An Roinn Caiteachais Phoiblí agus Athchóirithe
Department of Public Expenditure and Reform

F7/04/10

7 November 2011

Circular 07/2011

Minute of the Minister for Public Expenditure and Reform for the Committee of Public Accounts in response to the

**Final Report on Appropriation Accounts 2007;
Annual Report of the Comptroller and Auditor General 2007;
and Special Reports of the Comptroller and Auditor General**

I am directed by the Minister for Public Expenditure and Reform to enclose for your information and guidance a copy of the Minute of the Minister for Public Expenditure and Reform in response to the Report on the Appropriation Accounts 2007; Annual Report of the Comptroller and Auditor General 2007; and Special Reports of the Comptroller and Auditor General.

You will be aware that since the publication of the above Report, new departmental arrangements are in place, including the establishment of the Department of Public Expenditure and Reform. In that context, the Minister for Public Expenditure and Reform is now responsible for the Minute response to the Public Accounts Committee.

For the purposes of the responses in this Minute, Departments are referred to by their current title reflecting the transfer of functions over the course of the year.

Your attention is drawn to areas that are covered extensively in the Minute, including, the need for adherence to the capital appraisal and procurement guidelines and to proper project management procedures.

Mise le Meas,

____
Robert Watt
Secretary General
Department of Public Expenditure and Reform

To: All Accounting Officers

Tithe an Rialtais,
Sráid Mhuirfeán Uacht,
Baile Átha Cliath 2,
Éire.

Government Buildings,
Upper Merrion Street,
Dublin 2,
Ireland.

T: +353 1 676 7571
F: +353 1 678 9936
www.per.gov.ie

Minute of the Minister for Public Expenditure and Reform in response to the Committee of Public Accounts Final Report on the Appropriation Accounts 2007; Annual Report of the Comptroller and Auditor General 2007; and Special Reports of the Comptroller and Auditor General

The Minister for Public Expenditure and Reform has examined the Committee's Report and has taken account of its conclusions. In relation to the Committee's recommendations, his response is as follows:

1. Department of Finance:

Recommendation No. 1: The monthly target profiles of revenue and expenditure should be incorporated into the Exchequer returns released by the Department of Finance at the end of each month.

The Minister for Public Expenditure and Reform is informed by the Department of Finance that the recommendation is noted.

The Minister is further informed by that Department that:

Tax revenue and voted current and capital expenditure are compared to profile each month in separate appendices (excel tables) which are published in conjunction with the Exchequer Statement at the end of each month on the Department of Finance's website.

The front page of the monthly Exchequer Statement specifically refers to these tables, as follows:

"Tables detailing the performance of voted expenditure and tax revenues on a year-on-year basis, as well as against profile for the period covered by this Exchequer Statement are available on the Department of Finance website at www.finance.gov.ie"

Recommendation No. 2: The Department of Finance should have detailed costings available in respect of the amount of tax foregone in the previous tax year through the operation of tax reliefs and such costings should be released with the papers associated with the Budget.

The Minister for Public Expenditure and Reform is informed by the Department of Finance that the recommendation is noted.

The Minister is further informed by that Department that the position on the availability of detailed costings (for those reliefs which can be costed) in respect of the amount of tax foregone in the previous tax year through the operation of tax reliefs is as follows:

The bulk of costings that are annually compiled to show the amount of tax foregone through the operation of tax reliefs are based on data derived from taxpayer returns filed by or on behalf of self-assessed and PAYE taxpayers. Not all returns are filed on time and some that are so filed must be clarified further before they can be processed through the Revenue computer system. To ensure that basic incomes data are as complete as possible it is necessary to have a high proportion of tax returns represented in the published data and to achieve this it is necessary to allow sufficient time to elapse to ensure that an acceptable level of maturity in the figures is attained.

For this reason, the most recent basic data now to hand is in relation to the income tax year 2009 and work is currently in progress to compile statistics on this basis for inclusion in the 2010 Revenue Statistical Report. The Statistical report is published incrementally as and when data becomes available and has been processed. It is generally towards year end before it is complete, but occasionally that may run through to the early part of the following year where unusual problems are encountered to cause additional delay. Every effort is made to prevent that from happening.

The 2009 Statistical Report contained costings that were updated to 2007 and 2008. This marked an improvement in timeliness of 1 year in the publication of this material compared with the parallel position of the 2008 report which contained costings updated to 2006. If the previous timing pattern had not been improved the 2009 report it would not have contained the costing material for 2008.

Self Assessment tax returns for 2010 are not due until October 2011 (or November for returns filed via ROS) and this timing arrangement means that the actual incomes data for 2010 would not be sufficiently complete or ready for use in sufficient time ahead of the commencement of the 2012 Budget deliberations (to be announced in early December 2011).

Any further attempt to improve timeliness in the costing of tax reliefs within the current arrangements for the filing of tax returns would require the use of preliminary and significantly understated basic data which would seriously undermine the quality and reliability of the costings produced.

Recommendation No. 3: The Department of Finance should have the scope to procure the services of appropriate qualified and experienced personnel to fill skills gaps at senior levels in the Department.

The Minister for Public Expenditure and Reform is informed by the Department of Finance that the recommendation is noted.

