reduction in the discount sought was necessary because the commercial rental market is at rock bottom and office shell and core accommodation can now be leased at well below cost. It considers the market is also skewed by a large stock of available office accommodation in business parks in locations which are of little value for primary care centres. It stated that most proposed primary care centres are new developments which can not be delivered for the market rate for office accommodation.

## *Rent and Service Charge Agreements*

44.45 Many of the lease deals currently in negotiation were approved by the HSE Board in 2008 or 2009, based on assessed rent levels at that time. For this reason, rent and service charge levels agreed may overcompensate developers for the costs of construction, which have fallen significantly since 2008. However, developers' costs of finance for projects may have increased.

44.46 The audit examined the rent agreements in four locations to establish how the lease rental costs compared to the benchmark market rates. The outturn is presented in Figure 178.

**Figure 178 Benchmark and Achieved Rent and Service Charges Rates, Selected Centres**

| Primary care centre | Shell and core market rates[a] | HSE assessed benchmark[b] | Achieved rent | | Service charge |
|---|---|---|---|---|---|
| | per $m^2$ | per $m^2$ | per $m^2$ | implied discount[c] | per $m^2$ |
| Ballyogan | €150 to €194 | €269 | €237 | 12% | €55 |
| Carlow | €161 to €172 | €242 | €199 | 18% | €50 |
| Gorey | €140 to €161 | €253 | €207 | 18% | €44 |
| Mulhuddart | €172 to €215 | €258 | €207 | 20% | €54 |

Notes: a Assessments by Savills (commissioned by HSE). Rates relate to late 2008/early 2009.
b Includes allowance for fitting out.
c Percentage difference between achieved rent and HSE assessed benchmark.

44.47 In most cases, the agreements with landlords on service charges are based on a set rate per $m^2$ (subject to increases in line with CPI). In the cases examined, the rate agreed or achieved for service charges equates in broad terms to 20% to 26% of the rent level (see Figure 178).

44.48 The HSE acknowledges that the initial service charge rates may be high relative to market rates. However, it states that by agreeing on set rates per $m^2$, rather than variable rates reflecting management company costs, the amounts payable will not be subject to fluctuation e.g. where high cost maintenance such as lift replacement is required. It also expects not to be liable for charges in respect of dilapidations at the end of the lease term.

### *Rate Increases*

44.49 Three of the four leases examined provide for rent review every five years by reference to the CPI. Under the fourth lease – in respect of which negotiations commenced prior to the lease programme being advertised – the review is related to market rents. In three cases, the review is upward only. In one case, rent levels will adjust up or down in line with CPI movement.

44.50 The HSE has stated that prior to the prohibition of upward only rent reviews with effect from 1 March 2010, agreements to lease generally provided for upward-only rent reviews. Accordingly, the related leases kept this condition, even when they were signed after 1 March 2010. The HSE also stated that lease review by reference to CPI will save money, since the adjustment is technical and will not require professional evaluation and/or mediation.

### *GP Rents*

44.51 The contractual requirement for developers of primary care centres to ensure that PCT GPs are operating from the same premises potentially gives GPs considerable bargaining power in agreeing the terms of their own leases. Because these are third party arrangements, no information is available about the level of rents and/or service charges being paid by GP practices for space they occupy in primary care centres adjacent to HSE premises.

### *Overall Cost of Leases*

44.52 The rental commitment for the primary care centres operational at 31 December 2010 is €2.76 million a year (excluding VAT)[362]. Upon completion of 30 further facilities for which an agreement for lease has been signed, the annual lease cost will rise to €9.9 million a year (excluding VAT). This implies an average lease cost per centre of around €230,000. Including service charges (also based on floor area), the average cost is in the region of €276,000 per centre per year.

### *VAT on Leases*

44.53 In addition to the rent payments, the HSE has paid lump sums at the commencement of certain primary care centre leases in respect of VAT. The HSE sought legal advice on the issue following changes in the VAT regime with effect from 1 July 2008 that affected the charging of rent on property leases. The advice received outlined the situation as follows.

- Following the changes, landlords have the option of applying VAT to rents. This is generally done in the case of commercial leases. Accordingly, the landlord recovers VAT on his/her expenditure, and charges VAT on the rent due. Commercial tenants can recover VAT so VAT paid on the rent does not represent a cost.
- Like most public bodies, the HSE cannot recover VAT. Consequently, VAT charged on rent would represent a cost to the HSE.

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[362] This figure excludes the lease cost of the Ballymun Healthcare Facility for which the HSE agreed a finance lease prior to the current lease programme. The Facility accommodates other HSE staff in addition to the PCT.

- Since VAT on rent is charged at a rate of 21.5% (from 1 December 2008) and VAT on subcontractor's services provided to developers is 13.5%, it would usually be more economical for the HSE to agree with the landlord that VAT would not be charged on rent, and instead to compensate the landlord for the irrecoverable VAT. This compensation could be paid through an up-front once-off payment or through payment of a higher rent over the term of the lease (or a combination of both).
- Tax implications for the landlord (depending on the payment method used) and/or exercising a break option during the term of the lease would complicate the calculation of the optimal approach.

44.54 In two of the cases examined, the HSE agreed to pay a lump sum to the landlords in respect of VAT refund foregone. In one case, the payment was €230,000, in another, the amount was €203,000. This reflects the cost of construction of the accommodation being leased.

### *Norms for Space Procurement*

44.55 The HSE's 2008 guidelines for developers of leased centres indicated the approximate space to be provided for the HSE's own services in each primary care centre by reference to the number of associated PCTs (see Figure 179). GP practices were to acquire their own space in the development under separate arrangements with the developer. The HSE and the GP practice(s) were expected to share the costs of common areas such as reception, children's play room, lobbies, toilets, stairs, lifts and stores.

**Figure 179 HSE Space Requirement Guideline for Primary Care Centres (2008)**

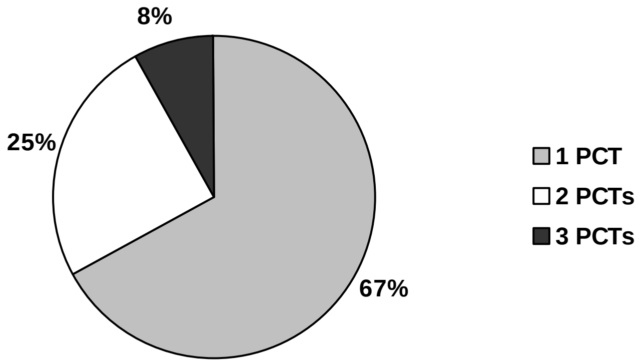
| Number of collocated PCTs | Space for HSE services | Shared space[a] |
|---|---|---|
| 1 | 546 to 670 $m^2$ | 364 to 536 $m^2$ |
| 2 | 739 to 836 $m^2$ | 466 to 605 $m^2$ |
| 3 | 1,030 to 1,128 $m^2$ | 518 to 647 $m^2$ |

Source: HSE Guidance Document for Primary Care Developments (July 2008)

Note: a HSE liability for costs of shared space based on a proportionate share of the overall area, including GP accommodation.

44.56 Figure 180 indicates that of the primary care centres operating or in planning at end 2010, two thirds were expected to accommodate only one PCT. A quarter of the centres were expected to provide for co-location of two PCTs. One in twelve of the centres were expected to accommodate three PCTs together.

**Figure 180 Primary Care Centres in Operation or in Planning at end 2010, by Number of PCTs Co-located**




Source: HSE Estates database of primary care centres (228 centres)

44.57 While PCTs with extended teams would require additional space relative to core-team PCTs, the HSE did not indicate the number or kind of team that were to be accommodated in the locations advertised. However, the ranges in the space guidelines allow for different HSE team sizes and service configurations. They also reflect expected greater economy in the use of space in centres accommodating two or three co-located PCTs.

44.58 The HSE's current policy is that each PCT will serve an area with a population in the range 7,000 to 10,000.[363] The range takes account of the primary care needs of the population in a particular area, which vary depending on factors such as age profile, relative affluence/deprivation, etc.

44.59 The HSE has estimated the population to be served by each primary care centre using 2006 population data.[364]. This indicates that, taking account of multiple PCTs in some centres, the catchment population is within the planned range of 7,000 to 10,000 in 44% of cases. In 36% of cases, the catchment population is less than 7,000. In around 20% of locations, the catchment population exceeds the upper end of the target range.

44.60 Figure 181 indicates the space and population served for four primary care centres reviewed as part of the audit. The salient features are

- The catchment population for the Ballyogan PCT, at just under 14,000, is almost twice the average for the other PCTs.
- The premises leased in Carlow is planned to accommodate three PCTs. The HSE's 2008 guidelines suggest that the maximum space required for a centre accommodating three PCTs is 1,128 $m^2$ for the HSE's own space and a proportionate share of common spaces (say 325 $m^2$, assuming a 50% share). On that basis, the expected maximum leased space requirement for a three-PCT centre would be around 1,450 $m^2$. The space leased in Carlow (1,800 $m^2$) is 24% more.

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363 The original target set in 2001 was one PCT for an area with a population of 3,000 to 7,000. This was subsequently revised to one PCT for an area with a population 7,000 to 10,000. Some HSE documentation refers to a ratio of one PCT per 8,000 to 12,000 population.

364 The HSE's analysis (completed September 2010) will require revision in light of the population growth and redistribution revealed in the 2011 census.

**Figure 181 Space Leased[a] and Target Population for Selected Primary Care Centres, end 2010**

| Primary care centre | Number of PCTs | Leased space ($m^2$) | Catchment population | |
|---|---|---|---|---|
| | | | Total | per PCT |
| Ballyogan | 1 | 683 | 13,939 | 13,939 |
| Carlow | 3[b] | 1,800 | 23,990 | 7,999 |
| Gorey | 1 (of 3)[c] | 651 | 23,742 | 7,914 |
| Mulhuddart | 1 | 748 | 7,856 | 7,856 |

Notes: a Space leased includes HSE occupied space and a proportion of shared space
b Two PCTs serving the Carlow area, and one serving East Kilkenny/South Carlow
c Three PCTs are planned for Gorey, in three separate locations in the town. The leased space relates only to the centre where a lease is currently in place.

44.61 The HSE has stated that the Carlow primary care centre will accommodate up to 43 HSE staff members. The services to be delivered from the premises will include public health nursing, occupational therapy, physiotherapy, speech and language therapy, home help staff, dieticians and psychology. It also includes consulting/clinical rooms for outreach hospital consultant clinics, mental health clinics and specialist nurses.

## Conclusion – Leasing

The cost of accommodation procured under lease arrangements depends on the agreed rental and service charge costs and the size of the premises leased.

The rents agreed for leases were set by reference to benchmarks assessed by the HSE. Those benchmarks were based on independently-assessed market rents, with the addition by the HSE of an additional amount for fitting out costs. The HSE then applied a target discount rate to arrive at location-specific ceiling rates for negotiations for approval by the HSE Board. In general, deals were agreed within the ceiling levels approved by the Board in 2008 and 2009.

The HSE’s benchmark levels for rents reduced broadly in line with commercial market rents between 2008 and 2010. However, because it concluded that deals could not be finalised on leases at the ceiling rates set in July 2010, the Board agreed in January 2011 to increase the level of rents it was willing to pay by around 16%.

The HSE set norms for the size of primary care centres it was willing to lease. Of four lease properties reviewed, three were within the specified norm, while one was about 24% more than the expected maximum space. The HSE has stated that in the latter case, an extended range of services will be provided from the centre.

Of the centres examined, three had catchment populations within the target range of 7,000 to 10,000. In the remaining case, the catchment population exceeded the upper end of the range by almost 4,000. These estimated catchment populations were based on the 2006 population figures. The catchment populations of all centres will require reassessment in the light of the results of the 2011 census. This may have implications for the location of some planned centres.

## Conclusion

The HSE is engaged in a substantial programme for development of a national network of centres for the delivery of primary care. While no recent projections of the cost of the programme have been published, it is evident, based on the stated targets, that the capital cost of the centres is likely to be significantly in excess of €1 billion.

The development of the care centres is lagging significantly behind the targets set in the National Development Plan 2007-2013. While the Plan envisaged the provision of accommodation for 500 PCTs by 2011, only 24 centres catering for 29 PCTs had commenced operation by end 2010. Given the number of centres in construction, only 44 centres catering for 59 PCTs are expected to be operational by the end of 2011. This would represent about 12% of the original NDP target for end 2011.

The HSE has cited difficulties being experienced by developers in securing funding as a factor in the delays. While the HSE reduced the level of rent it was willing to pay in line with the drop in commercial rents up to mid-2010, it decided in January 2011 to increase its ceiling rates by around 16%.

The HSE has chosen to procure the centres through leasing, which has many of the characteristics of a public private partnership. The key difference is that at the end of the (typically) 25-year lease term, the HSE will not acquire property. It will instead have the option to renew the leases on renegotiated terms, or to seek alternative accommodation.

A detailed appraisal should have been carried out before the HSE launched a large-scale leasing programme. The appraisal of the options for procurement of primary care centres carried out later was deficient in a number of significant respects. In particular, the likely impacts of the accommodation options on service users and on the operation of PCTs were not quantified, and the basis for projection of costs was not adequately substantiated. The scale of cost of the programme, and its likely affordability in the context of the HSE's overall budget, were also not addressed. Overall, the deficiencies would indicate that the appraisal fell short of what would be required to guide decision-making in relation to a major capital programme.

Legal commitments have been entered into for a substantial number of projects yet to be delivered based on prices prevailing in 2008 and 2009. So much has changed in the property development market since the commencement of the leasing programme that a mid-term review of the programme objectives and procurement approach may now be warranted so as to ensure that best value for money will be achieved.

Such a review should assess the extent to which accommodation options are likely to deliver the benefits expected for community-based primary care centres i.e. easier access for patients and carers to required services, more effective and efficient treatment as a result of improved communication between service deliverers and increased efficiency and lower running costs for primary care.

Overall, in order to ensure there is coherence between the primary care centre programme and the development of PCTs, the HSE should review how team-based delivery can be promoted while centres are being developed, and draw up a specific change management programme with defined objectives and provision for verification. Chapter 43 reviews this further.

# Chapter 45

# Consultancy and External Support

# Consultancy and External Support

45.1 Apart from legal fees, the HSE incurred €22 million on consultancy and external support services in 2009. A sample of these services was reviewed in the course of the audit. The sample chosen accounted for expenditure of just over €41 million in the period 2006-2010.

45.2 The assignments fell into the categories set out in Figure 182. Over half of the expenditure was incurred on Clinical Casemix and ICT Technical Support. A more detailed breakdown of services provided under each consultancy is outlined in Annex A.

**Figure 182 Expenditure by Category of Consultancy 2006 – 2010**

| Consultancy type[a] | Number examined | Value 2006-2010 €m |
|---|---|---|
| Advisory services | 5 | 2.65 |
| ICT technical support | 1 | 8.85 |
| ICT external services | 4 | 8.78 |
| Service evaluation[b] | 10 | 4.74 |
| Clinical Casemix | 3 | 13.45 |
| Administration and training | 2 | 0.92 |
| Media | 2 | 1.81 |
| **Total** | **27** | **41.20** |

Notes: a These classifications are based on the main focus of the projects involved.
b Six of these ten consultancies were evaluations of clinical functions.

45.3 Of the 27 assignments, 12 were once-off projects, 12 are continuing and three were long standing operations recently ceased.

## Chapter Focus

The chapter examines the sample of consultancy and external support services in the following respects

- how the service was acquired
- how delivery was monitored
- how costs were controlled
- whether the delivery of the assignment was as expected.

The term consultancy is used throughout the rest of the chapter to describe the range of consultancies, external service providers and analogous contracts that were the subject of this review.

The focus of the chapter is on the processes employed by the HSE in administering the consultancies. It does not comment on the processes employed by the service providers, who have a legitimate right to do business with the HSE in good faith on the terms it presents.

## Acquisition of Service

45.4 Cost-effective procurement of consultancy services in accordance with public service norms involves three main elements

- formulating a business case to set out the business need, rationale and expected benefits of the proposed consultancy
- open tendering to ensure even-handedness and the best spread of proposals
- a contract that specifies the consultancy activities, outputs and timescales.

45.5 Annex A indicates the extent to which individual consultancy procurements met these requirements.

### *Business Cases*

45.6 Overall, the completion of formal business cases did not occur in any of the consultancies. However, two of the consultancies were subject to a process of approval by the Centre for Management and Organisational Development (CMOD)[365]. The consultancy projects had a variety of origins and purposes including

- follow on work from previous reports or policy decisions (eight consultancies)
- outsourcing of services (eight consultancies)
- independent reviews of delivery of clinical and administration systems (eight consultancies)
- continuation of consultancies ongoing since the early 2000s (two consultancies)
- acquisition of specialised expertise related to a health information database originated in 1989 (one consultancy)

### *Tendering and Contracting*

45.7 Contracts exceeding €25,000 in value, and up to the EU advertising thresholds of €125,000[366] should normally be advertised as part of a formal tendering process. However, the public body may invite tenders directly where there is a limited number of suppliers or service providers. Where direct invitations are issued, firms from which tenders are sought should be a good representative sample of all potential bidders in the market concerned. At least three firms should normally be invited to submit tenders.

45.8 The HSE have national financial regulations and national procurement regulations in place that set down guidance in this area and outline the process and procedures to be followed, in order to ensure compliance with statutory requirements and government guidelines.

45.9 The cumulative expenditure on foot of sampled projects not tendered in the period 2006 – 2010 was almost €23 million. 17 projects involved expenditure over the current lowest threshold for tendering (€25,000)[367].

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[365] This is the ICT control unit of the Department of Public Expenditure and Reform.

[366] Thresholds are revised every two years. This is the threshold in place until December 2011.

[367] Tendering is not required for urgent requirements under section 4.13 of Guidelines for Engagement of Consultancies in the Civil Service 1999 and in Section 6.13 of Public Procurement Guidelines – Competitive Process 2004.

45.10 The results of a review of the method of acquisition of consultancy support for the cases examined is summarised in Figure 183. Overall, ten of the 27 had been tendered and ten had current written contracts or a service level agreement (SLA).

**Figure 183 Procurement and Contracting**

| Consultancy type | Number examined | Tendering | | Contract/SLA[a] | |
|---|---|---|---|---|---|
| | | Yes | No | Yes | No |
| Advisory services | 5 | 2 | 3 | 1 | 4 |
| ICT technical support | 1 | 1 | — | 1 | — |
| ICT external services | 4 | 1 | 3 | 2 | 2 |
| Service evaluation | 10 | 4 | 6 | 4 | 6 |
| Clinical Casemix | 3 | — | 3 | — | 3 |
| Administration and training | 2 | — | 2 | — | 2 |
| Media | 2 | 2 | — | 2 | — |
| **Total** | **27** | **10** | **17** | **10** | **17** |

Note: a SLA denotes the existence of a current Service Level Agreement.