The Minister is further informed by that Department that it is strongly committed to increasing the number of staff in the Department with specialist skills in particular areas, both in the short-term and in the longer-term. This objective will apply to both the Department of Finance and the new Department of Public Expenditure and Reform.

The Independent Review of the Department of Finance ('the Wright Report') on the performance and structures of the Department of Finance was published early in 2011. Among its findings were that the Department does not have critical mass in areas where technical economic skills are required, and that it has too many generalists in positions requiring technical economic and other skills. The Department is committed to implementing the recommendations made by the Report to address these deficiencies. Indeed, a number of the measures it recommends were already being carried out before the Report was commissioned.

The recommendations in relation to enhancing skill levels along with the measures being taken by the Department to implement them are as follows:

The immediate secondment of skilled personnel on a two-year rotation should be sought from the Central Bank, NTMA, ESRI and other relevant bodies.

A significant number of high-level staff with specialised skills in areas such as economics, banking, accounting and law has been recruited by the Department since 2009. A number of these staff are on secondment from public and private sector organisations, including the Central Bank. The staff concerned are playing a central role in advising Ministers and in implementing the Department's strategy in areas such as the restructuring of the banking sector.

A welcoming professional environment for new economists should be established.
The Budget and Economic division of the Department has being reorganised since the publication of the Wright Report and any further reconfiguration will take account of this recommendation.

The economic seminars by external economists, recently introduced by the Secretary General, should be made permanent. The publication of professional economic analyses, by staff in the Department, which are clearly identified as not the views of the Department, should be permitted.

Economic seminars are scheduled and take place on a regular basis. It is proposed that these be more formally structured under the Senior Economic Advisor.

The complement of skilled staff in other disciplines should be expanded, especially in accounting, analysis, banking and financial markets.
Divisions are currently in the process of identifying their needs in this area for consideration by senior management.

A senior HR specialist should be appointed to the Department initially, at any rate, on a short-term contract. The post would be advertised and preference would be given to an individual who had managed a dynamic HR function in the private sector.

A HR specialist is now in place in both the Department of Finance and the Department of Public Expenditure and Reform.

In addition, the Department works in close liaison with all relevant agencies, particularly the Central Bank and the NTMA, in relation to banking sector issues. Mr John Moran, who is on secondment to the Department from the Central Bank of Ireland, has been assigned to oversee the recently announced restructuring of the banking sector and associated issues. He leads the relevant team within the Department of Finance and reports directly to the Secretary General.

Over time, a number of specialist staff have been recruited to supplement the in-house expertise of the Department in banking matters and it is anticipated that more such staff will be required. The Department will therefore be reviewing and adding, where appropriate, to the banking expertise within the Department on an ongoing basis.

In conclusion, the Department is currently reviewing its organisational structure and the skill-sets of its staff in the context of current policy demands and emerging challenges in the foreseeable future. This work takes account of the recommendations in the Wright Report and the potential requirement to address any gaps in the skills and experience of existing staff. In considering possible courses of action, due regard will be taken of the Department's commitments in the Public Service (Croke Park) Agreement 2011-14. Any eventual decision on the approach to be taken by the Department will have to be done in the context of the continued requirement to reduce public service numbers and pay while also endeavouring to secure greater efficiencies and effectiveness for staffing resources. These actions will also, of course, have to be done in consultation with staff interests.

Recommendation No. 4: The regulations governing the delivery of election leaflets should be reviewed in order to achieve a more cost-effective service and having regard to the introduction of postal de-regulation in 2011.

This is a matter for the Department of Environment, Community and Local Government and the Minister for Public Expenditure and Reform is informed by that Department that the recommendation is accepted.

The Minister is further informed by that Department that they have initiated a review of the 'litir um thoghchán' scheme with a view to developing proposals which would reduce the significant costs involved and take account of the implications of postal deregulation.

2. Office of the Revenue Commissioners

Recommendation No.1: Revenue should conduct an in-depth review of its top write-off cases every year so as to provide learning points for its compliance activities.

The Minister for Public Expenditure and Reform is informed by the Office of the Revenue Commissioners that the recommendation is noted.

The Minister is further informed by that office that:

- each month a review is conducted of the top write off cases arising separately from corporate insolvency and from routine debt collection/recovery activity by Revenue;
- this monthly review also considers any lessons learned which are, as appropriate, integrated into the training programs offered to staff on managing Revenue debts or into the case-working guidelines that inform the approach to managing such cases;
- an annual review of the refinements to case-working guidelines and training arising from the current process will now also be undertaken as recommended so as to strengthen the impact of those refinements.

Recommendation No. 2: Revenue should use its random audit programme to determine the level of tax that is unpaid and supplement random audit with sectoral and thematic exercises from time to time.

The Minister for Public Expenditure and Reform is informed by the Office of the Revenue Commissioners that the recommendation is noted.

The Minister is further informed by that office that:

- the Revenue Commissioner's Random Audit Programme was redesigned and relaunched in 2006 and Revenue will continue to carry out a quality assured Random Audit Programme each year. As a number of years have now been virtually completed, and the programme is reasonably stable, Revenue, with the assistance of external expertise if necessary, will now assess what conclusions may be validly drawn from the data and what caveats and qualifications should attach to such conclusions;

- the Office of the Revenue Commissioners already undertakes, complementary to its Random Programme, a number of risk focussed sectoral and thematic projects annually. Revenue's REAP system can highlight a range of issues for a given sector. These issues may then be examined with a view to devising and delivering a range of strategies to try and eliminate or reduce non-compliant behaviours;

- following the assessment referred to in the first paragraph above, the Office of the Revenue Commissioners will consider whether it might be a worthwhile exercise to occasionally dedicate the Random Audit Programme for a particular year to a specific sector, theme or Region.