45.11 Overall, 17 of the 27 consultancies were not the subject of open tendering. In general, where consultancies were not tendered, no contract or SLA existed either. Only one of the cases not the subject of tendering had a current SLA in place. The reasons given by the HSE for non competitive procurement were

- In the case of the development of Casemix, two consultancies had been entered into where the advice sought was specialised.
- A consultant who provided assistance with clinical governance had previously worked with the HSE in relation to the development of a Quality and Risk Framework and its implementation strategy.
- A UK consultancy firm was appointed as a result of a failed competition to source a provider for a service improvement programme at a hospital.
- A firm that previously provided legal advice was again engaged to assist with the hospital co-location programme.
- A consultancy firm that provided assistance with an initial stage of the project, was retained for the follow-on implementation work that spread over four years with a value of €2.7 million to 2010.
- A firm was commissioned that had tendered for professional services under a framework agreement and was therefore, a party that could take part in a subsequent mini-competition however, it was appointed without a mini-competition being held.
- In four cases, consultancy firms that had a track record of providing the service and were already providing similar services on site were retained.
- The HSE stated that there was an issue of public safety in three cases which needed to be addressed urgently and that a public tender competition would have delayed the processes.
- In two cases, no evidence was available to the audit team that quotes had been obtained from any firm other than the appointed consultants.
- In the final case, the consultancy firm had provided the service since the early 1990s and its staff had built up an expertise over the years.

45.12 A particularly material level of expenditure has been incurred on collecting demographic, clinical and administrative data (€13.3 million) and on developing a performance management system for the HSE (€2.7 million). While there was an initial tender under a framework agreement for advisory services that related to the latter project, the audit found no evidence of tendering in either case for the main body work done.

45.13 In the former case, the consultancy was a legacy arrangement inherited by the HSE from the Department of Health and Children (the Department) on the transfer of functions to the HSE in 2007. The consultancy firm had provided the service since the early 1990s and its staff had built up an expertise over the years. Tendering had not taken place for the previous agreements with the Department, primarily because there were no other agencies offering such services. However, there is no SLA in place to ensure that the services required are clearly identified and the terms of engagement defined.

45.14 In the case of the legal consultancy related to hospital co-location where the expenditure for 2006 to 2010 was €1.9 million, the audit noted no evidence of any formal tender competition to provide the service. While a 'terms of engagement' document was forwarded to the HSE, no reporting or monitoring mechanism was specified in that document. The project involved is effectively ended but the HSE are retaining the services of the consultant in the event of possible legal challenges[368].

## Conclusion – Acquisition Process

The HSE needs to review the rules and guidance around the procurement of consultancy. In particular, a business case that identifies the rationale for the consultancy, the activities to be carried out and the outputs to be delivered should be specified. Open procurement should be used with the most economically advantageous offer being chosen.

The lack of contracts militates against getting a defined and measured service or output. It is also necessary to have some form of commitment control so that the financial exposure of the HSE is predetermined to the extent possible.

Overall, it is apparent that most consultancies where tendering and contracting were done were acquired through the new Procurement Directorate[369]. Greater use of this central service could improve the level of compliance with good practice.

There needs to be greater usage of this central service to improve the level of compliance with good practice.

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[368] The Accounting Officer has stated that €1.4 million was received through a non-refundable deposit from the preferred bidders upon their signing of the project agreement.

[369] See Chapter 42.

## Monitoring of Consultancies

45.15 The consultancies were reviewed to examine the extent of monitoring by the HSE in the course of the project. While it is normal practice that monitoring arrangements are formally built into contracts, it is recognised that other mechanisms may be in place to ensure standards are being met, such as close involvement of HSE officials with the consultancy. This has been considered and available documentation has been factored into the assessment.

45.16 The factors used in the course of this assessment included whether written contract details were available, whether regular meetings were held between the consultant and the HSE and whether there was compliance with the process outlined at the start of project. The results are outlined in Figure 184. The basis of the rating is set out in Annex B to this chapter. Overall, the review found that monitoring arrangements was good in six cases but were limited in ten cases.

**Figure 184 Review of Monitoring Arrangements**

| Consultancy type | Number examined | Inadequate | Limited | Adequate | Good |
|---|---|---|---|---|---|
| Advisory services | 5 | — | 3 | 2 | — |
| ICT technical support | 1 | — | — | — | 1 |
| ICT external services | 4 | — | — | 3 | 1 |
| Service evaluation | 10 | — | 3 | 4 | 3 |
| Clinical Casemix | 3 | — | 2 | 1 | — |
| Administration and training | 2 | — | 2 | — | — |
| Media | 2 | — | — | 1 | 1 |
| **Total** | **27** | **—** | **10** | **11** | **6** |

Rating Key: 1 Inadequate – Did not meet any of the criteria
2 Limited – Only partially met the criteria or significant limitations existed
3 Adequate – Addresses most aspects of the criteria with some limitations
4 Good – Fully or substantially meets the criteria

## Conclusion – Monitoring

There was limited monitoring in a substantial number of projects. There is scope to increase the intensity of monitoring and evidence its conduct. It would be desirable to establish a monitoring framework at the outset in a contract or SLA.

## Financial Control

45.17 The achievement of a cost effective outturn on consultancy work depends on having

- pre-agreed rates set out in a contract or correspondence and
- a process for establishing the planned volume of work and authorising any variation.

### *Adherence to Agreed Rates*

45.18 The rates paid to consultants were reviewed to ensure that the amounts charged in the financial statements were in line with agreed terms. The audit found that

- in seven projects where formal contracts existed, payment rates were in line with the agreement
- the rates set in three projects were established in a SLA
- in the case of seven further projects the rates were those in a proposal for a previous project (one case) or based on correspondence (six cases)
- in the case of three consultancies the rates were informally agreed and were evidenced in emails in two of those cases
- in two cases, the rates were formally negotiated annually by local HSE officials
- in one case the charge was based on cost recovery as agreed in an initial phase of the project
- inadequate details were available on how the amount was decided in the case of four consultancies[370].

45.19 Matters noted in connection with the financial terms of engagement included

- In one case where tendering occurred and an SLA was drawn up, the rate that was used in the tendering documentation was not the rate used in the SLA. The additional cost effect is €159,000 over the period reviewed[371].
- In two cases, overcharging had occurred. The first of these led to an overcharge of €9,385 which the HSE is pursuing following an audit query and arrangements are being made to have this refunded to the HSE. The second had been picked up in October 2010. It involved an overcharge of €71,000. The company involved and the HSE came to a compromise and agreed a credit for €50,000. To date, the HSE has only used up €13,000 of the agreed credit.

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[370] In one of these cases, there was a rate provided in a related advisory contract for one specified person for a short engagement period. However, the invoices reviewed are for at least 18 other consultants at different charge out rates.

[371] The additional cost appears to relate to the exclusion from the tender of the cost of employing a replacement GP while the tenderer carried out the assignment.

### *Contract Cost Control*

45.20 Effective cost control depends not just on specifying a rate of payment but also a measure of planned volume or duration or preferably a fixed price. The audit found that

- a maximum price cap was specified in two cases and it was adhered to
- in nine cases, there was a contract or other agreement in place, and the amount paid matched the contract details
- in five cases, there was a contract or other agreement in place, but payments were made for extra work in those cases such as extra engagement with stakeholders or because the scope had been extended during the contract. The amounts involved totalled €213,000. However, in two of those cases the cost rose due to a doubling on the number of consultancy days.
- there was no volume based specification of output in four contracts where a daily rate applied
- in two cases, the rates were negotiated annually by local HSE officials, taking into account service volume levels
- in a further case an estimate was agreed but there was an overrun of €30,000 on the project
- in four cases, there was no effective cost control mechanism as there was no contract that specified either the rates or the volume of work.

45.21 There appeared to be scope drift resulting in substantial extra cost in four cases

- A performance management system project involved expenditure of over €2.7 million between 2007 and 2010. The advisory project that the consultants were engaged for, was expected to involve six to twelve days of work at a daily charge out rate of €2,030. In the original SLA for advisory services, the timeframe was specified as meaning '*six working meetings, held monthly, with the possibility of up to an additional further six working group meetings and additional days on request by the Assistant National Director of Decision Support*'. The scope of the work did not include implementation of the performance management system. The audit found no evidence of the HSE undertaking any formal tender process for the extra implementation work. As there was no contract or SLA, no defined specification or monitoring arrangements were established.
- In Cork University Hospital in the period 2006 – 2010, €1 million was spent on hardware support. It appears that because the contractor had an on-site presence, the firm's role was expanded. While in this case, an SLA was signed, the agreement has no provisions covering governance, service provider performance monitoring and measurement. The SLA only outlined items such as the service fees, limitations of liability, insurance details and termination details.
- In the HSE North West Region over the period 2006 – 2010, almost €2 million was spent between ICT Helpdesk and hardware maintenance support. It appears that because the contractor had an earlier contract for supply of related ICT products and an ongoing supply relationship with the service, the firm's role was expanded for the ICT Helpdesk and hardware maintenance support arrangements.

- In the case of a consultancy where the spend for 2006 to 2010 was €13.3 million, the consultancy was in place for a number of years with a SLA prior to 2007 when the service transferred from the Department to the HSE. However, a number of new developments have taken place since 2007. The principal ones involved the creation of a portal that has been developed and supported by the consultants, that is used to collect and report on HIPE[372] data and additional areas of monitoring including consultants' contract monitoring and a new costing file for outpatient specialities introduced since 2007.

## Conclusion – Financial Controls

Contracts or SLAs were in place in ten of the 27 procurements. In these cases adherence to agreed rates could be verified.

The control of consultancy outlay depends upon the specification of both the rate and expected duration of the project or the conclusion of a fixed price contract. In 16 cases, this was not done.

Overall, from an administrative viewpoint, formal contracts or SLAs should be in place in all consultancy assignments in order to provide a clear budget for the project and to facilitate payment checking.

## Delivery to Agreed Timescales

45.22 The consultancies fell into two broad categories

- those that demanded a specific report
- those that were activity based.

45.23 It was found that the activity had been performed or the output which was paid for was delivered in all cases. However, due to the lack of contracts or SLAs it is not possible to independently confirm whether the output that was delivered was the planned output in 15 cases. In the other two cases without a contract or SLA, there was a performance management system in place that provided evidence that the service output was delivered by the contractor.

45.24 Nine cases involved the delivery of a report. Of these, four reports were delivered on time, in four cases delays ranged from six months to over a year and in the remaining case there is a continuous reporting function.

45.25 The remaining 18 did not involve delivering a report. In 11 of those cases, it was found that, in general, the output that was paid for was delivered on time or within the time periods established. It was not possible to conclude in the remaining seven cases where there were no documented terms.

[372] HIPE is the Hospital In-Patient Enquiry Scheme.

## Conclusion – Delivery to Agreed Timescale

It was found that the activity had been performed or the output that was paid for was delivered in all cases. However, it was not possible to establish whether the output delivered was that planned in 15 cases. In four cases, there were delays in providing reports required as part of contract output.

Documented timeframes should be established at the outset in all consultancies in order to ensure delivery to agreed timescales.

45.26 Department of Public Expenditure and Reform circular 40/2002 requires the HSE to complete a report in respect of contracts above €25,000 that have been awarded without a competitive process. Four consultancy assignments referred to in this chapter should have been reported on the 2010 return but were not. In 2009, 12 of the consultancies should have been reported in the 40/2002 return for that year but were not. Chapter 42 outlines the general arrangements for the management of procurement in the HSE.

## Conclusion

Excluding legal fees, the HSE incurred €22 million on consultancy in 2009. A review of 27 consultancies found that

- business cases identifying the rationale for the consultancies, the activities to be carried out and outputs to be delivered were not in place
- only ten of the consultancies were tendered openly
- ten of the consultancies had contracts or SLAs in place
- in many of the projects, there were limited details in respect of pricing and expected project durations
- there was limited monitoring in a substantial number of consultancies.

It was found that the activity had been performed or the output that was paid for was delivered in all cases. However, it was not possible to establish whether the output delivered was that planned in 15 cases. In four cases, there were delays in providing reports required as part of contract output.

The lack of contracts or agreements with financial and delivery terms makes it difficult to validate the rates paid and whether the services are delivered to a specified standard and timescale.

Overall, the HSE's procurement and management of consultancies needs to have more of a performance focus. This should include justification of each proposed consultancy in terms of its expected business impacts, and clear specification in advance of the key contract terms i.e. the main project outputs, the service standards to be met, and the cost and delivery timeframe.

## Annex A Consultancy Types and Descriptions

| Category | Company | Description | Cumulative cost 2006-2010 | Acquisition process[a] | | |
|---|---|---|---|---|---|---|
| | | | €000 | BC | T | C |
| Advisory services | Stuart Emslie | The assignment was to provide advice and documentation on a range of governance, risk management and patient safety matters for the newly created National Quality and Clinical Care Directorate.<br>The consultant had previously provided advice on the development of a Quality and Risk Framework, design of the Quality and Clinical Care Directorate and worked on investigations. | 149 | ● | ● | ● |
| | Simpler Consulting Ltd | The firm was to provide a service improvement programme and worked with hospital management and clinical teams on key opportunities to improve outpatient department service efficiency and effectiveness. | 73 | ● | ● | ● |
| | A & L Goodbody | The firm provided technical and legal advice for the hospital co-location programme | 1,911 | ● | ● | ● |
| | Joseph Clarke | The consultant was required to provide advisory services in relation to GPs and the development of primary care teams. | 455 | ● | ○ | ○ |
| | Michael Torpey | The assignment was to provide advisory services in relation to finance controls within the HSE. | 58 | ● | ○ | ● |
| ICT technical support | IBM Ireland Ltd | Technical support of core business critical applications. | 8,851 | ○ | ○ | ○ |
| ICT external services | IBM Ireland Ltd | The consultancy firm was engaged to provide hosting of equipment, operating systems management and support, hardware maintenance, network communications support and management, security services, disaster recovery provision and service delivery management. | 5,822 | ○ | ○ | ○ |
| | Westbourne Systems | The firm provided hardware maintenance support in Cork University Hospital. | 999 | ● | ● | ○ |
| | Compupac Software Ltd | The firm provided an ICT Helpdesk facility for the HSE North West Region. | 1,076 | ● | ● | ● |
| | Compupac Software Ltd | The firm provided hardware maintenance support for the HSE North West Region. | 883 | ● | ● | ● |

| Category | Company | Description | Cumulative cost 2006-2010 | Acquisition process[a] | | |
|---|---|---|---|---|---|---|
| | | | €000 | BC | T | C |
| Service evaluation | PA Consulting Group | The consultancy firm was engaged to develop a performance management system for integrated information collection and analysis throughout the HSE. | 2,732 | ● | ● | ● |
| | Pricewaterhouse Coopers | The assignment was to provide assistance to the HSE in developing a corporate risk register and standard national protocols for the management and reporting of serious clinical matters. | 148 | ● | ● | ● |
| | Pricewaterhouse Coopers | The assignment was to review the logistics and inventory management systems in the HSE, to recommend how a new logistics and inventory service should be delivered and to provide an implementation plan. | 435 | ● | ○ | ○ |
| | Mazars | The consultancy firm was engaged to carry out ICT audits, to test ICT controls and provide assurance on the HSE's ICT systems and procedures. | 303 | ● | ○ | ○ |
| | Capita Business Services Ltd | The consultancy firm was engaged to review a radiology department in one hospital. | 146 | ● | ● | ● |
| | Prospectus | The firm was engaged to review national adult critical care services. | 542 | ● | ○ | ○ |
| | Windle & Associates | The consultancy firm was engaged to review the Hospital in the Home Initiative from a clinical and economic perspective. | 35 | ● | ● | ● |
| | Teamwork Management Services Ltd | The assignment was to review anaesthetic services in a hospital group. | 129 | ● | ● | ● |
| | Teamwork Management Services Ltd | The assignment was engaged to review radiology services in a hospital group. | 127 | ● | ● | ● |
| | Healthcare Informed | The consultancy firm was engaged to review the existing clinical governance framework in a specific area on foot of an internal review and to develop a document control (policies, procedures and guidelines) management system. | 148 | ● | ○ | ○ |

| Category | Company | Description | Cumulative cost 2006-2010 | Acquisition process[a] | | |
|---|---|---|---|---|---|---|
| | | | €000 | BC | T | C |
| Clinical Casemix | The Economic and Social Research Institute | The Institute was engaged to collect demographic, clinical and administrative data on discharges and deaths in respect to inpatient and day case treatments and outpatient information from national acute public hospitals. | 13,275 | ● | ● | ● |
| | Luke Van Doorn | The consultant was to provide advice and documentation on the current outpatient system and procedures in operation. The consultant was to devise a new coding structure to integrate the outpatient system into Casemix. | 132 | ● | ● | ● |
| | GBG Associates Ltd | The firm was required to develop efficiency based key performance indicators, from the Casemix data in order to identify areas where hospitals could improve their performance. | 42 | ● | ● | ● |
| Administration and training | Broadmeadow Consulting | The assignment was to compile and complete costing returns for three hospitals. | 70 | ● | ● | ● |
| | Beecher Koenig Associates Ltd | The consultancy firm supplied tutors and a coordinator for courses that were run by the National Ambulance Service College. | 848 | ● | ● | ● |
| Media consultancy | Anderson Editorial | The consultancy firm was engaged to advise on stakeholder communication and media management at a senior level both internally and externally. | 1,179 | ● | ○ | ○ |
| | Ogilvy & Mather Ltd | The firm was engaged to provide an advertising campaign. | 630 | ● | ○ | ○ |
| **Total** | | | **41,198** | | | |

Source: Health Service Executive
Note: a The acquisition elements are BC (Business case completed or CMOD review), T (Tendering for work completed) and C (Contract or SLA available).
Key: ● Denotes the absence of this condition.
○ Denotes its presence.

## Annex B Rating Scheme for Monitoring

Each of the consultancies was assigned marks for the following

- whether written contract details were available
- whether meetings were held frequently
- whether there was compliance with the written contract details and whether the performance indicators were achieved.

The marks awarded to each criterion were based on the relative performance. The maximum overall mark being 12 and the minimum mark being three. The rating process was as follows

- If a consultancy achieved three marks, it was deemed that it did not meet any of the criteria
- If a consultancy achieved four to six marks, it was deemed it only partially met the criteria or significant limitations existed
- If the consultancy achieved seven to nine marks, it addressed most aspects of the criteria with some limitations
- If the consultancy achieved ten marks or over, it fully or substantially met the criteria.

Thereafter, the monitoring controls were assessed as follows

| Rating | Standard |
|---|---|
| Inadequate | The number who achieved three marks |
| Limited | The number who achieved four to six marks |
| Adequate | The number who achieved seven to nine marks |
| Good | The number who achieved ten marks or more |

# Chapter 46

## Protecting the State's Property Interest

**Vote 40   Health Service Executive**

# Protecting the State's Property Interest

46.1 Under the Health Act 2004, the Health Service Executive (HSE) may enter into agreements with hospitals in the voluntary sector to deliver services on its behalf. It may also provide funding to those hospitals, including capital funding for approved developments such as the construction of new buildings and the upgrading and expansion of existing structures.

46.2 The St Vincent's Healthcare Group[373] (SVHG) provides public and private health care, primarily from its campus at Elm Park in Dublin. Up to and including 2009, the State, through the Department of Health and Children (the Department) and the HSE has provided approximately €200 million by way of capital funding to SVHG for redevelopment and refurbishment at the hospital campus.

## Chapter Focus

This chapter examines the extent to which the State's property interests are being protected in relation to the capital funding provided to SVHG. The focus of the review was on the HSE procedures and relates solely to its financial responsibilities.

## Pledging of State Funded Assets

46.3 In November 2010, SVHG opened a new private hospital on the Elm Park campus. Responding to my enquiries in relation to that matter, the HSE reported that, over a number of years, publicly-funded assets had been used as security by SVHG in return for facilities from commercial banks. The Accounting Officer stated that those arrangements included

- security granted in favour of Ulster Bank in 2002 by a subsidiary company of SVHG over a car park on the public campus, with a floating charge on the subsidiary company's assets
- a mortgage debenture granted over certain property at the Elm Park site to Bank of Ireland in respect of the new private hospital
- a mortgage of certain property at the Elm Park site, granted by SVHG in favour of Bank of Ireland in 2009
- a mortgage debenture in favour of Bank of Ireland in October 2010 including
  - a fixed charge over the entire St Vincent's Hospital site
  - a floating charge over all of the undertaking, property and assets of SVHG both present and future.

[373] SVHG is a not for profit, voluntary group of hospitals and has charitable status. SVHG is made up of three entities; St Vincent's University Hospital, St Vincent's Private Hospital and St Michael's Hospital, Dún Laoghaire.

## Security for State Investment

46.4 In response to my enquiries as to whether the SVHG had provided security to the State in respect of the funding by the HSE for past capital development of public health facilities, the Accounting Officer informed me that it had recently put in place formal agreements with SVHG in respect of a development of the new ward block (NWB) on the hospital campus. The HSE agreed to provide capital funding of approximately €29 million for the NWB project.

46.5 The Accounting Officer informed me that the HSE had initially sought to put an option agreement in place that would have entitled it to buy in the entire publicly-funded facilities in the event of, *inter alia*, the failure by SVHG to provide public health services at the facilities. However, during the course of negotiations, it had become clear that SVHG could not grant the required option because part of the publicly-funded facilities had already been charged in favour of the Bank of Ireland and Ulster Bank.

46.6 Furthermore, the Accounting Officer told me it had become clear because of commitments already made by SVHG to 'tax investors' in the private hospital on the SVHG campus that, during the lifetime of that investment, SVHG could not grant the HSE a security interest over publicly funded facilities nor a negative pledge not to dispose of any interest in the lands on which they were sited.

46.7 The agreements subsequently put in place between the HSE and SVHG for the funding of the NWB project included

- A grant agreement setting out specific obligations for SVHG to enable it to draw down the HSE funding. It also made provisions in respect of the medical services to be provided on the site.
- An option agreement over the site of the NWB entitles the HSE, in certain circumstances including SVHG becoming insolvent, to buy the property at a purchase price based on the open market value.[374] SVHG is also obliged to provide public health services at the NWB for 50 years from the date of the last provision of capital funding from the HSE in respect of the development.

### *Deed of Covenant*

46.8 In addition, the Accounting Officer informed me that a deed of covenant in respect of previously funded public facilities on the SVHG campus had been put in place. This created an obligation on SVHG to use those facilities as a public hospital and for the provision of public health services there. In the event of a breach by the group of those obligations, the deed of covenant gives the HSE a right of legal action for specific performance.

46.9 The Accounting Officer has told me that the deed of covenant now in place provides less security for the HSE than would otherwise have been available had SVHG not granted security or provided commitments in respect of those facilities to Bank of Ireland and 'tax investors' in respect of the development of the private hospital at Elm Park.

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[374] The market value of the property is the estimated amount for which the property would sell, but disregarding the value of any buildings or other structures erected on or under the property.

### *Priority of Security*

46.10 I asked the Accounting Officer to confirm which security would have priority should the SVHG discontinue healthcare on the campus. He informed me that, arising from competing security interests, in particular the Bank of Ireland mortgage debenture, the option agreement over the NWB and the deed of covenant, a side agreement was entered into in October 2010 by the HSE, the Bank and SVHG. He noted that there would need to be an event that triggered the calling in of the pledges given to either party i.e. the Bank or the HSE. In the case of the Bank, such an event might be a failure of the SVHG to repay some or all of the finance advanced by the Bank for the development of the private hospital. On the other hand, a failure by SVHG to provide public health facilities on the campus would be a trigger for the HSE.

46.11 In the case of the NWB, the arrangements provide that if a precipitating event occurs, the HSE can, within three months of notification of that event, exercise the option of acquiring the property at the market value. If it does so, the Bank will release its security over the property on payment by the HSE of the purchase price in full to the Bank. If the HSE does not exercise the option to purchase the property within the timeframe, that right falls. This arrangement will stay in place until the full Bank of Ireland debt is discharged by SVHG.

### *Security for Previous Investments*

46.12 In regard to previous State-funded property, the arrangements provide that the Bank of Ireland would offer the footprint of the public facilities in question to the HSE for sale at the market value at the date of the precipitating event. The HSE would have 45 days from receipt of this offer to accept and to proceed with the purchase. The Accounting Officer has reported that the HSE could purchase immediately or in instalments over 36 months, taking immediate possession of the facilities in either case. On payment of the full purchase price, the Bank would release its security over the facilities.

46.13 If the HSE did not exercise its right to purchase within 45 days of the offer being made by the Bank, its rights would fall away as would the deed of covenant restricting the use of those lands and facilities as a public hospital.

46.14 The Accounting Officer also reported to me that when the Bank's debt to fund the private hospital venture had been discharged (by SVHG or by purchase of the facilities by the HSE), and the tax life of the private investment in the private hospital had expired (around 2024), a replacement deed of covenant over the previously-funded public facilities will be put in place. This will include a negative pledge restricting SVHG's ability to grant or dispose of any interest or secure the previously funded facilities without the HSE's consent. In addition, should a precipitating event occur after that time, the HSE would be able to purchase the NWB and the previously funded public facilities without time restriction in either case. However, the HSE would not have a 'right to purchase option' and there might be other parties interested in acquiring the facilities at that time.

## Arrangements in Other Cases

46.15 In view of the experience in this instance and the possibility of other private sector charges existing over publicly funded assets, I asked the Accounting Officer to provide me with details of the security arrangements, including liens, in place in the other voluntary hospitals that had received public funding in the previous ten years. The HSE has informed me that it asked for declarations from the Chief Executive Officers of voluntary hospitals in that regard. By 15 July 2011, 11 responses had been received, including that of SVHG. At that stage, no further liens in favour of third parties including financial institutions had emerged.

46.16 The HSE informed me that since 2009, it has regularised the process of providing grants to non-statutory agencies through its financial regulations. The new process provides that, for grants in excess of €200,000, the State’s interest will be protected through a standard integrated service level agreement and deed of charge document. The State’s interest in the funded assets will remain in perpetuity.

46.17 The service level agreement and deed of charge document will require the funded body to confirm that the works have been completed and have been properly certified by a competent person as well as the proposed use of the facility, compliance with HSE requirements, the disposal or assignment of the land, buildings or facilities in question, and include certain clawback/termination provisions. The funded body is also required to include the assets on its balance sheet with a note of the HSE’s interest in the asset. The deed of charge must also be shown as a contingent liability on the body’s balance sheet.

## Conclusion

Sixteen voluntary hospitals and a number of other health services providers are effectively integrated into the public health care system. However, these entities function as arms-length bodies with their own legal status and with capacity to transact business in accordance with their own constitutional arrangements. Considerable public resources are provided to them for the provision of public health services and the construction and maintenance of related facilities as required.

SVHG has pledged publicly-funded assets in return for bank finance for the development of its private hospital.

The situation illustrates a hazard that attaches to the provision of services through fully subvented or near fully subvented private institutions. Their freedom to pursue their other objectives may be exercised in a way which does not protect the State’s financial interest. Consequently, it is important that security be taken by the State for the capital funds it provides. Otherwise, further costs may accrue to the State in circumstances where the bank’s security is enforced.

# Chapter 47

# Management of the HSE Vote

## Management of the HSE Vote

47.1 In addition to producing an accrual based account, the Health Service Executive (HSE), by virtue of the fact that it is voted moneys annually by Dáil Éireann, draws up an Appropriation Account which outlines the amounts provided by Dáil Éireann and its expenditure outturn. It is required to manage its resources in accordance with the rules and procedures applicable to voted funds.

47.2 From an accountability viewpoint, these principally require that

- payments be based on substantiating documentation and
- payees have entitlement to the amounts paid.

47.3 The charge to the HSE Vote comprises two separate elements - expenditure that is administered on an area basis and expenditure on national programmes. The area based expenditure is recorded on legacy accounting systems that predate the establishment of the HSE and which were designed to record transactions on an accruals basis. The Vote outturn for this element of expenditure is derived by eliminating non-cash items and analysing assets and liabilities to identify suspense balances. Ultimately, while this process produces an overall outturn that equates to the Vote outlay, the charge for some subheads is established on the basis of apportionments.

47.4 In 2010, an amount of €14.5 billion was charged to the HSE Vote with €3.5 billion of this outlay being funded through appropriations in aid.

### Chapter Focus

The chapter examines a set of issues relating to the management of voted funds by the HSE including

- the manner in which the HSE managed resources in light of staff reduction measures
- information gaps in the records of the Primary Care Reimbursement Service (PCRS) and the financial impact of certain scheme overlaps
- how risks arising from dual eligibility under dental schemes were being managed and how delivery of dental treatment is verified
- the percentage of private patients being charged for their accommodation in public hospitals and the scope for increasing income from that category of patient
- the arrangements for monitoring by the HSE of voluntary hospitals.

## Staff Reduction Measures

47.5 Staff resources assigned by the HSE for health and social care activities are based on historic numbers operating in the public health service adjusted annually to take account of service developments set out in the HSE National Service Plan approved by the Minister for Health and Children.

47.6 Employment numbers stood at around 111,000 whole time equivalents (WTE) at the end of 2008. A number of staff reduction measures have been introduced since the beginning of 2009 including

- a general moratorium on recruitment across the public sector – imposed in March 2009
- an incentivised early retirement scheme (ISER) in the public sector – put in place in April 2009
- a targeted voluntary early retirement and voluntary redundancy scheme for the public health service – announced in November 2010.

47.7 The HSE manages employment numbers through an Employment Control Framework (ECF) which was agreed with the Department of Finance. In applying the ECF the HSE sets employment ceilings for all service units including local health offices and hospital networks as well as procedures for the approval and filling of vacancies and the monitoring mechanisms to be used.

47.8 The 2009 ECF set out how Government policy on numbers, including the moratorium, would apply. In line with the ECF, the HSE specified that redeployment, reconfiguration and reassignment of existing post holders and vacancies should be undertaken in order to ensure that the service could be managed within the revised ceilings. It also specified other cost containment measures in respect of the use of agency staff, overtime and on-call expenditure, staff allowances and existing acting-up arrangements.

47.9 At the end of 2010 the number of wholetime equivalent staff employed in the health sector was under 108,000 before taking account of 1,626 WTE staff who availed of the voluntary early retirement and the redundancy scheme. The cost of those staff reduction schemes was approximately €103 million.

47.10 In response to my enquiries the Accounting Officer stated that

- The HSE had seen a reduction in its staffing of 5,615 WTEs between December 2008 and May 2011 resulting in its wholetime equivalent employment level being 105,410 at May 2011.
- The decrease of 5,615 includes the reduction of 1,626 achieved under the 2010 redundancy and early retirement schemes and the 633 WTEs that availed of the ISER in 2009.
- Approximately 1,000 Community Welfare Officers transferred to the Department of Social Protection[375].
- The remaining reduction of 2,356 was achieved while filling approved posts in exempted grades and meeting service developments and demographic pressures.
- The numbers involved in management and administration have reduced by 2,203 WTEs (12%) from their peak in September 2007.

47.11 The First Progress Report on the implementation of the Public Service Agreement[376] also noted that there was a reduction of 4,180 WTE in the health sector between the first quarter in 2010 and the first quarter in 2011 that had generated savings of €289 million.

[375] The formal transfer will be completed at 1 October 2011.

### *Reorganisation and Cost Containment*

47.12 In relation to staff reorganisation, the Accounting Officer stated that the HSE has been progressing a nationwide reconfiguration of services and reallocation of resources with consequent redeployment of staff. In the course of this, it aimed to prioritise frontline service posts and support new services for the elderly and children including

- the relocation of Orthopaedic services[377] involving the relocation and redeployment of approximately 220 staff of all grades
- the redeployment of 60 staff on the closure of Heatherside Hospital in Cork and its relocation to a new site.

47.13 He stated that the Public Service Agreement facilitates productivity gains through changing work practices and work organisation. Examples of improvements, that he instanced, were

- centralisation of medical card processing
- development of a human resources shared services function with the establishment of three shared services
    - a National Recruitment Service
    - National Pensions Management and
    - National Personnel Administration.

47.14 In relation to other cost containment measures the Accounting Officer stated that

- Savings of €33 million in 2011 are projected in agency staff costs as a result of new contracts with recruitment agencies. Their realisation is dependent on the control of the volume of agency staff recruited.
- In addition, the HSE recently conducted an overseas recruitment campaign to address the shortage of Non-Consultant Hospital Doctors which is expected to significantly reduce the reliance on agency staff in this category.
- Overtime costs reduced by €2.4 million in the period May 2010 to May 2011.
- Agreement had been reached with staff in early 2011 on revised terms for the provision of hospital laboratory services outside normal working hours which means that some 3,000 staff can be rostered between 8am and 8pm from Monday to Friday.
- The filling of all posts is governed by rules that specify that all options, including redeployment of existing staff, reorganisation of work or other alternatives must be exhausted prior to seeking approval to fill vacancies.
- Approval to fill vacancies is subject to compliance with employment ceilings, funding availability and is operated within specified employment categories.
- The recruitment and promotion of staff at regional and local level is proscribed (with an exception for key clinical posts) and all temporary and permanent competitions are run by the HSE National Recruitment Service.

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376 In line with the provisions of the Agreement an Implementation Body was established to monitor its provisions, and verify progress or otherwise on its implementation including the sustainable savings and reforms it was designed to deliver.

377 This involves relocation of orthopaedic services from St Mary's Orthopaedic Hospital in Cork to South Infirmary Victoria University Hospital.

## Hiring of Retired Staff

47.15 Notwithstanding the staff reductions outlined above, payments to retired staff for services provided to the HSE in 2010 amounted to €14.6 million (€9.7 million: 2009). The categories of staff rehired are set out in Figure 185.

**Figure 185 Rehired Staff 2010**

| Staff Category | Number | Cost €000 | Cost Percentage |
|---|---|---|---|
| Medical | 49 | 1,838 | 13% |
| Dental | 5 | 159 | 1% |
| Nursing | 488 | 8,719 | 60% |
| Clerical | 49 | 923 | 6% |
| Interviewer | 12 | 60 | 0% |
| Health and Social Care Professionals | 31 | 890 | 6% |
| General Support Staff | 54 | 1,070 | 7% |
| Other Client Patient Services | 85 | 961 | 7% |
| **Total** | **773** | **14,620** | **100%** |

Source: Health Service Executive

47.16 The Accounting Officer explained that the HSE rehired pensioners in a number of areas where staff availability, long recruitment timelines and service needs meant that pensioners were the only cohort available to support continued service provision in the short to medium term. These include retired consultant medical staff hired to cover their previous post while a replacement was being recruited and retired psychiatric nurses hired to offset recruitment difficulties in a challenging area of nursing.

47.17 He assured me that the implementation of the restriction on re-engagement of staff who availed of the redundancy and early retirement schemes had been confirmed by Regional Directors of Operations and local service managers in the HSE. The HSE has also confirmed to the Department of Health and Children, based on confirmations supplied by HSE funded agencies[378] that Government policy on this matter is being complied with by those agenicies.

[378] These agencies are funded in accordance with section 38 of the Health Act 2004.

## Conclusion – Employment Control

The HSE has reported that staff numbers in the public health service reduced by over 4,600 between the end of December 2008 and the end of May 2011 and a further 1,000 staff were transferred to the Department of Social Protection. Included in the reduction were 1,626 wholetime equivalent staff who availed of the voluntary early retirement and the redundancy scheme at a cost to the State of approximately €103 million.

In 2010, the HSE paid in excess of €14 million to retired staff for services rendered in the year.

In relation to the management of services in the context of this downsizing, the Accounting Officer has stated that risks involved are being managed through a risk management process and that the operation of the general moratorium on recruitment and promotion has been devolved so that local clinicians and managers can balance resource needs with required reductions in numbers employed.

## Primary Care Reimbursement Service

47.18 The HSE's Primary Care Reimbursement Service (PCRS) administers a number of schemes providing free or reduced cost health services to the public at a cost of over €2.5 billion in 2010 including €1.9 billion paid for pharmaceutical services and fees and allowances of €572 million paid to doctors and dentists.

47.19 Health providers are reimbursed from PCRS in respect of a number of schemes which include

- the General Medical Services (GMS) scheme where persons with lower income or aged over 70 can obtain without charge general practitioner medical and surgical services together with prescribed medicines and appliances dispensed through retail pharmacies[379]
- the Drugs Payment Scheme (DPS) where persons without medical cards pay no more than a specified monthly threshold for approved medicines and appliances
- the Long Term Illness Scheme (LTI) where persons suffering from one or more specified illnesses obtain necessary medicines and appliances without charge and irrespective of their income
- the Dental Treatment Service Scheme (DTSS) for GMS eligible adults who can access certain dental treatments, clinical procedures and a range of prescribed medicines
- High Tech Drugs supplied by the HSE and dispensed through community pharmacies to patients usually for hospital prescribed or initiated medicines such as anti-rejection drugs for transplant patients or medicines used in conjunction with chemotherapy
- the HSE Community Ophthalmic Services Scheme which provides spectacles and appliances for adult medical cardholders and their dependents.

379 Where a pharmacy has an agreement with the Health Service Executive to dispense GMS prescriptions.

### *Pharmacy Claim Processing*

47.20 A review of the medical card and GMS database records for 2010 noted instances where the HSE does not hold complete and up to date information in relation to persons on behalf of whom payments were made, in particular

- €9.8 million had been paid in 2010 in respect of medical prescriptions where the medical card number was not recorded or was incorrectly recorded on the claim
- a further €16 million was paid in cases where the medical card had expired.

47.21 In relation to how the HSE validated the chargeability of payments to the Vote in respect of prescriptions in circumstances where a medical card number was invalid or incomplete, the Accounting Officer stated that prescription claims are issued on securely controlled GMS prescriptions and that every claim is supported by a GMS prescription signed and stamped by the contracted GP.

47.22 He stated that the following procedures are in place to securely control blank prescription forms in their printing, safekeeping and distribution

- Each GMS prescription form is printed with the name and identification details of the contracted GP and a unique reference number, which can be traced back to the batch of forms issued to the GP.
- The base stock of GMS prescription forms is securely maintained with security cameras and controlled access.
- A log is kept of every batch of forms and stocks of forms are delivered by courier directly to the GP surgery and signed for.