Recommendation No. 3: A re-audit of previously non compliant taxpayers should be a regular feature of Revenues tax compliance programme.

The Minister for Public Expenditure and Reform is informed by the Office of the Revenue Commissioners that this recommendation is accepted.

The Minister is further informed by that office that:

- a re-audit programme has been planned in detail and Revenue compliance policy managers have informally outlined their approach to the Comptroller and Auditor-General's staff.

3. Office of Public Works

Recommendation No. 1: Government accounting practices should be altered so that the accommodation costs are reflected in the accounts of each Department and State Agency.

This is a policy matter for the Department of Public Expenditure and Reform.

The Minister draws the Committee's attention to the following:

- Accommodation costs are reflected in the Operating Cost Statement, which is attached to each Vote Appropriation Account. The Statement includes, where relevant, the 'notional rent' that would have been paid by that Department as calculated and supplied by the OPW. Such an inclusion facilitates the disclosure of the true cost of running the Department.

- Reflecting rent costs in the Account, as opposed to the Notes to the Accounts, would require Departments to pay OPW. It is felt that the introduction of this extra step is not efficient nor would it provide additional information.

Recommendation No. 2: The OPW should only seek to retain, as unoccupied space, an amount that is required to decant staff from offices that are the subject of major refurbishment.

The Minister for Public Expenditure and Reform is informed by the Commissioners of Public Works that this recommendation is accepted.

The Minister is further informed by that office that:

- it is OPW policy to keep the vacancy rate of office space in the portfolio at the lowest possible level;

- the decentralisation of civil servants from Dublin and reduced staff numbers in departments and offices due to early retirements and the moratorium on recruitment have freed up pockets of office space in various buildings throughout the portfolio. The OPW has a property strategy in place to rationalise the Dublin office portfolio over the next 5 years, as opportunities arise to exit leases when they expire or to exercise lease break options when they occur. This will involve the surrender of leasehold premises and consolidation of Departments and Offices into fewer buildings. It will also provide the opportunity to take new leases on modern, sustainable efficient buildings, in cases where it can be clearly demonstrated that they are more economic both in terms of rent and running costs than older leased premises.

4. Garda Síochána

Recommendation No. 1: As part of good budget management and control, the Garda Síochána should align its budget funding with a fleet replacement schedule dictated by policing needs.

The Minister for Public Expenditure and Reform is informed by the Garda Commissioner that the recommendation is noted.

The Minister is further informed by the Garda Commissioner that:

- the Force is committed to the requirement to align Garda budget funding with a fleet replacement schedule dictated by policing needs and is implementing the necessary changes.

- As part of this process, vehicle replacement is now based on key fleet performance measures which enable the fleet manager to assess the optimum point at which vehicles should be replaced. While the general approach being adopted provides An Garda Síochána with a specific appreciation of the volume of vehicles to be replaced, it operates subject to the availability of funds. In addition, it assists in reducing maintenance costs as major repair work would not be undertaken during the run out period and maximises vehicle availability whilst minimising costs.

Recommendation No. 2: The Garda Síochána should modernise its acquisition and commissioning system so as to avoid having to keep new vehicles in storage for any prolonged period.

The Minister for Public Expenditure and Reform is informed by the Garda Commissioner that he accepts this recommendation.

The Minister is further informed by the Commissioner that:

- An Garda Síochána acquires new vehicles by way of a public procurement process conducted on its behalf by the National Procurement Service;

- to avoid the necessity to store vehicles while they are being fitted out for Garda purposes, An Garda Síochána is taking steps, through the most recent procurement process, to acquire vehicles which are built and equipped to a police specification. This significant measure will avoid the requirement to keep new vehicles in storage while awaiting conversion and will ensure that they are operational at an earlier stage.

Recommendation No. 3: In the context of the purchase of vehicles and other fixed assets by the State, the Department of Finance should bring forward a carryover mechanism akin to the spending envelope developed for capital projects.

This is a policy matter for the Minister for Public Expenditure and Reform and is noted.

The Minister draws the Committee's attention to the Government's intention, in the context of its wide-ranging agenda of public service and expenditure reform, to modernise expenditure management processes so as to improve incentives for prudent, responsible financial management. The recommendation of the Committee can be looked at constructively in this overall context.

Recommendation No. 4: The designation of expenditure for budgetary and accounting purposes should be aligned with best practice in the accounting profession and items such as vehicles classified as capital.

This is a policy matter for the Minister for the Minister for Public Expenditure and Reform and is noted.

The Minister draws the Committees attention to the following:

- The Appropriation Accounts are prepared and presented on a cash basis. This represents cash spent and received but does not categorise spend as being of a capital or current nature;

- Notwithstanding the fact that the Appropriation Account is prepared on a cash basis, it is accompanied by several supplementary notes a number of which are prepared on an accruals basis. In particular the Statement of Capital Assets is a proforma note on the original cost of capital asset purchases, the categories of those purchases and the depreciated value. Spend is classified as capital if it brings benefit to more than one accounting year. (The format of this note is consistent with best practice);

- The Committee's recommendation will be given further consideration in the context of the Programme for Government's proposals for more effective financial scrutiny, including developments in relation to accrual accounting in the central government area.