47.23 He stated that to reduce the level of incomplete claims to the minimum consistent with immediate patient need the HSE reached agreement in November 2010 with the Irish Pharmacy Union on a protocol for managing incomplete claims. This provided for the following

- The HSE will work with other healthcare professionals to ensure that the majority of prescriptions being presented at pharmacies contain accurate patient and other details.
- While the HSE has responsibility for determining the eligibility of all patients, the pharmacy contract provides that the pharmacy contractor shall supply, with reasonable promptness, to any GMS eligible person, or other person authorised to act on his or her behalf, who presents a properly completed prescription form signed by a practitioner.
- Notwithstanding this, where a prescription claim is presented to the HSE and it is not satisfied as to the accuracy of the details on the form, the HSE will pay the claim and notify the pharmacist that the eligibility or identity of the patient is not clear.
- The claim in question will be reported on the Pharmacy’s Detailed Payment Listing to alert the pharmacist to the fact that the eligibility or identity of the patient is not clear.
- The HSE will also provide a letter for the pharmacist to hand to each individual patient or their carer at the next visit to the pharmacy advising them of the position.
- The pharmacist will then inform the patient of the need to regularise their medical card registration in order to continue to access the item(s) under the Medical Card Scheme and advise the patient to contact the local HSE office to resolve the matter when the patient or their agent next visits the pharmacy.
- The patient will be assisted to do this by the HSE Local Health Office and the PCRS and, where necessary, the HSE will write directly to the patient.

- The PCRS will also alert the GP to the need to regularise the patient's medical card registration and also ask the GP to advise the patient on the next visit to the surgery to contact the local HSE office or HSE.
- The HSE will ensure that its administration and records are kept up to date on a timely basis and that there is consistency of administration, records and procedures across all parts of the HSE.

47.24 The Accounting Officer stated that the HSE has been implementing the protocol for claims made with effect from January 2011 and has been reporting to pharmacies on a monthly basis alerting them to incomplete cases defined under the protocol. In line with the protocol, all incomplete claims submitted by a pharmacy will be paid as long as the level of incomplete claims continues to decrease.

47.25 In relation to payments continuing to be made in cases where the medical card expiry date has passed the Accounting Officer stated that the expiry date on the card does not imply loss of eligibility – rather it is used to manage reviews of eligibility.

47.26 He stated that in the HSE's experience, when medical cards expire, particularly in the current economic circumstances, the means of the eligible person have not changed to the extent that eligibility is not retained.

### *General Practitioner Payments*

47.27 Unrecovered overpayments of €1.48 million were made to General Practitioners (GPs) due to a time delay between the death of an individual and the amendment of the monthly capitation payment to the GP. These payments are not retrospectively adjusted.

47.28 In response to my enquiries the Accounting Officer stated that GPs maintain that the underpayment due to them in respect of delays in adding newborn babies to the register, clients who lose eligibility for a period and delays in client registration at local office level, would account for a greater amount annually.

47.29 He stated that automatically recouping capitation payments from the date of death is problematic given the arguments advanced by GPs and that this issue can only be resolved in the context of an equally robust solution for underpayments associated with births.

47.30 He stated that the list of eligible medical cardholders can only be maintained with the assistance of all stakeholders and users of the list and that for the first time ever in 2011, following agreement in that regard, GPs will be directly involved and committed to list maintenance with the HSE.

47.31 He outlined the recent changes implemented by the HSE, in particular, centralisation of medical processing in a single location. Since centralisation, PCRS has put in place, for the first time, systematic processing of death information based on the Death Event Publication Service (DEPS) which is received on a weekly basis by PCRS from the Department of Social Protection. Where the notification is complete, eligibility is removed immediately upon receipt. Prior to the monthly pay run of GP capitation all DEPS data are compared against the HSE records of clients with existing eligibility.

47.32 He stated that in 2010 PCRS received 21,415 DEPS notifications which matched to clients with existing eligibility and all were removed immediately. However, due to the lag between actual death and the DEPS publication, he stated that capitation was paid in respect of 62,221 capitation months in total and based on an average monthly capitation rate of approximately €23.26 the total payment concerned is approximately €1.48 million.

### *Scheme Overlaps*

47.33 There are overlaps in the populations entitled to free pharmacy services under the GMS and the Long Term Illness (LTI) schemes. The cost of medicine from the LTI is dearer[380].

47.34 The HSE issued an instruction to pharmacists in mid-2010 reminding them that it was not appropriate to submit claims under the LTI scheme where a patient holds a medical card.

47.35 However, the HSE’s capacity to track the implementation of this instruction is limited due to data deficiencies. In relation to the number of persons on the Long Term Illness Scheme that also had medical cards, the Accounting Officer stated that the information could not be provided as PPSNs are not recorded for all LTI clients and cannot be cross referenced against the Medical Card register[381].

47.36 With regard to the steps being taken to populate the HSE data records with PPSN information for all medical card holders he stated that the HSE is addressing what is a relatively small number of legacy medical cards still not associated with a PPSN.

## Conclusion – Payments to Doctors and Pharmacists

Entitlement was not evidenced at the point that payments were made in 2010, in respect of

- €16 million in payments to pharmacists in cases where the patient’s medical card had expired.
- €9.8 million paid in respect of prescriptions in instances where a medical card number was either missing or incorrectly recorded.

The HSE has recently agreed a protocol with the Irish Pharmacy Union for managing incomplete claims. The process involves paying the pharmacist but seeking to have the person subsequently regularise the medical card position. More refined information is desirable to pinpoint the categories of cases that give rise to these type of claims in order to address the matter in a systematic way.

The HSE made excess payments to GPs estimated at €1.48 million which were not recovered. Adjustments for deceased persons are not made from the date of death. The HSE stated that it foregoes this sum taking account of the fact that doctors do not claim for newborn children from birth. From a practical viewpoint, it should be possible for the doctor to notify the date a child is first attended so that the State is paying for a measured service that is actually delivered.

Information is not available on the number of persons on the Long Term Illness Scheme who also have medical cards. This hampers any monitoring of instructions to pharmacists to use the least costly scheme. The HSE has estimated that moving all Long Term Illness clients to the GMS scheme could result in savings. Again, more refined information would be necessary to position the State to evaluate this option. The capture of PPSNs for all schemes would greatly increase the capacity to make evidence-based decisions and ensure that the services are operated in the most economic way.

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380 The Accounting Officer stated that moving all LTI clients to the GMS Scheme could result in annual savings of approximately €6 million, i.e. €21 million savings of retail mark up that is not applicable on the GMS scheme would be saved which would be offset by €15 million of the GP element of the Medical Card. However, in such a case, the issue of the reimbursable list of products would also need to be addressed since certain items approved for LTI patients are not on the GMS list.

381 The Medical Card register is itself missing approximately 6,700 PPSNs at April 2011.

### *Payments to Dentists*

47.37 A Dental Treatment Service Scheme is administered by the HSE which cost €76.2 million in 2010 (€86.6 million in 2009). The scheme pays private dentists in respect of dental examinations and treatments provided to medical card holders up to April 2010. Since April 2010 the HSE has limited the range of services that can be provided under its scheme without prior clinical approval. Separately, a further scheme, administered by the Department of Social Protection (DSP) – the Dental Treatment Benefit Scheme, is accessible to those that have made a certain number of eligible PRSI contributions. Historically, the DSP scheme covered free dental examinations and provided for the carrying out of other routine dental work at discounted prices. Since the beginning of 2010, only oral examinations are available under the DSP scheme.

47.38 Dual eligibility exists in situations where an individual can access treatment under a medical card and by virtue of PRSI contributions paid. The HSE currently estimates that approximately 40% of adult medical card holders have dual eligibility for dental treatment.

47.39 The DSP has made reimbursements to the HSE to compensate for the fact that the HSE had borne the cost in instances where the patient concerned could have claimed under DSP's Dental Treatment Benefit Scheme. These amounts ranged between €8.3 million and €9.3 million between 2006 and 2010.

47.40 Dual eligibility gives rise to a risk that dentists may claim for the provision of treatments from both the HSE and the DSP. Two separate exercises were conducted in the course of audit. These sought to compare HSE and DSP payment records and isolate instances where both organisations had apparently paid for similar treatments in respect of the same individuals.

- An examination of HSE and DSP payment files in respect of treatments, paid for in 2009, identified 10,205 individual patients with records on both files. The audit examined a sample of 185 individuals who had received 588 treatments (excluding oral examinations). In relation to 34 treatments (6% of the sample examined) both the HSE and DSP appeared to have paid dentists in relation to the same individual who received a similar treatment within 60 days[382].
- An examination of HSE and DSP payment records in respect of oral examinations for 2009 identified 7,995 instances where oral examinations had been claimed for by dentists under both the HSE and DSP schemes. The audit examined a sample of 100 of these cases. In 24 cases, the claims had been made in respect of the same individual under the HSE scheme and the DSP scheme and the dates of the oral examination occurred within two months[383].

47.41 The HSE accepts that the possibility of duplicate claims for the same treatment under both schemes exists[384]. The only effective method of detecting duplicate claims is through data sharing between the HSE and the DSP. A data matching exercise was completed in 2008 in respect of the 2005/2006 year. At that time, duplicate payments totalling just under €10,000 were identified in relation to 29 dentists. Most of the overpayments were recouped by DSP from the dentists concerned[385].

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382 The HSE has time limits on treatments allowed under the Dental Scheme. Most of the time limits significantly exceed the 60-day time window adopted for this analysis. For example, restoration (filling) can only be claimed once in a five-year period unless a clinical necessity is proved.

383 The HSE allows for one oral examination per patient in a twelve month period, unless a clinical necessity is proved.

384 HSE report, Dental Treatment Services Scheme, p5, 22 January 2010.

385 In a small number of cases the dentists were no longer practicing or were not on the HSE's panel of dentists and the monies were not recovered.

47.42 In relation to payments to dentists, an effective probity system would

- cover compliance with contractual terms, the quality of the care provided and financial controls
- include risk management systems and elements designed to prevent, detect and deter non-compliance by dentists.

47.43 In 2009, the Department of Health and Children engaged a consultant to report on probity within the dental care sector[386]. The same consultants had previously completed two probity reports on the dental care sector, the first in 2002 and the second in 2007.

47.44 The 2009 report concluded that probity assurance had decreased since 2007, as an examining dentist scheme in place when the 2007 report was completed had been discontinued. Under that scheme, independent dentists reviewed a sample of patients to validate that treatments had been provided and to assess the quality of care. As a result, the report concluded that assurance had been substantially weakened as the perceived deterrent was weaker and contract holders (dentists) were likely to perceive that the authorities did not place any value on probity arrangements. The report also drew attention to the lack of development in the HSE aimed at identifying the risk exposure of the DSP scheme.

47.45 The Accounting Officer stated that during 2010 the HSE undertook a review of the management and organisational arrangements in the National Oral Health Service that found that probity arrangements need to be further developed and strengthened.

47.46 Between March 2010 and December 2010 the HSE circularised 99 patients who had received treatment under its Dental Treatment Service Scheme[387]. Ten patients reported that the full treatment as billed had not been delivered. The HSE has reported that following engagement with eight dentists, the dentists confirmed that treatment had been provided in all but one case where the payment was recouped. In the two remaining cases, the HSE had sought further clarification from the patients and, in the absence of response, will seek confirmation from the dentists concerned.

## Conclusion – Dental Schemes

Given the potential for dual reimbursement by the HSE and Department of Social Protection for dental treatment to patients under the Dental Treatment Services Scheme and the Dental Treatment Benefit Scheme, if two separate schemes are to continue, there would be merit in more regular data-matching of the records of the two bodies and greater use of computer assisted checks in mitigating the risk.

A 2009 report concluded that probity levels had decreased since 2007 which infers a greater risk of overpayment.

The HSE circularises a small sample of patients each month in order to verify that the treatment, which the State has paid for, has been received.

In view of the small sample, and the inherent risk noted in probity reviews it would be prudent to increase the sample size and review a greater number of claims and introduce a procedure to independently validate the treatment in the cases sampled.

386 A Report on Probity Assurance within the Dental Sector, Oral Care Consulting.

387 The questionnaire was not replied to in 20 cases.

## Treatment of Private Patients in Public Hospitals

47.47 Public hospitals accommodate a quota of private patients. In the case of private patients, fees are payable to their medical consultant in respect of their treatment while, in certain cases, maintenance charges are payable in respect of their accommodation.

47.48 The capacity of a public hospital to bill a private patient that is accommodated by it while being treated on a private basis is restricted in a number of ways

- the hospitals can only charge for private patients who are accommodated in a designated private bed – patients in public or non-designated beds are not chargeable
- where a patient with private health insurance is admitted to hospital by a Category A consultant, notwithstanding the fact that the patient is accommodated in a designated private bed, the patient is treated as a public patient even if care is subsequently provided in whole or in part by non-Category A consultants[388].

47.49 Information relating to in-patient private and public bed usage in 23 hospitals for 2010 was examined and compared to 2008 which was the last time the matter was reviewed[389]. Data is not available for some of the larger hospitals and certain smaller hospitals because they do not as yet have systems in place to capture bed occupancy by type of patient. The results are set out in Figure 186.

**Figure 186 Comparison of Bed Occupancy in 2008 and 2010[a]**

| | Public Patients | | Private Patients | |
|---|---|---|---|---|
| | **2008** | **2010** | **2008** | **2010** |
| **Patient Designation[b]** | 1,299,509 | 1,322,022 | 405,076 | 368,261 |
| **Patient Accommodation** | | | | |
| Public Beds | 1,136,657 | 1,146,753 | 181,960 | 143,392 |
| Private Beds | 81,283 | 85,720 | 201,951 | 201,742 |
| Non-designated Beds | 81,569 | 89,549 | 21,165 | 23,127 |

Source: Health Service Executive

Notes: a The results exclude Monaghan, Tallaght and Portiuncula Hospitals as data in respect of both periods was not available for those hospitals. Portiuncula and Tallaght generated 87% and 66% respectively in income from private patients treated in private beds in 2010.

b The figures represent the number of bed days in each category.

47.50 Around 30% of designated private beds were not used to accommodate chargeable private patients in 2008 and 2010. Within the funding arrangements agreed with health insurers, if this pattern was replicated across the system, it would represent a foregoing of a potential income of around €137 million.

47.51 Overall, 45% of private in-patients who are accommodated in the 23 public hospitals reviewed and who are treated privately by their consultants are not charged for their maintenance.

388 The introduction of the new consultant contract provided that certain consultants do not have any private practice in public hospitals (Category A consultants).

389 See Chapter 37 of the 2008 Report of the Comptroller and Auditor General on the Accounts of the Public Services.

47.52 In response to my enquiries in relation to the management of beds, the Accounting Officer stated that during 2011 there has been a significant focus on bed utilisation across hospitals and on the increased necessity to generate and collect income. The HSE is currently gathering more detailed data on private bed utilisation and the potential for transfer of existing bed designations between hospitals and expects to have this information available by Autumn 2011. This will supplement information on bed days that has already been gathered by it.

47.53 He stated that the HSE has been in discussion with the Department of Health as it is acknowledged that it is a function of the Minister to determine policy in relation to the overall level of private patient capacity in public hospitals. The HSE has made proposals that would lead to a significant improvement in the practical management of hospitals and support the provision of public care by the HSE. These would entail

- agreeing a process for the review and amendment of bed designations on a six monthly basis – this is particularly relevant in the context of hospital reconfiguration
- changing the regulations to allow a move away from specific bed designation to general designation[390]
- updating private bed designations to reflect the shift from in-patient to day case work.

47.54 The re-designation of beds within and between hospitals in Dublin North East was approved by the Minister for Health in July 2011 and further approvals have since been given in respect of the Dublin Mid Leinster region. Similar proposals for HSE South and HSE West are being prepared for submission to the Minister. The HSE has met with the Heads of Finance and the Clinical Directors of all HSE-funded acute hospitals and has stressed the importance of improving bed management.

47.55 In regard to a process for the timely management of maintenance claims, the HSE intends to submit a business case to the Department of Health seeking approval for a Health Insurance Claims and Information System. This system will assist hospitals to manage their private income by providing real time bed occupancy information.

47.56 He also stated that the recent establishment of a Special Delivery Unit in the Department and the focus on bed management will also contribute to this work in the short-term.

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[390] For example where a hospital has 100 beds – permitting any 20 beds to be utilised as private. Such a change would reduce the need to re-locate patients after admission simply for the purposes of managing private throughput.

## Conclusion – Treatment of Private Patients in Public Hospitals

Overall, 45% of inpatients treated privately by their consultants (in the 23 hospitals reviewed) were not charged for their maintenance costs.

Based on information available from those hospitals up to €137 million in income is foregone in respect of designated private beds not used to accommodate this category of patient. While the practical management of hospitals necessarily requires that beds designated as private be available to address infection control and other medical issues there appears to be scope to improve revenue generation through improved bed management.

The HSE has recently received the approval of the Minister for Health for the re-designation of beds within and between hospitals in a number of regions in order to maximise the utilisation of facilities designated for private use and thereby optimise hospital income. Proposals for other regions are currently being prepared for approval.

There are information gaps in that in-patient private and public bed usage was only available for 23 hospitals since some do not as yet have systems in place to capture bed occupancy by type of patient.

## Monitoring of Voluntary Hospital Performance

47.57 Voluntary hospitals are arms length bodies that are integrated into the delivery of the public health system. In 2010, the HSE provided around €1.9 billion to fund the 17 voluntary hospitals[391]. These funds are made available under arrangements for the provision of health services entered into under the Health Act 2004. The procurement is governed by a three-year service arrangement that incorporates a service level agreement and a business plan.

47.58 The basis for control and monitoring of the operations of voluntary hospitals is founded on

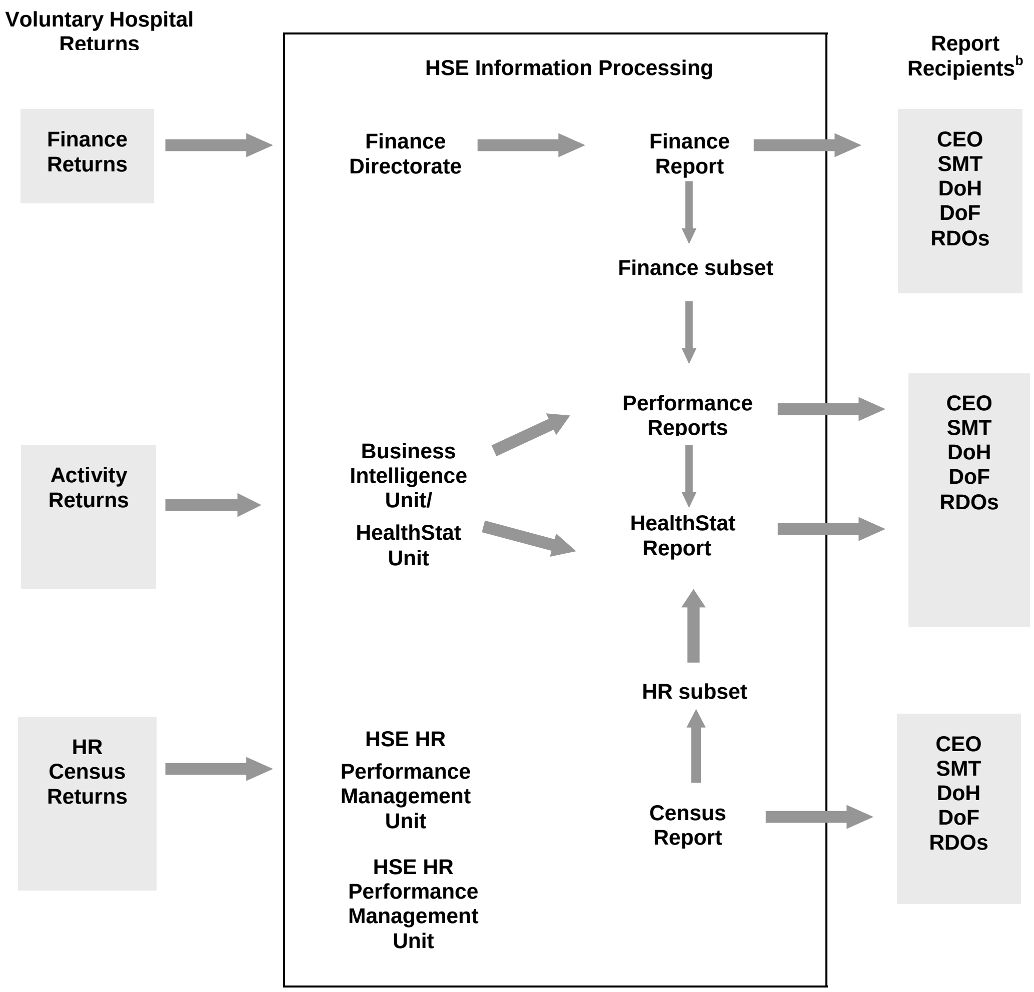
- an annual business plan that specifies the allocation
- activity levels specified for defined categories of work (inpatient discharge numbers, day cases, outpatient attendances and in the case of hospitals with Emergency Departments, emergency presentations and admissions)
- an approved employment ceiling.

[391] The number of voluntary hospitals reduced to 16 during 2010 as St. Lukes Hospital Board was dissolved and its functions merged into the HSE on 31 July 2010.

## Management Information

47.59 Each month, voluntary hospitals compile information on financial and operational performance as well as employment levels. The use to which this information is put is outlined at Figure 187.

**Figure 187 Voluntary Hospital Reporting[a]**




Notes: a References to subsets are to the elements of reports that are used in the course of further processing.

b All report output is published on the HSE website.

## Performance Information

47.60 In respect of 2010 the audit found that

- The activity levels for the defined categories of work are being achieved in the cases examined. However, because funding is not definitively linked to activity due to the incremental development of budget allocations over the years it is not readily possible to determine whether resources and output are properly aligned.
- From a performance reporting viewpoint, a drawback is that only seven of the 16 voluntary hospitals report on the HealthStat system. In respect of those that report using the dashboard[392] system three of the seven were classified in March 2011 as being in the red zone from a resource utilisation viewpoint and four were categorised as amber[393]. Results for resource utilisation were not compiled in respect of the remaining nine hospitals[394].
- Overall, the 16 voluntary hospitals were exceeding their employment ceilings by 1.6% at March 2011. Three hospitals were more than 5% in excess of their ceilings. The reported employment figures do not include nursebank resources[395].

47.61 Figure 188 outlines the activity levels for Voluntary Hospitals in 2010.

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[392] HealthStat presents detailed monthly performance information from hospitals as a series of graphs on a performance dashboard.

[393] Red denotes unsatisfactory performance and requiring attention. Amber denotes average performance with room for improvement.

[394] These comprise three maternity hospitals, two paediatric hospitals, two with single specialty functions and two small hospitals.

[395] Nursebank arrangements involve creating a resource unit within a hospital where a register of nurses is maintained that will provide nursing services, either on a specific contract or by providing additional hours.

**Figure 188 Activity Levels for Voluntary Hospitals in 2010**

| Voluntary Hospital | Inpatient Discharges | | Day Cases | | Outpatient Attendances | | Emergency Departments[a] | |
|---|---|---|---|---|---|---|---|---|
| | Planned | Actual | Planned | Actual | Planned | Actual | Attendances | Admissions |
| Tallaght | 20,643 | 24,634 | 31,044 | 32,406 | 240,642 | 249,395 | 73,963 | 18,029 |
| Coombe[b] | 18,606 | 19,217 | 6,803 | 16,469 | 95,520 | 105,575 | — | — |
| National Maternity | 18,205 | 19,557 | 3,162 | 3,190 | 82,211 | 91,569 | — | — |
| Royal Victoria Eye and Ear | 2,285 | 2,391 | 4,235 | 5,582 | 40,083 | 39,695 | 33,867 | 681 |
| St James's | 19,664 | 24,537 | 92,769 | 92,695 | 205,566 | 218,039 | 44,911 | 13,912 |
| St Luke's | 1,613 | 1,772 | 2,861 | 3,105 | 53,112 | 66,835 | — | — |
| St Michael's | 2,315 | 2,582 | 4,576 | 5,193 | 20,223 | 21,297 | 12,278 | 1,285 |
| St Vincent's | 13,455 | 15,028 | 48,465 | 50,723 | 127,494 | 134,249 | 42,139 | 8,545 |
| Crumlin | 9,813 | 10,245 | 15,221 | 16,274 | 81,959 | 77,398 | 31,642 | 3,795 |
| Temple St | 6,110 | 7,617 | 4,733 | 5,260 | 54,908 | 59,394 | 38,970 | 3,470 |
| Beaumont | 19,031 | 21,685 | 46,645 | 45,948 | 153,500 | 167,509 | 47,177 | 11,859 |
| Cappagh | 1,970 | 2,474 | 8,190 | 8,779 | 8,100 | 8,129 | — | — |
| Mater | 14,260 | 15,925 | 36,294 | 37,485 | 194,000 | 202,047 | 46,876 | 9,613 |
| Rotunda | 15,355 | 15,921 | 3,064 | 3,306 | 85,129 | 90,212 | — | — |
| Mercy | 8,027 | 9,169 | 17,862 | 18,966 | 40,972 | 45,682 | 25,723 | 5,251 |
| South Infirmary | 7,733 | 8,499 | 17,609 | 15,528 | 54,087 | 52,389 | 19,727 | 3,577 |
| St John's | 3,408 | 4,258 | 6,840 | 6,927 | 13,756 | 13,206 | 17,261 | 2,204 |
| **Total** | **182,493** | **205,511** | **350,373** | **367,836** | **1,551,262** | **1,642,620** | **434,534** | **82,221** |

Notes: a Figures for the three maternity hospitals and the two specialty hospitals are not available.
b Certain procedures, including colposcopy, were done as day cases in the year.

47.62 Patient discharges were 13% above the planned activity level in the case of inpatients and day case activity was nearly 5% above the planned level. There was a 6% increase in outpatient attendances compared with the level planned.

### *Monitoring Process*

47.63 Voluntary hospitals are held to account based on a monthly Performance Report which is the basis for discussions with the HSE Board and the Department of Health and is prepared in response to the HSE's responsibilities under the Health Act 2004. This report is submitted to the HSE Board and then onward to the Department. Its focus is on each hospital's performance in terms of the annual activity commitment, its financial outturn (including value for money) and HR performance.

47.64 In regard to the classification of hospital performance by HealthStat the Accounting Officer stated that HealthStat is a performance improvement tool, and whilst it is useful in terms of bringing accountability for service delivery, its major function is to support service improvements through the use of data.

47.65 The Accounting Officer stated that the HSE does not have an integrated payroll and personnel administration system covering all employees nationally and this is an underlying system deficiency. He stated that the HSE has sought to compensate for this by putting a database in place which attempts to integrate the payroll and employment data sets for the statutory system only.

47.66 He stated that governance arrangements in relation to voluntary hospitals are separate to those for statutory hospitals. The HSE monitors employment numbers for the voluntary hospitals but does not have an audit role for voluntary hospital payroll systems. Voluntary hospitals have their own internal and external audit arrangements in place. In 2011, the HSE's Internal Audit Directorate will be undertaking a series of audits of compliance with the provisions of the Service Arrangement with a number of HSE funded agencies.

47.67 In relation to the arrangements in place to ensure that overall cash balances within the public health system are managed with the maximum economy he stated that bank balances, of voluntary hospitals as disclosed by them are monitored on a monthly basis. The HSE treasury function investigates any large balances and seeks to minimise them by reducing cash disbursement accordingly.

## Conclusion – Voluntary Hospital Monitoring

The HSE has reasonable systems in place to monitor the financial and operational performance of voluntary hospitals. Areas which might merit a review include a closer monitoring of compliance with employment ceilings, their alignment with the budget and the scope for more refined treasury management. For example, in this connection, St James's Hospital had cash balances of €21 million at end 2010 partly due to the level of cash advances made to it by the HSE in December 2010.

# Chapter 48

# Nursing Home Care Costs

Vote 40   Health Service Executive

# Nursing Home Care Costs

48.1 The cost of long-term residential care is borne on subhead B.12 in the Health Service Executive Vote for 2010. It amounted to €959 million in that year. Figure 189 sets out the cost components of the Long-term Residential Care Subhead allocation for 2010 and the outturn.

**Figure 189 Long-Term Residential Care Cost 2010**

| | | Estimate[a] | Outturn |
|---|---|---|---|
| | €m | €m | €m |
| Nursing Homes Support Scheme | | 148 | 238 |
| Subvention and contract beds | | 308 | 228 |
| Public Facilities[b] | | | |
| - Pay | 209 | | |
| - Non-Pay | 314 | 523 | 493 |
| **Cost to 31 December 2010** | | **979** | **959** |

Notes: a Revised Estimates for the Public Services 2010.
b Public facilities exclude five voluntary nursing facilities which were funded from subhead B.5 of the HSE Vote at a cost of €82.4 million in 2010.

48.2 Included in the cost of the Nursing Homes Support Scheme (NHSS) for 2010 is €8.5 million by way of ancillary support to residents[396]. This involves the State meeting certain costs on a loan basis for which the resident is liable in cases where the property portion of means is not immediately liquid. At the end of April 2011 a total of 3,386 loan applications had been received which represented 16% of all the NHSS applications.

48.3 At the end of 2010, 21,698 nursing home places for long-term residential care were supported by the State as set out in Figure 190.

**Figure 190 Nursing Home Places at 31 December 2010**

| | End 2010 | End March 2011 |
|---|---|---|
| Private beds | 10,229 | 11,458 |
| Public beds | 6,600 | 6,446 |
| Subvented beds | 2,478 | 1,940 |
| Contract beds | 2,391 | 2,285 |
| **Total [a]** | **21,698** | **22,129** |

Note: a Excludes approximately 400 beds in voluntary facilities.

48.4 2010 was the first full year of operation of the new NHSS which had commenced on 27 October 2009. A key objective of the scheme is to equalise State support for public and private long-term residential care and ensure that long-term residential care is affordable to those who need it.

[396] This is known as Ancillary State Support.

48.5 The NHSS replaced an existing subvention scheme for residents in private facilities which had been in operation since 1993. Under the subvention scheme a person availing of a private long-term care bed could be entitled to a subvention based on a means test but was otherwise obliged to meet the full cost of care. Up to the date of the introduction of the NHSS a person who obtained a public long-term care bed paid long-term residential charges, as provided for in law, towards the cost of care at specified rates[397].

48.6 Under the existing arrangements, the State effectively met 40% of the (estimated average) cost of care in a private facility and around 90% of the cost of care in public facilities. Prior to the commencement of the NHSS public beds constituted approximately one third of long-term residential care beds but this proportion has been decreasing over time.

48.7 The high cost of private nursing home care even after taking account of subvention was also seen as a significant contributory factor in the number of delayed discharges from the acute hospital sector. In order to avoid delayed discharges reaching an unacceptable level, the Health Service Executive (HSE) often had to contract beds in private nursing homes.

48.8 The features of the NHSS are set out at Annex A.

48.9 The role of the HSE as scheme administrator includes

- undertaking assessments of the care requirements and financial means of scheme applicants
- providing financial support to qualifying applicants
- determining applications for nursing home loans (Ancillary State Support) and liaising with the Revenue Commissioners in relation to the repayment of those loans
- undertaking reviews and appeals.

## Chapter Focus

This chapter examines

- the arrangements in operation for procuring private nursing home facilities under the Nursing Homes Support Scheme and the relative cost of facilities
- how the HSE is managing the cost of nursing home care
- the inspection arrangements for nursing homes.

[397] Up to the commencement of the NHSS the Health (Charges for In-Patient Services) (Amendment) Regulations 2008 provided that for persons availing of in-patient services on premises where nursing care was provided on a 24 hour basis they would be charged at the lower of €153.25 per week or the amount of their weekly income less €44.70. Separate rates applied where nursing care was not provided on a 24-hour basis.

## Procurement of Private Nursing Home Facilities

48.10 Payments to private[398] nursing facilities are paid directly by the HSE to the proprietor at prices which have been agreed through a negotiated process.

48.11 The National Treatment Purchase Fund Board (NTPF)[399] is designated by virtue of Section 40 of the Nursing Homes Support Scheme Act 2009 (the Act) to negotiate and agree prices on the cost of long-term residential care services with approved private and voluntary nursing home owners. The Act envisaged that the NTPF would set maximum prices in respect of approved nursing homes. When agreement is reached it supplies the results to the HSE.

48.12 In view of the reference to set maximum prices in the governing legislation I enquired of the Accounting Officer as to why the price notified is always that paid. The Accounting Officer stated that Section 41 of the Act provides that the NTPF is '*to make arrangements with a person it considers to be appropriate, being a proprietor of a nursing home, relating to the price at which long-term residential care services will be provided by such person to persons requiring such services and who are in receipt of financial support under the Nursing Homes Support Scheme Act 2009.'* The Act goes on to state that these arrangements shall be notified to the HSE who may publish such information relating to those arrangements as it considers appropriate.

48.13 Since the scheme commenced, the HSE had not been advised by the NTPF that the prices agreed with approved nursing homes were the maximum prices agreed and that these prices could be re-negotiated. It is the HSE's view that it does not have the power to re-negotiate prices agreed with approved nursing homes as under Section 40 of the Nursing Homes Support Scheme Act 2009, price negotiation for cost of care in approved nursing homes is a function of the NTPF (as designated by the Minister) and not the HSE. As a result, the HSE has implemented the prices agreed between the NTPF and approved nursing homes at the rates as notified by the NTPF. However, he noted that due to the scheme's financial difficulties this year the HSE has suspended the implementation of further increases in prices as notified by the NTPF since 12 May 2011, pending a review of the current arrangements.

### *NTPF Procurement Procedures*

48.14 Prior to the commencement of the NHSS, the NTPF advertised publicly and wrote to all nursing homes regarding its role in the establishment of prices under the Act. It reached agreement with over 430 private nursing homes on prices. Since then, further updates on prices have been agreed and supplied to the HSE and, by early 2011, over 440 approved nursing homes representing almost all private and HSE funded voluntary nursing homes in the State had pricing agreements with NTPF.

48.15 Each pricing agreement is set out in a written deed of agreement showing, *inter alia*

- the definition of long-term residential care
- responsibilities of the contracting parties (the nursing home proprietor and NTPF)
- the maximum agreed price.

[398] These include certain voluntary nursing homes funded under section 39 of the Health Act 2004.

[399] The cost to the NTPF of its involvement in the administration, negotiation, maintenance and review mechanism of the NHSS is approximately €250,000 per annum.

48.16 The NTPF stated that it considers pricing proposals of private and voluntary nursing homes taking account of

- costs reasonably and prudently incurred by the nursing home
- the price previously charged and
- the local market price.

48.17 It stated that, in determining prices its staff rely on visits to facilities, examination of records including accounting and cost information, occupancy rates and their knowledge of costs and prices both locally and in general. In the event of a dispute, a process has been developed to facilitate a review of any inconclusive pricing discussions.

48.18 Agreements run for a period of at least one year with some extending over a number of years. When the agreement falls due for renewal the process is repeated by the NTPF and a new agreement signed.

48.19 No standard pricing model or template was applied by the NTPF in determining prices. Levels of dependency were generally not taken into account in this process.

## Cost Management

48.20 The HSE reported to the Department of Health at the end of March 2011 that the NHSS was running at a level which was above its funded budget. Amongst the factors cited as contributing to the budgetary difficulties were

- an increase of 4% to 5% in the NTPF prices agreed with private nursing homes above that estimated, which would give rise to €20 million additional costs on a full year basis
- the requirement[400] of backdating arrears payments which if it were to continue would cost €56 million in a full year
- a lower than expected rate of reduction in subvention and contracted beds
- the average length of stay of residents had increased to an estimated four years – a timespan that was 60% greater than that used for planning purposes.

48.21 While not impacting on the overall cost to public funds, the HSE charged €52 million to Subhead B.12 in 2010 in respect of medicines and therapeutic services to residents. It did this on the basis of the commitment that residents in public nursing homes at the commencement of the NHSS would not be disadvantaged through the introduction of the new arrangements. It also stated that no adjustment was made to the subhead at any time to remove those ancillary costs, nor was there any decision to remove those services from existing residents.

48.22 The Department stated that it made it clear to the HSE that in order to manage the NHSS and comply with the principle of equalising State support under the scheme for residents of public and private facilities that these type of costs should not have been charged to the subhead.

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[400] This requirement derives from Section 13 (3) of the Nursing Homes Support Scheme Act 2009.

### *Cost of Facilities*

48.23 Upon notification from the NTPF of the agreement with the nursing home the NHSS contribution to cost of residential care is based on the agreed price without any further intervention by the HSE on the matter.

48.24 The national average weekly prices agreed for long-term residential care in private nursing homes is approximately €865. Prices vary depending on location from €565 per week in Tipperary to €1,344 in Dublin.

48.25 In the case of public nursing homes funded from the HSE Vote the average cost was estimated at €1,245. Figure 191 shows the number of nursing homes that fell into different cost categories for both public and private facilities in 2010.

**Figure 191 Nursing Homes Costs in 2010**

| Facility | Private facilities[a] | Public facilities[b] |
|---|---|---|
| under €600 | 6 | 1 |
| €600- €900 | 285 | 7 |
| €900 - €1,200 | 116 | 61 |
| €1,200 - €1,500 | 29 | 32 |
| over €1,500 | — | 21 |
| Total Nursing Homes | 436 | 122 |
| **Average Price/Cost** | **€865** | **€1,245** |

Notes: a Prices are based on single room occupancy and rates in late 2010.
b Data based on a review of the cost of care carried out in 2010.

## Inspection Arrangements

48.26 The registration of a nursing home is for three years after which the provider must make an application to Health Information and Quality Authority (HIQA) for registration renewal.