5. Department of the Environment, Heritage and Local Government

Recommendation No. 1: All development levies should be captured in the accounts of local authorities at the time when a construction commencement notice is granted (taking account of any agreement regarding the payment of such levies) and it should be treated thereafter as a debt which should be pursued in order to ensure that it is brought to account.

The Minister for Public Expenditure and Reform is informed by the Department of the Environment, Community and Local Government that this recommendation is accepted.

The Minister is further informed by that Department that:

- circular letter 06/08 ('Format of AFS 2008 and Other Accounting Issues') was issued by that Department on 23 June 2008 to all local authorities detailing the format of Annual Financial Statements (AFS) for 2008 onwards. The circular sets out the accounting policy which applies to the recording of debts arising from development contributions and reminds all local authorities that from 1 January 2007 the amount due should be recorded as a debt, current and/or long term, once the relevant commencement notice has been received;
- IT systems to capture development contributions are already in place in local authorities in the form of the Planning Administration System (iPlan) and the Financial Management System (Agresso). The Planning Development Contributions (PDC) system has been developed by the Local Government Computer Services Board to provide an interface between the two systems. Implementation of the PDC system in local authorities is now well advanced and it ensures a systematic connection between planning and finance functions to track and account for development contributions;
- Where any payments required in respect of development contributions are not settled, such payments fall to be pursued by the planning authority as a contract debt.

Recommendation No. 2: Service indicators in respect of local authorities should be reviewed with a view to establishing a benchmark to be used in assessing the performance of local authorities in areas such as house letting.

The Minister for Public Expenditure and Reform is informed by the Department of the Environment, Community and Local Government that this recommendation is noted.

The Minister is further informed by that Department office that:

- the average time taken to re-let available local authority dwellings has been a specific service indicator since their introduction in 2004; a review of the indicators in 2007 led to this indicator being sub-divided into two in the 2008 indicator report - table 34. (The service indicator reports are available at www.lgmsb.ie.);

- The service indicator framework already allows individual local authority performance to be benchmarked against that authority's performance over time and also enables comparisons to be made with other authorities and with average local authority performance. The Report of the Local Government Efficiency Review Group (July 2010) recommends that service indicators should be more firmly embedded and used as part of the efficiency agenda;

- This recommendation will be considered in the taking forward of this agenda.

Recommendation No. 3: In order to address issues such as undue delays in the delivery of bundled schemes, the Department of the Environment, Heritage and Local Government should analyse the results of the Water Services Investment Programme, 2007 to 2009 with a view to preparing a benchmark in terms of the timescale involved in delivering schemes.

The Minister for Public Expenditure and Reform is informed by the Department of the Environment, Community and Local Government that this recommendation is noted.

The Minister is further informed by that Department that:

- the Water Services Investment Programme 2007 - 2009 is one of a number of reviews selected for the 2009 - 2011 period under the Government's Value for Money and Policy Review Initiative, to secure improved value for money from public expenditure;

- the review looked at a wide range of efficiency and effectiveness issues in relation to project delivery, including the efficacy of scheme bundling and the Committee recommendation is noted in evaluating the review findings and identifying appropriate measures to be taken.

6. Communication, Energy and Natural Resources

Recommendation No. 1: The Department of Communications, Energy and Natural Resources should carry out a comprehensive mid-term review of achievements of the National Digital Research Centre.

The Minister for Public Expenditure and Reform is informed by the Department of Communications, Energy and Natural Resources that it accepts this recommendation.

The Minister is further informed by that Department that:

- a thorough review of the NDRC was carried out in September 2009 by an international panel of experts in conjunction with Science Foundation Ireland. The main findings of the review panel were that the NDRC is well run and is filling a unique gap in the innovation infrastructure in Ireland;

- it also found that the NDRC needs more than 5 years to deliver results and the performance targets specified in the Concession Agreement should be revised. The Department is actively addressing the findings of the review.

Recommendation No. 2: Given the low take-up of MANs in areas outside major centres of population, the Department of Communications, Energy and Natural Resources should review the operation of MANs in order to ensure that the level of usage of the infrastructure results in an adequate return on its investment.

The Minister for Public Expenditure and Reform is informed by the Department of Communications, Energy and Natural Resources that it accepts this recommendation.

The Minister is further informed by that Department that:

- in addition to a monetary return from the MANs for State investment, there is a wider economic return to the State. As indicated in the Value for Money and Policy Review of the Phase I MANs conducted by the Department, the development agencies are supportive of the MANs as contributing significantly to the competitiveness of regional centres in Ireland and their attractiveness to foreign direct investment;

- It should also be noted that the rolling out of future proofed networks tends, in the early years of such networks, to feature excess capacity, which may be viewed as under utilisation but is consistent with an approach of putting infrastructure investment in ahead of demand;

- It is true that some of the MANs in smaller centres of population have generated little business. While the bulk of revenue is yielded by the larger centres of population, even in the smaller centres the MANs should be viewed as valuable infrastructure for the future;

- it should be noted, in this context also, that the European Commission has set demanding targets for next generation broadband provision by 2020 and that while Ireland currently has close to 100% broadband coverage, the immediate challenge is to improve the quality of access.