48.27 Under the Health Act 2007 all facilities must be inspected by and registered with HIQA. Prior to its enactment, only nursing homes operated by private and voluntary providers were inspected.[401]

48.28 A Regulatory Impact Assessment[402] on the introduction of the quality standards noted that there were significant shortfalls in relation to the physical environment in public nursing homes with many requiring significant refurbishment or replacement to comply with the quality standards. It stated that the refurbishment costs would be significant and depending on the relative proportions of units being replaced and upgraded the estimated cost would be of the order of €1.2 billion in 2008 prices. The standards, however, allow a period of time within which to meet the standard in circumstances where a fully costed plan is drawn up.

401 Inspections of private facilities were previously carried out by the HSE.

402 Nursing Homes Standards Regulatory Impact Analysis published by the Department of Health and Children.

## Conclusion

The Act envisaged that the NTPF would agree maximum prices with nursing homes. However, prices paid by the HSE under the NHSS did not deviate from the prices agreed by the NTPF and the price agreed by the NTPF was the effective price paid by the State under the scheme.

In determining the price with the nursing homes the NTPF did not use costing models to inform the process but rather relied on information supplied by nursing homes and its review of that information. It also based its decisions on general knowledge of the cost and price drivers in the sector.

Because the agreements are relatively short-term the NTPF is likely to find itself in an ongoing negotiating position.

The NHSS has run into cost pressures due to

- the prices negotiated with private nursing homes exceeding those estimated
- the fact that significant arrears were paid (based on statutory entitlement) to persons who had opted for the NHSS and left the existing subvention scheme
- the fact that the number of residents occupying subvention and contracted beds has not been declining to the extent anticipated
- that fact that the length of stay of residents is turning out to be significantly higher than anticipated.

The cost of public nursing home facilities is significantly higher than prices paid for private nursing home places. The cost of public nursing homes could be further impacted by the costs required to upgrade facilities in line with the new quality care standards.

## Annex A Features of the Nursing Homes Support Scheme

The Nursing Homes Support Scheme Act 2009 (the Act) contains a number of measures aimed at equalising State support for public and private nursing home residents such as

- the applicant's financial contribution to long-term care is capped and the State pays the balance irrespective of whether care is provided in a designated public, approved private or voluntary facility
- the provision of financial support is subject to the applicant qualifying under a standardised care needs assessment and a financial assessment
- the principle of resident choice extends equally across facilities
- the basis of financial support is consistent across facilities.

The key considerations in assessing the applicant's financial contribution to care costs are

- the contribution cannot exceed the cost of care
- the annual contribution is set at 80% of assessable income and 5% of the value of any assets owned
- the first €36,000 of assets (€72,000 for a couple) are not counted in the assessment
- where the assessment of assets includes land and property in the State the 5% contribution may be deferred and collected from the person's estate
- the person's principal residence will only be included for the first three years of assessment (i.e. capped at 15%).
- the three year 'cap' can also extend to farms and businesses, in certain circumstances.

Where the 5% contribution has been deferred, the HSE pays or incurs this element of the cost of care on behalf of the individual. In effect, the HSE loans part of the cost of care and recoups the loan advanced upon the person's death. This loan facility titled 'Ancillary State Support' is provided for in the Act and assists individuals to avoid having to dispose of property assets such as a house during their lifetime.

The arrangements under the loan facility involve a Charging Order[403] registered against the property.

- The HSE makes the Charging Order, registers it against the asset with the Property Registration Authority and makes payments to the nursing home facility or incurs the cost of care on the person's behalf.
- Where the person is part of a couple, the spouse or partner must also request payment of the loan and consent to the Charging Order being registered.

When the loan is due to be repaid the HSE seeks repayments from the person responsible – for example an executor, and notifies that person of the loan balance due including any adjustment for indexation[404]. The Revenue Commissioners collect amounts owed in line with instructions sent by the HSE.

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[403] A Charging Order is a simple type of mortgage provided for under the Act which secures the money loaned by the HSE.

[404] The Consumer Price Index published by the Central Statistics Office is used to calculate the time value of money impact on the loan

In cases where repayment arises because of the death of the resident in care the loan must be repaid within 12 months, with interest charged after that date by the Revenue Commissioners in accordance with the Act. If the loan becomes repayable because of the sale or transfer of the property during the person's lifetime then the loan must be repaid within six months of that date otherwise interest will be charged.

### *Transitional Arrangements*

A commitment was given that persons who were in a nursing home prior to the commencement of the NHSS would not be made worse off in that

- the applicant is notified of their approval for financial support under the scheme
- if the care is provided in a public or voluntary nursing home[405] or in a contracted bed in a private nursing home before the start of the NHSS then the person can continue with that arrangement
- if the person is in an approved[406] nursing home before the start of the NHSS and is being provided with support under the subvention scheme then the person can retain the current subvention system or apply for the NHSS (the three year 'cap' can be applied to time spent in the nursing home prior to the commencement of the NHSS)
- if the person is in an approved nursing home before the start of the NHSS and paying for care, application can be made for the NHSS (again the three year 'cap' can be applied to time spent in the nursing home prior to the commencement of the NHSS)
- if care is being provided in a nursing home which is not approved for the purpose of the NHSS the person can opt to continue with the existing subvention arrangements or apply for the NHSS and change to a nursing home approved for the NHSS.

### *Administration*

The HSE also acts as a service provider. In discharging this role, it must ensure that services are utilised safely, efficiently and in a manner which maximises the overall benefit to the nursing home population.

The NHSS is administered by the HSE through a National Co-ordinating Unit (NCU) in Tullamore and 18 local nursing home support offices which are responsible for processing applications for financial support and for making payments to private nursing homes.

Local offices are responsible for verifying payments to the private nursing home by comparing the details on invoices submitted by the home with their records. If circumstances affecting the resident change either due to death or discharge from the facility, the nursing home is responsible for informing the local office.

To support the administration of the scheme a computer system was procured and deployed in three of the nursing home support offices and the NCU in late 2010. Deployment to the remaining fifteen offices[407] is expected to be completed in 2011 along with the development of some additional features to the system.

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405 Voluntary nursing homes are publicly funded facilities operated by voluntary bodies.

406 Approved nursing homes are defined in the Act as those which are registered in accordance with the appropriate legislation, where a written agreement is in force in relation to pricing and where a tax clearance certificate issued by the Revenue Commissioners has been supplied to the HSE.

407 While the 15 offices have records on an IT system the details recorded are not as extensive as the main system.

### *Care Needs Assessment*

Once an application for care has been made the local nursing home support office arranges for a Care Needs Assessment to determine whether long-term nursing home care is required. The Care Needs Assessment is carried out by a health professional appointed by the HSE and comprises an evaluation under a number of criteria which are set out in the Act. Health professionals use different assessment tools,[408] however the assessments are brought together in a standardised Common Summary Assessment Report for the purposes of a national standardised assessment. The decision as to long-term care needs is made by the Local Placement Forum[409]. A decision which finds that the applicant is not in need of long-term care can be appealed through the local office.

The Department noted that as each person is deemed to need nursing home care as a result of the standardised Care Needs Assessment, and in the absence of a single standardised assessment tool which can identify discrete levels of dependency in a highly refined and robust manner, it is not possible to distinguish between the care needs of different applicants nor to use this as a basis to prioritise funding.

### *Financial Means Assessment*

The assessment of the financial means of the applicant is performed by the local office by checking details submitted on the application form and supporting evidence. Where persons have applied for Ancillary State Support the NCU confirm property details from the Property Registration Authority records.

Once a determination on financial support is made

- the applicant is informed of the level of their contribution
- the local office informs private facilities of the public contribution to care under the NHSS
- the nursing home returns an admittance notice to the local office once the person takes up residence
- the local office makes arrangements for payment to the facility on the submission and verification of invoice details
- where the person is in a public facility the local office instructs the facility to recoup the contribution from the person
- for persons who are approved for loan support the NCU executes the Charging Order with the Property Registration Authority.

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408 Health professionals use tools such as the Modified Barthel Index to measure performance in basic activities of daily living.

409 The Local Placement Forum is a general term for a HSE-led grouping consisting of clinicians and health staff whose primary role is to determine an applicant's need for long-term residential care under the NHSS.

# Chapter 49

# Childcare Facilities

**Vote 41 Children and Youth Affairs**

# Childcare Facilities

49.1 The State began increasing childcare capacity from the late-1990s. At that time, the economy was experiencing high levels of economic growth, falling unemployment and increased levels of female participation in the workforce. It was recognised that, for growth to continue, any barriers to women entering the labour force needed to be addressed. One of the principal barriers in this respect was a lack of childcare provision. This was addressed through programmes designed to subvent the creation of places for the care of children.

- The first childcare programme – the ‘Equal Opportunities Childcare Programme’ (EOCP), which was in place up to 2006 was financed through a combination of Government and EU Structural Funds. Over €500 million was invested in the development of childcare under the EOCP and resulted in the creation of almost 40,000 childcare places[410].
- In 2006, a National Childcare Investment Programme (NCIP) was introduced and an amount of €575 million[411] was allocated to that programme which was to be delivered over the five-year period 2006 to 2010.

49.2 In addition to funding the creation of childcare places through capital grants, a range of State funding has been available to assist with the running costs of service providers and to support access to childcare for certain categories of children. These included

- staffing grants[412]
- reduction of fees to low income families
- childcare support for those in training and employment programmes[413]
- a free year of early childhood care and education for children of pre-school age.

49.3 Childcare is provided in both community-based and private facilities. It is estimated that two-thirds of the income of community-based facilities is provided by way of State subvention.

### *Responsibility for Childcare Programmes*

49.4 Responsibility for childcare programmes rests with the Department of Children and Youth Affairs (DCYA)[414]. The day-to-day operations of the programme are managed by Pobal[415] on its behalf.

49.5 In addition, 33 City and County Childcare Committees (CCCs), established in 2001, are involved in facilitating the delivery of the NCIP. Seven National Voluntary Childcare Organisations (NVCOs)[416] also deliver services in the area of childcare. The role of CCCs and NVCOs is outlined in Annex A.

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410 The Pobal Annual Report 2007 notes that 39,108 new childcare places were created under EOCP (16,714 full-time and 22,394 part-time).

411 The capital allocation was €357 million.

412 These were available to community-based childcare providers up until the introduction of a Community Childcare Subvention Scheme in 2008.

413 Programmes administered by FÁS or the VECs.

414 In June 2011, the newly formed DCYA took over the functions previously carried out by the Office of the Minister for Children and Youth Affairs (OMCYA). The OMCYA had in 2006 brought together relevant staff who had previously worked on a range of functions related to children in the Departments of Health and Children, Justice and Law Reform and Education and Skills.

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

416 These are generally membership-based organisations supporting different categories of childcare providers (e.g. full day care, Montessori, Náionraí). A listing of the NVCOs is provided in Annex A.

49.6 A number of national committees or groups also exist in the childcare area. These are

- The National Childcare Coordinating Committee (NCCC) whose terms of reference are to advise and assist the DCYA in relation to the childcare programme, quality issues and the development of a co-ordinated approach to childcare provision.
- A Childcare Regulations Implementation Group which met from September 2007 until the end of 2010 to provide a forum to deal with issues arising following the commencement of the Child Care (Pre-School Services) (No. 2) Regulations 2006.
- A Standards Working Group established in 2008 under the aegis of the Implementation Group to develop a set of national standards for service users and providers. These were published in December 2010.

### *Cost of Childcare Programmes*

49.7 Out of the original programme allocation of €575 million, €452 million[417] was subsequently approved for payment. Funding of €406.7 million has been paid out up to 31 December 2010 under a range of measures encompassed in the NCIP. €31.6 million[418] was incurred on administration with €170 million being paid by way of capital grants and the balance by way of ongoing support.

49.8 Separately, a further €153.5 million has been paid out under an Early Childhood Care and Education Scheme (ECCE) introduced in 2010[419]. Figure 192 details the NCIP provision and outlays.

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[417] This is stated net of decommittals.

[418] This figure has been compiled based on an apportionment of the reported spend on administration costs by the CCCs and the NVCOs during the years 2006 to 2010. In addition, it includes the full amount paid to Pobal. It does not include any element of administration costs incurred by the CCCs and the NVCOs which were funded under the EOCP over the period 2006 and 2007.

[419] This includes approximately €9 million which is allocated primarily to the CCCs and the NVCOs and towards Pobal's compliance role.

**Figure 192 NCIP Funding 2006 – 2010**

| | Approved €m | Paid Out[a] €m | Outstanding Commitment €m |
|---|---|---|---|
| Capital[b] | 181.6 | 170.4 | 11.2 |
| Subvention and Staffing Grant | 188.6 | 165.1 | 23.5 |
| Childcare Education and Training Support | 14.4 | 6.7[c] | 7.7 |
| City and County Childcare Committees | 40.6 | 38.3[d] | 2.3 |
| National Voluntary Childcare Organisations | 7.9 | 7.3[e] | 0.6 |
| Administration costs of Pobal | 17.4 | 17.4 | — |
| Childminder Development Grant | 1.0 | 1.0[f] | — |
| Parent and Toddler Group Initiative | 0.5 | 0.5 | — |
| **Total** | **452.0** | **406.7** | **45.3** |

Source: Pobal

Notes:
a The total outlay on the NCIP and the ECCE to 31 December 2010 was €560.2 million
b Capital amount approved net of decommittals.
c Approximately €3 million was received from FÁS and the VECs in connection with this scheme.
d In addition, the CCCs were paid €8.8 million and €7.3 million in 2006 and 2007 respectively from EOCP funding.
e In addition, the NVCOs were paid approximately €3 million in each of 2006 and 2007 from EOCP funding.
f An unspent amount of €415,000 of the total amount paid in respect of Childminder Development Grants under the EOCP and the NCIP is due to be recouped from the CCCs.

### *Wider Childcare Policy Context*

49.9 The NCIP is administered in the context of the National Childcare Strategy 2006 – 2010. Related objectives encompassed in the wider strategy included

- A new social inclusion programme, 'Delivering Equality of Opportunity in Schools' (DEIS) which was intended to help in meeting the educational needs of children and young people in disadvantaged communities and be implemented by the Department of Education and Skills.
- Publication of strengthened regulations for pre-school services.
- New and improved entitlements for parents. These included a new early childcare supplement of €1,000 per annum for parents, in respect of each child under six years of age, improved maternity and adoptive leave and increased maternity benefit.

### *Changes in Economic Conditions*

49.10 Since commencement of the NCIP in 2006, the economic situation in Ireland has changed substantially. For example, over the five year period, 2006 to end 2010, the seasonally adjusted unemployment rate rose from 4.4% to 13.6%[420]. GDP[421], measured at constant market prices, fell by 11.8% over the period 2007 to end 2010. Female labour force participation rates fell from 54.4% to 53.1% over the same period[422].

49.11 Increasing the supply of childcare facilities remained a key policy objective of Government up until early 2009. From that point onwards and in response to the decline in national economic circumstances, childcare policy changed focus. The capital funding element of the NCIP came to an end in April 2009 and the early childcare supplement was phased out from May 2009.

## Chapter Focus

This chapter examines the outturn of capital investment under the NCIP, the risks to value achievement and how the delivery of childcare is administered, monitored and evaluated.

## Capital Investment in Childcare Places

49.12 Under the capital programme of the NCIP, childcare providers in the private sector could apply for grant assistance of up to €100,000 towards the capital cost of developing a childcare facility[423] subject to a maximum cost of €15,000 per place over five hours of care[424]. At least 25% of the total funding required for the project had to be provided by childcare providers from their own funds.

49.13 Community-based applicants could apply for capital grant assistance subject to an overall maximum grant of €1.2 million and a maximum cost per place of €24,000[425] over 3.5 hours of care[426]. The planned public capital allocation was €357 million.

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420 CSO Quarterly National Household Survey.

421 Gross Domestic Product (GDP) is the market value of all goods and service produced within a country in a given period.

422 Female labour force participation rates rose by 13.4% when looked at over a longer period of investment in childcare – for example between 1995 and 2010 (from 39.7% to 53.1% respectively).

423 An applicant could apply for more than one grant, provided the subsequent childcare facilities were in different catchment areas and subject to an overall ceiling of €500,000.

424 A full-time place is classified as over five hours of care. A lesser grant equating to 50% of the grant for a full-time place was available to private childcare providers for a part-time place (3.5 to 5 hours) or for a sessional place (3.5 hours continuously per day). In exceptional cases, grants to raise the quality of an existing service to an acceptable standard were available at €5,000 per existing place up to a maximum of €100,000.

425 This was revised upwards in 2007 from an initial maximum cost per place of €20,000 and an overall grant ceiling of €1 million.

426 The maximum grant of €24,000 per place applied in the case of community-based facilities to both full-time places (greater than 5 hours) and part-time places (3.5 to 5 hours). A lesser grant equating to 50% of the grant for a full-time place was available for a sessional place (3.5 hours continuously per day). In exceptional cases, grants to raise the quality of an existing service to an acceptable standard were available at €5,000 per existing place up to a maximum of €125,000.

49.14 The targets set for the NCIP were

- the creation of an additional 50,000 new childcare places (22,000 of which were expected to be in the private sector and 28,000 in the community and voluntary sector)
- the use of approximately 10,000 (20%) of those places to cater for the 3-4 years age group with a focus on early childhood care and education
- to utilise around 5,000 (10%) of the places to cater for children of school-going age outside of usual school times.

49.15 The available documentation suggests that this initial target of 50,000 new childcare places was determined at the time of Budget 2006, based on the estimated outturn in terms of places from the proposed investment package rather than on a formal assessment of need.

49.16 There was no documented rationale that set out a basis for the split between private sector places and community-based places. Neither was the basis for the target number of new places, for the 3-4 years age group and the school-going age group, outlined.

### *Local Needs Assessment*

49.17 When the NCIP programme was being implemented childcare needs at a local level were subjected to analysis and CCCs engaged in a mapping exercise to determine the level of childcare need in their areas. In general, this involved

- identifying through a survey of childcare providers and childminders, the existing level of childcare provision in their areas and
- using information on the projected future growth of the city or county to identify gaps in the current provision of childcare services. Existing waiting lists were also used in the assessment of needs.

49.18 However, a standardised approach to the mapping exercise was not adopted by all CCCs and, as the information used, was in general, based on the response to questionnaires, it may not have captured the full level of existing childcare provision in each city or county area. As a result, the information gathered was never summarised to give an overall national picture of the level of childcare service provision and needs identified at the time.

### *Project Approvals and Payments*

49.19 Capital grants approved under the NCIP up to the end of 2010 amounted to €229.3 million[427]. However, of that amount, €47.7 million was decommitted leaving the net amount approved at €181.6 million[428].

49.20 Figure 193 summarises the status of capital funding over the period to December 2010.

**Figure 193 NCIP Capital Funding Position 2006 – 2010**

| Facility Type | Gross Approvals | Decommittments | Net Approvals | Paid Out | Commitments at 31 December 2010 |
|---|---|---|---|---|---|
| | €m | €m | €m | €m | €m |
| Private | 44.0 | ( 9.4) | 34.6 | 34.1 | 0.5 |
| Community Based | 185.3 | (38.3) | 147.0 | 136.3 | 10.7 |
| **Total** | **229.3** | **(47.7)** | **181.6** | **170.4** | **11.2** |

Source: Pobal

49.21 The rules of the NCIP provide for the decommittal and recovery of funds allocated to beneficiaries in certain circumstances. These are

- failure to sign a contract within 12 months of the issue of a letter of grant offer or by 31 March 2010, whichever is earlier
- failure to comply with financial and statutory obligations and/or meet management and governance standards
- failure to commit funding in accordance with a specified timeframe
- failure to submit financial and impact reports
- not proceeding with a project or part of a project.

49.22 By the end of 2010 grants of €47.7 million had been decommitted equating to just over 20% of gross approvals at that date. The largest portion of decommittals occurred in 2008 and 2009.

49.23 Almost 90% of the decommittals were made for failure to sign contracts within the timelines required. Approximately 9% were decommitted following a decision of the beneficiary not to proceed as planned and the balance for failure to comply with obligations.

49.24 Overall the slowdown in programme delivery is underlined by the fact that cumulative capital project approvals are around half of the programme target and at delivery stage the drawdown of funds has also slowed. Of the outstanding commitments of €11.2 million at 31 December 2010, a considerable proportion was in breach of a two-year drawdown limit[429]. Eleven projects with undrawn allocations in excess of €100,000 at 31 December 2010 had not complied with this condition. The amount of the net capital grant approved in those cases was €9.98 million and the amount unpaid at 31 December 2010 was €5.6 million.

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[427] This included €57 million worth of capital projects which transferred from EOCP to the NCIP from 2006.

[428] This does not include the grants approved under the Childminders Development Grants Scheme or the Parent and Toddler Group Initiative.

[429] Grantees were required to have reported on their grant expenditure within two years of the letter of grant offer from the DCYA or 31 March 2011, whichever was earliest.

### *Exceptional Payments*

49.25 Seven capital grants had been approved in excess of the limits allowed under the programme[430]. The amounts approved ranged from just over €1.2 million to €2 million.

49.26 The CEO of Pobal stated that in six of the seven cases, the capital funding had originally been approved under EOCP where no limit applied in relation to community based capital. Projects were planned and developed based on the approval made under EOCP. On transferring the grants to NCIP, Pobal conducted a detailed analysis of each project on a case by case basis, assessing the cost benefit of delivering the project based on the original approval versus non-delivery. On balance, it was deemed in these exceptional cases that the objectives of the programme and the needs of each area would be better served by allowing the projects to continue to completion with the original approved grants. He stated that the other case had been the subject of appropriate procedure and approval.

49.27 There were a small number of capital projects that did not proceed and upon which an outlay was incurred. For example, notwithstanding the fact that a project was not proceeded with, professional fees of €104,000 were paid out in respect of the aborted project.

### *Places Created*

49.28 The number of places created up to the end of December 2010 was reported by Pobal as 24,356[431]. According to Pobal a greater proportion of places than planned was created in private facilities and more than double the proportion of places for the 3-4 age group were provided. However, the audit found considerable inaccuracies in the database from which this information is drawn. On foot of my concerns, Pobal engaged its internal auditors to carry out an exercise to determine the accuracy of the data recorded in the Childcare Programme database. On the basis of examination of a random sample of childcare grants, the internal audit found a 4.5% error rate in the database as compared to the underlying records[432].

### *Pattern of Use of Facilities*

49.29 At the level of use of the facilities, CCCs have reported a noticeable change in recent years in the type of service being provided by local childcare providers with a switch from full-time places to sessional places. This indicates a change in demand related to the increase in the number of people unemployed and the affordability of childcare.

49.30 The guaranteed income of the ECCE free pre-school year appears to have also contributed significantly to the change in the profile of demand. Under the ECCE scheme, introduced in January 2010, children aged between 3 years 2 months and 4 years 7 months on 1 September each year, are entitled to avail of a free pre-school place of five daily sessions of three hours per day for 38 weeks per year.[433]

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[430] €1.2 million for community based applicants and €100,000 for private sector providers.

[431] While data is captured on the number of places in each of the different categories of childcare provision, these are not converted to full-time equivalent places. Instead, all are treated equally for the purpose of reporting targets and delivery.

[432] Both the target and actual number of places are affected by the errors. The 4.5% error rate relates to target places.

[433] Families may avail of the scheme within a full-or part-time childcare service, in which case a child will be entitled to 50 weeks of free pre-school provision of 5 weekly sessions of 2 hours and 15 minutes per day.

## Conclusion – Childcare Capital Investment

The original target of 50,000 new childcare places was not based on a detailed analysis of childcare needs across the State and the planned split of provision between the private sector and the community sector was not based on a specific rationale.

At the level of implementation, CCCs adopted a reasonably structured approach to childcare planning, though the information used varied.

Audit testing found that the reporting of both targets and outputs of new childcare places did not accord with the underlying records and in further investigative work by Pobal, an error rate in the order of 4.5% was found in the reported numbers. This has implications for all results published to date. However, the information is sufficient to sustain some broad conclusions.

- Around 25,000 childcare places will be created under the programme.
- Within the reported output level, the structure of the programme delivered, differed from that planned. A greater proportion of childcare places has been delivered in private facilities.
- The greatest focus of delivery has been on the 3-4 age group category where half of all places are estimated to have been created compared with a planned 20%.

Due to the change in economic climate and the income guarantee associated with the sessional services of the free pre-school year, there has been a switch in the type of childcare service being provided resulting in more sessional services than full-time.

## Value for Money

49.31 Achieving value for money from the capital investments involves, *inter alia*

- Matching the places created to the demand for them
- Avoiding displacement
- Ensuring that the cost of provision is in line with the planned outlay.

### *Take-up of Places*

49.32 Based on data provided by Pobal, one out of every five places was unfilled at the end of December 2010. This implies an excess capacity of about 15,000 places in all services supported by the NCIP.

49.33 The excess capacity suggests that over half of the new places actually created by the end of December 2010 were in excess of requirement. In addition, a greater proportion of places being counted as output may be part-time or sessional places rather than full-time places as envisaged.

49.34 Based on an estimated cost per place of approximately €5,165 the estimated excess places created cost at least €75 million[434].

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[434] Certain places created are also associated with refurbishment grants. It was not possible to definitively assess the impact of these on the cost per place. If they were all reckoned the cost would rise to €6,400 per place.

49.35 It is likely that a considerable element of the current excess capacity is due to the fact that demand is depressed because of reduced incomes, unemployment levels and the general economic climate. Pobal has stated that with the support of NCIP, the capacity and infrastructure was now in place to meet that demand when families have the opportunity and resources to translate their need into demand. At the same time providers face a challenge to maintain their operations until demand increases.

## *Closure of Facilities*

49.36 In addition to the costs associated with expenditure in creating facilities or places in excess of need there is a likelihood that excess capacity can cause a displacement effect. While it is not possible to directly link facilities that have closed with the funding of new ones, 126 facilities that were State-subvented have closed.

49.37 Some 40 NCIP funded childcare services were known to Pobal to have ceased operations in the period 2006 to end 2010. Figure 194 provides information on those facilities. Just over €0.5 million had been paid out in capital grants to those entities, mainly to private service providers.

**Figure 194 NCIP Funded Childcare Services which Ceased Operation in the Period 2006 to end 2010**

| | Community Facilities | Private Facilities | Total |
|---|---|---|---|
| Number Closed | 30 | 10 | 40 |
| Number Approved NCIP Capital | 7 [a] | 10 [b] | 17 |
| Amount of Capital Approved | € 1,690,365 | € 607,586 | € 2,297,951 |
| Amount of Capital Paid Out | € 33,853 | € 502,316 | € 536,169 |

Source: Pobal

Notes: a Capital funding had been paid out to service providers in one of the seven cases.

b Capital funding had been paid out to service providers in nine of the ten cases.

49.38 On top of the 40 NCIP funded services which closed, a further 86 EOCP funded services closed (51 community-based providers and 35 private providers). Approximately €6.3 million had been approved in EOCP capital grants to services that closed and €3.2 million had been paid out. A further €10.9 million had been paid in EOCP staffing grants to the community facilities which subsequently closed. 18 of the above services (17 community based and 1 private service provider) are known to have merged or moved into another service following closure.

## *Cost Outturn against Plan*

49.39 Overall, the net capital funding approved to end December 2010, at half of the original earmarked capital provision, is in line with the activity level as reported.

49.40 Sampling of grants found that none of the sample exceeded the benchmark cost per place set for the type of facilities subvented. However, subsequent to being subvented, a considerable shift occurred in the use of those places, as tracked by Pobal half-yearly financial and impact reports. Sessional use increased by 18% in community facilities and 11% in private facilities. Corresponding reductions occurred in the use of full-time and part-time places.

## Conclusion – Value for Money

Some 126 childcare providers that received funding under childcare programmes are known to have closed. The total capital funding (NCIP and/or EOCP) paid out to those facilities was €3.7 million.

Based on attendance data, there are an estimated 15,000 excess childcare places in the sector. This is over half the number of new places created to end 2010 under the NCIP.

At an estimated cost per childcare place of €5,165, the cost of the places currently in excess of requirements is at least €75 million. The State faces a challenge in ensuring that this excess capacity remains available to meet future demand.

Reduced demand creates a risk that elements of the infrastructure may not be fully employed for the purposes for which it was created or that, due to demand reduction, certain subvented facilities will cease to be used.

The mix of use differs from that envisaged with more sessional use being reported in both the community and private facilities.

## Administration and Evaluation

49.41 In addition to the capital funding provided to childcare providers, two schemes funded under the NCIP assist low-income parents with their childcare costs.

- The Community Childcare Subvention (CCS) – available to community-based childcare providers only[435].
- The Childcare Education and Training Support (CETS) programme – available to both private and community-based childcare providers.

49.42 In addition, an Early Childhood Care and Education (ECCE)[436] scheme was introduced from January 2010, on the cessation of the Early Childcare Supplement[437]. This is available to both community-based and private childcare providers. It provides a free year of early childhood care and education to children of pre-school age.

### *Community Childcare Subvention*

49.43 The CCS came into operation in 2008 and replaced staffing grants which had, prior to that, been paid to community-based childcare services. The CCS subvents community-based services to reduce childcare fees charged to low-income families. The subsidies are available in respect of parents who are in receipt of social welfare payments or are engaged in education, training or work experience programmes, where an underlying entitlement to a social welfare payment is established, as well as for persons in receipt of Family Income Supplement and holders of medical and GP visit cards. The subvention is paid directly to the services, with annual funding levels based on the number of qualifying parents during a reference week.

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435 On its introduction in 2008 and up until its modification in September 2010, the CCS was generally referred to as the CCSS (Community Childcare Subvention Scheme).

436 Commonly referred to as 'Free Pre-School Year'.

437 The Early Childcare Supplement was paid to parents of children under six years of age and amounted to €1,000 per annum before being abolished from November 2009.

49.44 The financial terms of the scheme can be difficult to implement in a clear-cut way. For example, Dublin City Childcare Committee noted that there can be difficulties in collecting top-up childcare fees from some parents who are supported under the CCS. Their experience was that a community-based facility would be reluctant to terminate the service because it might not be in the best interest of the child to do so. Funding may be available from the Community Welfare Officer of the HSE in such situations.

### *Childcare Education and Training Support Programme*

49.45 The CETS programme commenced in September 2010 and replaced previous childcare support schemes implemented by FÁS and the Vocational Educational Committees (VECs) under which qualifying students and trainees had been directly allocated childcare payments to support their childcare costs. Under the new scheme, participating childcare services are paid a weekly capitation fee in respect of each childcare place contracted with their service[438]. In return, the service is required to provide a childcare place, free of charge to the qualifying student or trainee. Childcare places are contracted by the DCYA in consultation with the CCCs on the basis of information provided by FÁS and the VECs.

49.46 The administration of this programme in 2010 has been challenging and not all places contracted under the scheme have been occupied as envisaged. The programme also ran the risk in 2010 of a funding overlap with other schemes since the Personal Public Service Numbers (PPSNs) of children availing of a place under the programme were not cross-checked with other schemes such as the CCS or ECCE schemes.

49.47 The Accounting Officer stated that the introduction of the CETS programme was challenging as there was only a period of eight weeks between sanction being given for it and its introduction. In addition, it was difficult to predict the likely take-up of CETS places around the country in September 2010 given incomplete data on the previous payments and the fact that the number of parents requiring CETS places would vary from year to year and month to month. He stated that the DCYA knew that a degree of mismatch would arise in the first period of the CETS programme and FÁS places were allocated for six months rather than twelve months for that reason as well as some places being kept in reserve. He anticipated that based on the knowledge acquired from the first period of CETS, improved administrative arrangements would apply from September 2011.

49.48 He stated that while it was not possible to cross check the PPSNs of children holding a CETS place during September 2010/August 2011, given the short period to implement the programme and the fact that places may be occupied for a period of only eight weeks, a system would be in place for the September 2011 CETS year which would collect that data.

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[438] The amount varies depending on whether it is a full-time, part-time of after-school place.

### Early Childhood Care and Education Scheme

49.49 It has been estimated that 94% of those eligible to participate in the ECCE scheme availed of a place for the 2010/11 scheme year.

49.50 Services participating in the ECCE scheme are required to provide an age-appropriate educational programme for participating children. They are required to adhere to the principles of Síolta, the National Quality Framework for Early Childhood Education and Aistear, the Early Childhood Curriculum Framework. Details of these specific frameworks are outlined at Annex B.

49.51 In addition, there are minimum qualification requirements for pre-school leaders in ECCE settings. They must hold certification of academic achievement relating to childcare or early education at a minimum of Level 5 on the National Framework of Qualifications of Ireland (NFQ) or equivalent. Transitional arrangements apply up to September 2012 whereby the minimum requirement will be considered to be met based on other award certifications and certain experience of working in a position of responsibility with children in 0-6 age range.

49.52 The Workforce Development Plan (WDP) published in December 2010 noted that in the region of 40% of the pre-school services workforce had not achieved basic level qualifications required for participation in the free pre-school year scheme which began in January 2010.

49.53 A higher capitation fee is payable to the provider (€400 per annum) where pre-school leaders hold a degree in childcare or early years education (minimum Level 7 on the NFQ or equivalent) and have three years experience of working in the sector and where all pre-school assistants hold an award in childcare or early education at Level 5 on the NFQ or its equivalent[439]. The Department has stated that 12% of services participating in the ECCE programme are in receipt of this higher capitation fee.

49.54 The Accounting Officer stated that between January 2010 and August 2012, an interim qualification level was being accepted for pre-school leaders and the majority of those at that level had since upskilled to a full Level 5 award. The DCYA was subsidising training for a small number who had not up-skilled, to ensure that all pre-school leaders were in a position to meet the September 2012 requirement.

### Resourcing Childcare Services – Qualifications and Training

49.55 It is estimated that there are up to 30,000 staff working directly with children in centre-based settings. It is difficult to measure the employment effect of the investment in childcare infrastructure since no baseline figures were established at the outset of the programme.

49.56 While the National Childcare Strategy 2006 – 2010 envisaged that a programme of training would be developed, substantive progress was only achieved in late 2010 with the completion of the WDP.

49.57 A key objective of the WDP is to ensure that all staff engaged in the provision of early childhood care and education services for young children and their families are appropriately qualified for their role and responsibilities. Close monitoring of the implementation of the plan is required to ensure that it meets its objectives.

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[439] There is no pre-school assistant qualification requirement for the standard capitation fee.

49.58 Data reported by the CCCs and the NVCOs showed that a total of 7,446 accredited childcare qualifications were attained by individuals over the period 2006 to 2010[440]. It is not known how many of those trained are actually working in the childcare sector.

49.59 The HSE stated that its role in the provision and monitoring of accredited training for all staff engaged in service provision was still under development. In a climate of budget reductions and with services operating at 80% capacity, the use of untrained or partially qualified staff was, on the balance of probability, likely to increase. This would have an impact on the credibility and public perception of existing services which would, in turn, pose challenges for its inspectorate as it sought to enforce standards and regulations under the existing standardised frameworks.

### *Protecting the State's Investment*

49.60 The State investment in childcare facilities needs to be

- protected by the taking of charges on facilities that received funding
- the subject of recovery action where services are not brought into use or ceased.

### *Charges on Facilities*

49.61 The NCIP envisages the protection of the State's investment in capital projects with a value of €200,000 or more through a legal charge over the property to which the grant applies. This is a discretionary measure, however, and does not apply in all cases. Additionally, because of the capital amount involved (€200,000), it does not apply to private childcare providers to whom €34.1 million was paid[441]. Information obtained from Pobal indicates that an exemption was granted in 82 cases.

49.62 A charge in favour of the Minister has been sought in the case of 105 capital projects funded under the NCIP that had capital approved of approximately €86 million. 13 of those (12%) had not yet been registered by March 2011[442]. The bulk of the grants approved had been paid by early 2011.

49.63 The CEO of Pobal has assured me that the charges that have not been registered with the CRO are subject to an undertaking by the beneficiary's solicitor to register them and that Pobal have been repeatedly assured by its own legal advisors of the reliance that can be placed on the undertaking.

49.64 The Accounting Officer pointed out that a pre-requisite in all cases is that the grantee's Articles of Association are amended to ensure they have an absolute obligation to protect the interests of the Department in regard to the use of the property, or from compromising the Department's interest in the property. Once the charge is secured, the grantee's Solicitor registers the title and, subsequently, registers the charge with the CRO, to give third parties' visibility and to protect against alternative charges or judgements. He stated that the DCYA had sought a report from Pobal on the position with regard to the charges in place and their registration, in particular in regard to any delays in registration.

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[440] This figure may be overstated due to a possible overlap in the reporting of data on qualifications by CCCs and NVCOs. This is because training courses are sometimes delivered by a NVCO in collaboration with (or commissioned by) a CCC.

[441] The maximum capital grant available for a private childcare facility was €100,000.

[442] This refers to the registration of charges with the Companies Registration Office.

### *Recovery Action*

49.65 When Pobal become aware that a facility has closed down or not been brought into use, a review of the grant is undertaken. The amount recoverable depends on the length of time that the provider remained open after the last grant payment, the amount of the grant and the length of the contract period. Pobal then write to the childcare provider requesting repayment.

49.66 Of approximately €500,000 NCIP capital funding paid to private providers whose services closed, almost €400,000 was considered to be recoverable. A total of €22,395 had been recovered at March 2011. €5,188 has been written off following agreement with the DCYA and due to the special personal circumstances pertaining to the provider. The balance is being pursued by Pobal.

49.67 Of the €3.2 million in capital funding paid to EOCP funded services which closed, an amount in the order of €300,000 was deemed recoverable. In addition, an amount of approximately €90,000 was deemed recoverable in respect of staffing grants paid to community based facilities under that programme. Pobal has recovered €45,000 against EOCP capital grants but there has been no recovery at August 2011 of the staffing grants.

49.68 In the case of other grants decommitted approximately €82,000 is recoverable from eight service providers. By the end of July 2011, funding had been returned by six service providers amounting to €64,754. The balance is being pursued by Pobal.

49.69 The Accounting Officer stated that with regard to recouping EOCP capital funding, the Department would consult with the Department of Public Expenditure and Reform and seek advice from the Chief State Solicitor's Office as to the most effective way to proceed against persons with moneys owed.