- Significant infrastructure development will be required over the coming years, not just to meeting the commission targets, but also to ensure that Ireland remains competitive and can take full advantage of the emerging opportunities of the digital economy. The MANS are likely to have a role in facilitating the roll out of these Next Generation Network services.

7. Department of Agriculture, Fisheries and Food

Recommendation No. 1: Appropriation Accounts should reflect the likelihood, however remote, that contingent liabilities may arise where a finding has already been made against the Department either by a court or following an audit.

This is a matter for the Minister for Public Expenditure and Reform in the first instance.

The Minister would like to advise the Committee that such a requirement for disclosure is currently in place and would draw the Committees attention to Public Financial Procedures which:

- defines a contingent liability as one that "arises in any situation where past or current actions or events create a risk of a call on Exchequer funds in the future. Dependent on whether or not a particular set of circumstances arise, the actual amount or the timing of the cost would be uncertain. Specific examples include guarantees, litigation, insurance, contractual indemnities and warranties."

- provides that "Except in cases involving potential litigation or where disclosure would prejudice the Exchequer position and/or future negotiations with third parties, contingent liabilities should be noted in the annual Appropriation Account of the Department or Office."

Recommendation No. 2: The Department of Agriculture, Fisheries and Food should undertake a formal review of the way the farm waste management scheme was handled in 2008 with a view to putting more robust assessment measures in place in respect of future schemes.

The Minister for Public Expenditure and Reform is informed by the Department of Agriculture, Food and the Marine that it notes the recommendation.

The Minister is further informed by that Department that:

- the Farm Waste Management Scheme was a unique Scheme designed to provide financial assistance to farmers in order to achieve the slurry storage requirements of the Nitrates Directive. Significant risks in regard to the continued financing by the EU of the Single Farm Payment and other EU support measures would have arisen if there had been continuing non-compliance, on the part of Ireland, with the provisions of the Nitrates Directive. An Expenditure Review of the Scheme was completed in November 2007 and the scheme has also been subject to on-going review in the light of subsequent developments;

- it was recognised that the demand led nature of the scheme which led to significant costs could not be repeated. The Farm Improvement Scheme, which replaced the Farm Waste Management Scheme albeit with lower rates of grant, was closed in October 2007 when the financial ceiling fixed for that Scheme was reached;

- the suite of new on-farm investment schemes which were approved by the EU Commission (i.e. Sow Welfare, Poultry Welfare, Sheep Handling/Fencing, Rainwater Harvesting and Dairy Equipment) in March 2010 and which were introduced subsequently by the Department, also adopt a radically different approach in relation to the selection of applications;

- the administration of the schemes are centralised in the Department's office in Wexford. There is careful evaluation of Scheme applications and the application of selection criteria in order to select those applications which will proceed to the approval process. This approach (i) ensures the targeting of the Schemes towards particular groups of farmers with a view to obtaining optimum value-for-money, and (ii) guarantees that the financial ceilings fixed for the Schemes concerned cannot be exceeded. A system of "tranches" has also been devised in relation to each Scheme so that the available grant-aid is distributed evenly over the intended life-time of each Scheme.

Recommendation No. 3: Where there are tight deadlines in respect of farm infrastructure works and where such works require planning permission, the Department of Agriculture, Fisheries and Food, through its local offices, should make / advise applicants of the need to make planning applications in good time.

The Minister for Public Expenditure and Reform is informed by the Department of Agriculture, Food and the Marine that it notes the recommendation.

The Minister is further informed by that Department that:

- the reference in the PAC Report to local offices of the Department being based in each county does not take account of the recent restructuring of the local office network of the Department which is currently taking place and, in any event, schemes for farm investment are now centralised in the Department's office in Wexford.

- in the case of the new targeted agricultural modernisation schemes (i.e. Sow Welfare, Poultry Welfare, Sheep Fencing/Handling, Dairy Equipment and Rainwater Harvesting Schemes) which have since been introduced by the Department, strict provisions have been included in relation to the need to obtain planning permission, where such is required, before a valid grant application can be lodged with the Department.

8. Department of Enterprise Trade and Employment

Recommendation No.: The Department of Enterprise, Trade and Employment should undertake a cost benefit analysis of the cost of redundancy payments scheme debt recovery unit to ensure that it is at least commensurate with the amount being recovered.

The Minister for Public Expenditure and Reform is informed by the Department of Jobs, Enterprise and Innovation that it does not accept this recommendation.

The Minister is further informed by that Department that:

- There has been no cost benefit analysis carried out on the costs associated with debt recovery. It is considered that the amount recovered, €3.6million in 2009 alone, far exceeds the salary costs of the two executive officers and two clerical officers required to staff the recoveries unit;

- Furthermore, other costs - i.e. accommodation and associated costs do not materially affect the operating costs of maintaining the section and recovering or writing off outstanding amounts;

- Responsibility for Redundancy and Insolvency Sections transferred to the Department of Social Protection from the Department of Jobs, Enterprise, and Innovation with effect from 1 January 2011.

9. Department of Defence

Recommendation No. 1: Allowances in the nature of pay are paid as a supplement to basic salaries for the performance of specific functions. Where the performance of those specific functions cease, payment of the allowance should also cease?

The Minister for Public Expenditure and Reform accepts this recommendation.

The Minister draws the attention of the Committee to the fact that:

- in general, any such allowances are stated to be linked to the performance of a certain duty.
- He is continuing to keep issues around the allowances payable across the wider public service under close review in the context of the current economic circumstances, including the issue addressed by the recommendation of the Committee. All allowances payable to all public servants were reduced under the Financial Emergency Measures in the Public Interest (No 2) Act 2009 by either 5% or 8%. Under the Public Service Agreement 2010 – 2014 (Croke Park Agreement) the issue of payment of certain allowances is under review in a number of sectors, including Defence, in accordance with Action Plans prepared by sectoral management

Recommendation No. 2: Where the cessation of an allowance develops into an industrial relations issue, Departments should as a first step not commence paying the said allowance to new recruits.

The Minister for Public Expenditure and Reform accepts this recommendation.

The Minister would point out that while the cessation of an allowance is the subject of industrial relations procedures, non payment of an allowance to new recruits may itself generate an industrial relations issue.

Recommendation No. 3: The Committee recommends a civil service wide review of allowances to ensure that the rationale for their ongoing payment continues to exist.

The Minister for Public Expenditure and Reform accepts this recommendation, (see reply to recommendation 1).

Recommendation No. 4: All Departments, in consultation with the Department of Finance, should review the payment of allowances so as to avoid the situation that arose in the Department of Defence relating to the border duty allowance.

The Minister for Public Expenditure and Reform accepts this recommendation, (see reply to recommendation 1).

The Minister would draw the attention of the Committee to the fact that:

- under the Public Service Agreement 2010 – 2014, the Government has given a commitment that there will be no further reductions in the pay rates of serving public servants for the lifetime of the Agreement, subject to compliance with the terms of the Agreement. Withdrawal of allowances, which may have formed part of the remuneration of public servants, could generate an industrial relations dispute;

- in the specific case of the Department of Defence, various actions are outlined in the Defence Sectoral Agreement under Public Service Agreement 2010-2014 (Croke Park Agreement) to transform defence structures, systems and processes.

Recommendation No. 5: The Department of Defence and the Defence Forces should review its procurement practices in light of its experience with the lease of the Mi-8T helicopters for the Chad mission and, where necessary, retain professional advisors for the procurement of specialist goods and services.

The Minister for Public Expenditure and Reform is informed by the Department of Defence that the recommendation is noted.

The Minister is further informed by that Department that the procedures for delegating authority to military personnel generally have been reviewed and strengthened, and the terms of reference of the High Level Planning and Procurement Group have been revised.

Recommendation No. 6: The Department of Defence should conduct a review of the way aircraft can be re-registered for military use with a view to speeding up this whole process.

The Minister for Public Expenditure and Reform is informed by the Department of Defence that the recommendation is noted.

The Minister is further informed by that Department that:

- the registration of aircraft is the responsibility of their owners;

- it has advised that in any future cases of aircraft procurement, the expertise of the Air Corps will be used in examining technical specifications and certification issues. This is with a view to ensuring that procurement is effected as efficiently and promptly as possible

10. Department of Social and Family Affairs

Recommendation No. 1: In order to assess the effectiveness of its fraud control programmes, the Department of Social and Family Affairs should compare the actual detection rate against the underlying level of fraud and error which is based on surveys undertaken by the Department.

The Minister for Public Expenditure and Reform is informed by the Department of Social Protection that the recommendation is noted.

The Minister is further informed by that Department that:

- the Department takes very seriously its role in providing a robust control environment which must ensure that all monies voted to and collected and disbursed by it are properly paid and accounted for, and that its customers are paid all monies properly due to them. A comprehensive control strategy has been adopted by the Department. Key elements of the strategy include risk assessment, surveys of the levels of fraud and error within schemes, scheme specific review policies, data matching initiatives with both external and internal parties and investigation of anonymous reports. This strategy ensures that review activity is targeted in the most effective manner;

- during 2010 the Department processed over 2 million claims and issued in excess of 85 million payments. Control savings of €483m were achieved;

- in accordance with Part 11 of the Social Welfare Consolidation Act 2005, an overpayment will arise where a revised decision is made by a Deciding Officer on a claimant's entitlement resulting in a retrospective reduction in their entitlement. An overpayment can only be recorded in accordance with statutory provisions;

- the purpose of a fraud and error survey is to identify the level of risk associated with particular schemes and areas with a view to designing processes and control measures specifically targeted to minimise the level of future risk. They provide a view of the underlying risk at a particular point in time. In this regard, they are not designed to identify overpayments as, for example, (a) some of the persons identified at a point in time may have their payment terminated but may have the payment reinstated on appeal at a later date; or (b) where a payment is terminated or reduced the surveys are an indication of suspected fraud and error and, as is common with all surveys of this nature, contain a margin of error. Fraud & error surveys cannot be relied on to prove the existence of an overpayment.