### *Evaluation of the NCIP*

49.70 The National Development Plan 2007 – 2013 stated that, prior to the conclusion of the NCIP at the end of 2010, progress in addressing childcare needs would be reviewed to ensure that measures were appropriate to emerging needs and the review would inform any subsequent policy response. No such review was carried out. The Accounting Officer stated that the NCIP review was overtaken by events as the Community Childcare Subvention was introduced in 2008 and modified in 2010 and the capital programme was effectively closed to new applicants from 2008. The policy objective from 2009 onwards was to sustain existing childcare services to the greatest extent possible.

#### *Compliance with Reporting Requirements*

49.71 Childcare providers in receipt of capital funding under the NCIP are required to report to Pobal twice yearly. Only 37.5% of the bi-annual returns required for the six months to June 2010 in respect of capital projects funded had been received by the due date (16 August 2010). The compliance rate rose to 67.7% by 30 September 2010. The compliance rate at July 2011 for the December 2010 capital returns was 81%.

49.72 Childcare services in receipt of subvention funding (CCS) are required to submit reports to Pobal three times a year[443]. Pobal data indicates that only 46% of returns for the period to August 2010 had been filed by the due date (21 October 2010). The compliance rate rose to 82% by the end of November 2010. The compliance rate was 96% at July 2011 for the December 2010 CCS return.

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443 Prior to 2010, the requirement was for quarterly returns.

49.73 The response rate to the annual questionnaire[444] for 2010 was 79% when measured at April 2011. The response rate had been 70% for 2009 and 90% for 2008[445].

49.74 Pobal's policy is not to pay childcare providers with outstanding reporting requirements.

### *Childcare Providers Information*

49.75 In order to inform policy decisions and inspection programmes a comprehensive database of providers would be useful. There is no unified database of childcare providers nationally.

- Pobal has a register of all childcare providers who avail of NCIP funding (capital and subvention) and those who availed of EOCP funding in the past.
- The DCYA have details of those claiming ECCE funding since they administer this funding themselves as well as those in receipt of CCS and CETS funding.
- The HSE would be expected to have the most complete database given the regulatory requirement for notification. However, since school-age services are not obliged to register with the HSE, it does not have comprehensive information.

### *Key Performance Indicators*

49.76 A value-for-money review of the EOCP, on behalf of the DCYA, was completed by Fitzpatrick Associates in June 2007. The review identified future performance indicators which might be used to better monitor performance of the NCIP. The new indicators recommended were focussed on more effective measurement of value-for-money and the quality of service in supported childcare facilities. In particular they focussed on funding, costs, income, staffing and quality.

49.77 Some of the key performance data recommended included

- Amount of funding invested in support of new childcare places as well as the amount of funding invested in support of existing childcare places.
- Overall staffing costs in supported childcare services (including contributions outside NCIP staffing grants).
- Staff/child ratios in place in supported childcare services (in terms of overall staff, direct childcare workers and by type of target group within service).
- Staff turnover rates in supported childcare services.
- Number of supported services with a curriculum based approach to child development in place.
- Number of supported services undertaking formal needs assessment of each child using the service.

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[444] Childcare providers who are in receipt of NCIP funding and are in contract with Pobal are required to complete an annual questionnaire. The period for which a service provider is in contract with Pobal depends on the net capital amount approved. The maximum period for private providers is 7 years and 20 years for community-based providers. The contractual obligations of services in receipt of only subvention funding, finish when they cease participating in the CCS.

[445] Measured at April 2010 and May 2009 respectively.

49.78 Not all of the new performance indicators recommended in the value-for-money review have been monitored and reported on over the period of the NCIP. Pobal has taken steps to incorporate some of the performance indicators recommended, for example, staff turnover rates among childcare staff and overall costs associated with the operation of the childcare service for community-based services funded under the CCS. The CEO stated that the timing of the value-for-money report was not conducive to the full integration of its recommendations into the NCIP from the outset.

## *Inspection*

49.79 Both the HSE and Pobal have roles in the inspection of childcare facilities.

### *HSE Childcare Inspectorate*

49.80 Childcare providers are obliged under the Childcare Act 1991 to notify the HSE of their service and the Childcare Inspectorate of the HSE must visit pre-school services to ensure that the service is fulfilling its duties under the Act.

49.81 The inspection format is designed to provide an evaluation of a pre-school facility across broad categories – child/staff ratios, space ratios, rest facilities, child development, structured care programmes, food, sanitary accommodation, play facilities and development materials, general safety, first aid and records kept.

49.82 The Inspectorate has 37 Whole-Time Equivalent (WTE) Pre-School Officers/Early Years Inspectors countrywide who are responsible for standards in over 4,800 childcare facilities[446]. Environmental Health Officers of which there are 24 WTEs, also contribute to the inspection of pre-school services. In 2010, 3,016 facilities were inspected[447]. A further 612 reviews/follow-up visits were carried out as well as 774 advisory visits. The inspection reports are not published by the HSE.

49.83 Dublin City Childcare Committee stated that some childcare services in the Dublin area have not been inspected in two to three years. It considers there is a need for a more frequent standard inspection regime which makes services more accountable.

49.84 An unsatisfactory inspection report should be a key consideration when deciding whether or not to provide NCIP or other State funding to a particular childcare provider. The outcome of HSE inspections is not automatically provided to the DCYA or Pobal unless the service provider is the subject of a prosecution order. At the point of an application for capital funding however, input and feedback would be provided on a county-by-county basis by the HSE Pre-School Inspectorate.

49.85 The CEO of Pobal stated that it was in contact with the HSE Pre-School Specialist on a national basis with the intention of enhancing ongoing liaison, co-ordination and information sharing.

49.86 Responding to my enquiries, the HSE stated that it has traditionally not had standardised processes amongst its inspection teams. This had led to an inconsistency in practice nationally. Its current concerns relate to inspection frequency, publication of inspection reports and the dissemination of the outcomes of regulatory processes concerning sub-standard services. These matters are currently being addressed by its National Children and Families Social Services Office under both its quality assurance and governance roles.

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446 The number of services notified to the HSE in 2010 was 4,804. (5,090 at the end of 2009).

447 3,013 inspections in 2009.

49.87 There is as yet no specific quality assessment process for childcare services. Pre-school inspections by the HSE examine some quality aspects (under Regulation 5 of the Child Care (Pre-school) Services Regulations, 2006) but the extent of that work to date has been limited. The HSE anticipates a greater emphasis on quality with the implementation of the National Standards for Pre-School Services[448] which will focus on criteria based inspection designed to achieve quality outcomes for children.

49.88 The Accounting Officer stated that an evaluation of the implementation of Síolta in ECCE services was underway under the Early Education Policy Unit of the Department of Education and Skills which is co-located in the DCYA. From September 2011, joint inspections of ECCE services by the Education Inspectorate and the HSE would be held.

### *Compliance Work by Pobal*

49.89 Compliance visits have been carried out annually by Pobal to childcare providers in receipt of subvention funding (CCS). Services in receipt of funding under the ECCE and CETS schemes have since their commencement in 2010 also been subject to compliance visits by Pobal on behalf of the DCYA. A total of 2,882 compliance visits were carried out in 2010. 345 of those visits were to CCS-only funded services. The visits to ECCE participating services in 2010 covered approximately 62% of all services in receipt of ECCE funding.

49.90 The main purpose of the compliance visits is to ensure that scheme conditions are being complied with. In particular compliance visits check that

- the service actually exists
- the fee-payment policy agreed with the DCYA is being implemented
- the children who are being supported under the schemes are actually using the service[449]
- staff have the necessary qualifications for participating in the ECCE scheme.

49.91 There may be merit in measuring attendance over a longer period of time or at various time periods. Pobal have informed me that from September 2011 unannounced compliance visits are being introduced. The use of the prior week as the reference week is under review in advance of the next cycle of visits.

49.92 Some findings from their visits include

- 13% of ECCE funded services were non-compliant with their fee-payment policies. ‘Non-compliant’ means that a service is not charging fees in accordance with its own fee policy which has been approved by the CCC. It includes instances where for example, ‘optional extra charges’ are not properly implemented.
- when the results of all visits are combined there was an occupancy rate of only 63% of childcare places at the time of the compliance visits to ECCE services. This is based on evidence of attendance for 33,000 children out of approximately 52,000 places approved by the DCYA in the services visited[450]. The indications from visits undertaken from September 2010 to February 2011 are that attendances are achieving higher rates than the 63% level.

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[448] Published in December 2010.

[449] In general, attendance in the week prior to the compliance visit would be examined.

[450] Not all children attend on a 5-day basis so it is to be expected that there may be some who are not in attendance on the day of a compliance visit. In addition, the early compliance visits measured attendance against data provided by childcare providers at the expression of interest stage of the programme while subsequent compliance visits measured attendance against the formally approved number of ECCE places.

- two services were found not to be in operation.

49.93 In regard to consistency of charges, Pobal plans to report back to the CCCs and assist them in calibrating their approach on fee-payment policies in order to ensure a consistency of approach on optional charges.

## *Financial Reviews*

49.94 The Verification Unit within Pobal's Early Education and Childcare Programme also carries out verification visits on capital projects. Capital project reviews are on a sample basis while also ensuring that all large scale projects with a capital investment greater than €200,000 are visited before they are fully paid. An average of 106 verification visits per year were carried out over the period 2006 – 2010.

49.95 The Unit is also responsible for verification visits to CCCs and NVCOs. In 2010, 26 CCC visits and five NVCO visits were carried out.

49.96 In addition, Pobal's Audit Team may carry out risk-based audits of childcare providers. These are usually based on issues which come to light on examination of monitoring reports. Two such audits were carried out in 2010.

49.97 The main issues identified during verification visits to childcare providers and CCCs and NVCOs were

- ineligible spend under programme guidelines
- tax clearance certificates not available in support of payments
- original invoices not available in support of payments
- no fixed asset register in place
- target levels not achieved
- board minutes not signed off
- non-compliance with public procurement guidelines
- internal financial procedures manuals requiring updating and/or revision
- instances of lease agreements, bank mandates, fire certificates, insurance details, copies of memorandum and articles of association, audited accounts, contracts of employment and board minutes not available for inspection.

49.98 Issues arising on risk-based audits included issues relating to public procurement, conflict of interest and the effectiveness of internal controls.

49.99 The CEO of Pobal stated that once issues had been identified the role of the verification function within Pobal was to ensure that the matters noted were addressed appropriately. The process in place escalated serious or persistent non-performance for monitoring and follow-up. Problems identified were, for the most part, addressed to Pobal's satisfaction in a timely manner.

## Conclusion – Administration and Evaluation

A Workforce Development Plan published in December 2010 noted that in the region of 40% of the pre-school services workforce had not achieved basic level qualifications required for participation in the free pre-school year scheme. Transitional arrangements apply up until September 2012.

A total of 7,446 individuals are reported by the CCCs and the NVCOs to have attained an accredited childcare qualification over the period of the NCIP. The greatest proportion of awards was at NFQ Level 5 - the minimum level required for working with children under the ECCE scheme requirements.

Compliance visits by Pobal found that 13% of services were non-compliant with their own fee-payment policies.

There is a need for greater clarity with regard to the costs covered by the ECCE payment.

Compliance visits up to January 2011 found that around 63% of places funded under the ECCE scheme were occupied at the time of visits. However, the indications are that the rate has increased in the six months to February 2011.

A review of the NCIP, envisaged in the NDP, has not been carried out largely due to the fact that it had been overtaken by events and superseded by policies of sustainment and pre-school provision.

The DCYA has sought to protect the investment in childcare facilities through the taking of charges over property in instances where capital grants to the value of €86 million had been approved. Security has been taken on approximately 60% of all capital grants to community-based facilities.

There is a range of inspections and financial reviews of facilities. However, in the case of HSE inspection, the Executive has concerns with regard to inspection frequency, the publication of inspection reports and the dissemination of the outcomes of regulatory processes concerning sub-standard services.

### *General Views of the Accounting Officer*

49.100 The DCYA held off on capital grant approvals from mid-2008 pending a Department of Finance decision to close the capital grant scheme in April 2009. The Accounting Officer stated that the early response by the DCYA resulted in capital savings in 2009/2010 amounting to €139 million and avoided the creation of 20,000 additional childcare places which would have further exacerbated the situation for existing services, as a result of the recession.

49.101 He stated that it was clear to the DCYA that the childcare sector was under severe threat from the recession and that the €500 million capital investment made under the EOCP and NCIP by that time, could be threatened. To secure the sector and the State's investment, the DCYA advocated for and achieved the introduction of the free Pre-School Year (ECCE) programme from January 2010, the earliest possible date. Further, in 2010, it revised the CCS programme to improve its targeting of low income working parents and it also introduced the CETS programme. Together, the annual support injected into the sector from the programmes amounts to €232 million at 2011 levels.

49.102 The Accounting Officer stated that the support was primarily targeted at achieving child development outcomes - through a universal pre-school year and additional support for those on low incomes - and labour market support and activation by means of all programmes but particularly the CETS. He noted that important by-products of the programmes' support for childcare, in contrast to less targeted payments to families in the previous Early Childcare Supplement, were the benefits in jobs and economic activity which were being maintained in the childcare sector. In addition, where necessary to ensure sustainability, services had been allowed to reduce their service level requirements as a short-term measure to be reviewed annually.

49.103 The Accounting Officer stated that it was considered that these measures had sustained the childcare sector to the greatest possible extent since 2010 and that, in their absence, widespread closure of services would have been inevitable. The DCYA's objective was to facilitate services to survive this period so that the infrastructure which had been built up would still be in place to meet a future increase in demand for childcare when employment levels rise. It was considered that the DCYA's ongoing monitoring of the NCIP had ensured that it responded as quickly and effectively as possible to the environmental changes.

49.104 In relation to the CCS, the Accounting Officer viewed this as a far more transparent programme than the staffing support scheme which preceded it. This was because funding was determined on the basis of the number of qualifying parents recorded in each service's return and the level of service provided to them, rather than on the basis of the capacity of the facility and the deprivation level recorded for the area. He stated that when the CCS was introduced in January 2008, significant increases and decreases in funding levels were recorded for many services.

49.105 The Accounting Officer stated that the findings from Pobal's compliance visits should be set in the context of some opposition to the ECCE programme when it was first introduced. Some services had been charging more than the ECCE capitation rate, prior to the downturn and hoped to circumvent the requirement to provide the pre-school year for free, through imposing additional charges on parents which were not optional. The DCYA, assisted by Pobal, monitored the position closely throughout 2010 when the ECCE was first introduced and many services attempted to circumvent the rules.

49.106 While there were issues of non-compliance in 2010, the Accounting Officer stated that these were found and acted upon (i.e the service had to confirm that it would act in compliance with the programme or else the contract would be terminated. Further payments were suspended pending a satisfactory outcome). He stated that compliance was supported by the fact that each service got a Pobal compliance visit each year and that services were required to have an approved fee policy in place in advance of each contractual period which was checked during a compliance visit. He stated that there had been a significant level of complaints from parents in 2010 but very few in 2011.

49.107 In addition, he stated that prior to the ECCE programme, some services sustained high weekly prices by allowing parents to enroll their children on a pro-rata basis (i.e. for two to three days per week rather than five days). The ECCE programme had striven to move services to a five-day model and to raise parents' expectations that this should be provided. As the first pre-school year began during the academic year, this change did not fully impact until September 2010.

## Conclusion

There were considerable deficiencies in the information held by Pobal on the childcare programme. These impact on reported results to date.

The programme will result in around 25,000 new places being provided with a shift in focus over the course of the programme to provision for the 3-4 age group.

At this point, an excess capacity estimated at 15,000 places has been created at a cost of at least €75 million.

The reduced demand creates the risk that elements of the infrastructure may not be fully employed for the purposes for which it was created or that due to demand reduction certain subvented facilities will cease to be used.

In addition to the non-effective costs associated with expenditure in creating facilities or places in excess of need there is a likelihood that excess capacity can cause a displacement effect. While it is not possible to directly link facilities that have closed with the funding of new ones, 126 facilities that were State-subvented have closed.

In regard to resourcing, a Workforce Development Plan published in December 2010 noted that in the region of 40% of the pre-school services workforce had not achieved basic level qualifications required for participation in the free pre-school year scheme. Transitional arrangements apply up until September 2012.

Overall, the current challenge is to sustain the services created by the State investment to the maximum extent so that the spare capacity can be available when demand increases.

In relation to its inspections, matters of particular concern to the HSE are the frequency of inspection, the publication of inspection reports and the dissemination of the outcomes of regulatory processes concerning sub-standard services.

# Annex A Role of City and County Childcare Committees and National Voluntary Childcare Organisations

Payments to City and County Childcare Committees and National Voluntary Childcare Organisations accounted for over one-tenth of the total payments under the NCIP in the period 2006 to 2010.

## *City and County Childcare Committees*

Thirty-three City and County Childcare Committees (CCCs) were established in 2001, to encourage the development of childcare locally.

CCCs are the first point of contact for the provider in applying for grant assistance under the National Childcare Investment Programme. They offer a wide variety of services locally including; advice on setting up a childcare business; childcare information sessions; training courses for those considering a career in childcare; and advice and support on applying for a National Childcare Investment Programme grant. CCCs also offer services to parents, such as providing information on local childcare facilities and information on parent networks.

## *National Voluntary Childcare Organisations*

The NCIP funds seven non-governmental National Voluntary Childcare Organisations (NVCOs) in addition to a Border Counties Childcare Network. Each organisation has its own goals and strategies but each has a special interest and expertise in childcare and early learning for children.

The organisations are

- Barnardos
- Childminding Ireland
- Forbairt Naíonraí Teo
- Irish Preschool Play Association
- Irish Steiner Kindergarten Association
- National Children's Nurseries Association
- St. Nicholas Montessori Society of Ireland.

Representatives of the NVCOs are also members of a National Childcare Coordinating Committee. This allows them to feed into national childcare policy and to coordinate the work of their own organisations accordingly.

## Annex B ECCE Scheme Quality Requirements

Síolta and Aistear are quality frameworks which services participating in the ECCE scheme are required to implement. Aistear is more focused on child development while Síolta is focused on the delivery of childcare services.

### *Síolta*

Síolta is a quality framework for all services working with children in the 0-6 age group. It was developed by the Centre for Early Childhood Development and Education in 2006. It provides a framework to guide the enhancement of quality in all ECCE services. It is underpinned by 12 principles and 16 standards. The standards relate to various aspects of service delivery including the rights of the child, environment, parents and family, consultation, interactions, play, curriculum, planning and evaluation, health and welfare.

To support childcare services in implementing Síolta, co-ordinators have been appointed to provide mentoring and guidance to services who volunteer for assistance. Síolta co-ordinators are being funded through the NVCOs.

### *Aistear*

Aistear describes the type of learning and development that are important for children in their early years and offers ideas and suggestions on how these might be nurtured. It was developed by the National Council for Curriculum and Assessment (NCCA). Aistear uses four themes that connect and overlap with each other to outline children’s learning and development. The themes are Well-being, Identity and Belonging, Communicating, and Exploring and Thinking.

Aistear can be used in a range of early childhood settings including children's own homes, childminding settings, full and part-time daycare settings, sessional services and infant classes in primary schools.