The Minister for Public Expenditure and Reform is further informed by the Minister for Social Protection that the 2003 Control Strategy emphasised the need to minimise the risks of fraud and to eliminate incorrect payments through:

- **Prevention**: having systems and procedures in place that prevent and minimise the risk of fraud, abuse and error;
- **Detection** - detecting fraud, abuse and errors at the earliest possible stage;
- **Deterrence** – to develop an anti-fraud culture among staff and the public and dealing decisively with cases of fraud and abuse detected;
- **Debt Recovery** – to actively pursue the recovery of all debts.

The Minister for Public Expenditure and Reform is also informed by the Minister for Social Protection that it has a number of performance indicators of fraud/ error controls that are used to measure the effectiveness of control activities in the Department, e.g.,

Prevention Performance Indicators

1) Control is built-on to the administration of schemes from the application stage.
2) Fraud and error survey in schemes to determine the high risk claimants that should be targeted at application stage and through control reviews.
3) On-going control awareness training is provided to staff as part of the Department's induction and customer service programmes.

Detection Performance Indicators

1) Control targets are set for savings and reviews within schemes.
2) Data-matching is increasingly being used to identify cases for control reviews.
3) Fraud and error survey's in schemes to determine the high risk claimants that should be targeted through on-going control reviews.
4) A review policy working group was established to devise risk based review policies for the Department's main schemes.
5) Anonymous/confidential reports from the public.
6) Number of cases checked to ensure that there were no open claims in this jurisdiction while also claiming in the North/ UK under the terms of a Memorandum of Understanding in place with the equivalent departments in the United Kingdom and Northern Ireland.
7) Volumes of cases referred to Gardaí for identity fraud.
8) Number of cases referred to Client Identity Services for fraudulent documentation.

Deterrence Performance Indicators

1) The number of cases finalised in court that result in a conviction.
2) Press releases are issued outlining the results of the Department's control activities and publicity is given to the outcome of prosecutions taken against offenders in local press.

Debt Management

1) The Debt Management Strategy is to actively pursue the recovery of debts to maximise recovery with particular emphasis on recovery from people no longer dependent on social welfare payments.

The Minister for Public Expenditure and Reform is informed by the Minister for Social Protection that the initiatives have been instrumental in focusing attention on increasing the effectiveness of review activity.

Recommendation No. 2: The Department of Social and Family Affairs should seek a change to the EU regulation on the payment of child benefit to children not resident in the State so that the rate payable equates with the rate payable by the State in which the child is resident.

The Minister for Public Expenditure and Reform is informed by the Minister for Social Protection that the recommendation is noted.

The Minister is further informed by that Department that:

- the co-ordination of social security for workers moving within the EU is governed by EU Regulations. The current regulations (883/04 and 987/09) came into force on 1 May 2010. However, similar provisions have existed in regulations dating back to 1972: Regulations 1408/71 and 574/72;

- the aim of the regulations is to ensure that people are not disadvantaged by moving within the EU to take up work. The regulations are also intended to guarantee, within the Community, equality of treatment to workers from other Member States and their dependants and survivors. Generally speaking, under the regulations, a worker is covered by the legislation of the Member State in which (s) he works. So (with some small exceptions) a worker in Ireland pays social insurance (PRSI) in Ireland, and receives benefits from Ireland. In the case of family benefits (such as Child Benefit), this means a worker from another EU country is entitled to a payment on the same basis as an Irish worker, even if the child/children live in another EU country.

- the logic of this is that even if the family may live in another Member State, the worker in Ireland is earning wages at Irish levels, paying tax and social insurance at Irish levels, and is therefore entitled to benefits at Irish levels.

Numbers and costs

The Minister for Public Expenditure and Reform is further informed by the Minister for Social Protection that, with regard to children living abroad:

- At 31 October 2011, (on an average basis over the ten months), the average number of customers in payment was four thousand nine hundred and twenty nine (4,929) in respect of seven thousand seven hundred and ninety eight (7,798) children.

  The actual cost to end October 2011 was €10.9m, with an estimate of €13.1m for the full year.

- In 2010 the average number of customers was five thousand three hundred and fifty three (5,353) in respect of eight thousand five hundred and seventy four (8,574) children.

  The associated full year cost in 2010 was €15.4m.

- In 2009 the average number of customers was six thousand six hundred and ten (6,610) in respect of ten thousand nine hundred and sixty four (10,964) children.

  The associated full year cost in 2009 was €19.7m.

- These Child Benefit costs represented less than one per cent of the total cost of Child Benefit in the respective years.

Possibility of change to the regulation

The Minister for Public Expenditure and Reform is further informed by the Minister for Social Protection that:

- as with any EU legislation, any change to regulations must be proposed by the Commission and agreed by Council and Parliament. The Department of Social Protection would see virtually no prospect of persuading the Commission to propose the change recommended by the Committee or for getting Council/Parliament to agree it. Such a change would not be a small technical issue; rather it would mean changing one of the fundamental principles which underlies the regulations: that EU citizens are entitled to equal treatment.

11. Health Service Executive

Recommendation No. 1: The HSE needs to put greater emphasis on getting buy-in from stakeholders by outlining the extent of new services prior to transferring and or downgrading local hospitals.

The Minister for Public Expenditure and Reform is informed by the Department of Health that the HSE accepts this recommendation.

The Minister is further informed that the HSE has protocols in place to encourage such buy-in.

Recommendation No. 2: As part of Health-Stat, the HSE should start collecting information on the extent of out-patients waiting lists in order to better measure the performance of our hospitals.

The Minister for Public Expenditure and Reform is informed by the Department of Health that the HSE accepts this recommendation.

The Minister is further informed by that Department that:

- the HSE recognises the need to focus on access to services as a key indicator of performance. Healthstat currently uses a metric for outpatients which focuses on the length of time waiting but it is accepted that there is also a need to monitor the numbers of patients waiting in each hospital so that demand and supply can be matched;

- a process has commenced to put in place a more comprehensive set of data, coupled with a standardised collection and reporting system for this information. Many individual hospitals currently collect data but not in a standardised manner which would allow for comparisons to be made between sites. This is a large project as over three million new out-patient department attendances take place in our hospitals each year and the numbers are increasing;

- the HSE has begun an OPD Data Quality Programme which has developed an agreed national data set. This will ensure a national standardised adherence to the capture of demand for outpatient services and will accurately capture waiting times both prospectively and retrospectively. This data set will be trialled in all the adult hospitals in the Dublin North/North East region.

Recommendation No. 3: The HSE should conduct a review in 2010 of the extent to which the new consultants' contract has led to a drop in private income for our public hospitals.

The Minister for Public Expenditure and Reform is informed by the Minister for Health that the recommendation is noted.

The Minister is further informed by that Department that:

- one of its main policy goals for the new consultant contract is to achieve improved access for public patients to public hospital services;

- and, it accepts that this may reduce the income due to public hospitals for treating private patients but is anxious that the HSE prioritise collecting whatever private patient income is due as quickly as possible rather than reviewing the level of that income in itself.

12. National Treasury Management Agency

Recommendation No. 1: The National Pension Reserve Fund Commission should establish rolling medium term targets for investment returns as benchmarks against which actual performance is measured.

The Minister for Public Expenditure and Reform is informed by the National Pension Reserve Fund Commission that the recommendation is noted.

The Minister is further informed by the Commission that:

- in future, it will measure and report on the investment performance of the discretionary portion of the Fund against the cost of government debt over the medium term.

Legislative Background

The legislation underpinning of the National Pensions Reserve Fund, originally established in April 2001 under the **National Pensions Reserve Fund Act 2000**, has changed significantly in recent years. The statutory investment policy for the National Pensions Reserve Fund set out in the 2000 legislation is to seek the optimal financial return provided the level of risk is acceptable to the Commission.

Under the investment of the **National Pensions Reserve Fund and Miscellaneous Provisions Act 2009**, the Commission is required to make investments in credit institutions, as directed by the Minister for Finance where, having consulted the Governor of the Central Bank and the Financial Regulator, he decides such a direction is required, in the public interest, for either or both of the following purposes:

a) To remedy a serious disturbance in the economy of the State;
b) To prevent potential serious damage to the financial system in the State and ensure the continued stability of the system.

The Credit Institutions (Stabilisation) Act 2010 provides for Ministerial directions for the Fund to invest in Irish Government securities or for payments to the Exchequer to fund capital expenditure in the financial years 2011, 2012 and 2013.

On foot of the 2009 legislation, the Minister directed the Commission to invest a total of €10.7 billion in Allied Irish Banks and Bank of Ireland.

The statutory investment policy does not apply to directed investments.

EU/IMF Programme for Stability

It has been agreed that there would be a €10 billion contribution from the Fund to the Programme for Stability agreed with the EU and IMF.

Recommendation of Public Accounts Committee

Given the directed nature of the banking investments and the fact that the Commission's statutory investment policy does not apply to them, the Commission decided in early 2009 to separate the NPRF into two parts for management purposes – the Discretionary Portfolio (the investment of which remains the Commission's responsibility) and the Directed Investments (which investments are made at the direction of the Minister for Finance).

Directed Portfolio
It would not be appropriate for the Commission to set a rolling medium-term target for investment returns in respect of directed investments, as these investment decisions are made by the Minister.

Discretionary Portfolio
The National Pensions Reserve Fund Commission's primary investment objective for the Discretionary Portfolio is to maximise the terminal wealth of the Fund over the time scale as laid down in the Act through an investment strategy which has due regard to the purpose of the Fund as set out in Section 18 of the Act and the payment requirements as set out in Section 20 of the Act.

The National Pensions Reserve Fund Commission carried out a scheduled review of its **long-term investment strategy** and the NPRF's strategic asset allocation during the second half of 2009 through early 2010. The Commission reaffirmed its primary objective and the Fund's updated strategic asset allocation was set with a view to meeting this primary objective.

The Commission's asset allocation strategy is diversified across multiple asset classes. The strategy is founded on the premise that real assets, such as equities and alternative investments, whose performance is linked to the rate of economic growth, will, despite having higher volatility, over the long term outperform financial assets such as bonds.

While the Commission's focus is on maximising the Fund's long-term performance, because of inherent uncertainties in investment markets it is not possible to target specific levels of return. The strategic asset allocation is of course built around levels of risk that are acceptable to the Commission and the composition of the portfolio is reported on fully in the Annual Report of the Fund.

The Commission further agreed in March 2010 that its existing Investment Objective should be modified to include a **supplementary, medium-term objective** of seeking to outperform the cost of government debt (debt service costs) over the medium term (rolling five year periods) as follows:

> *A supplementary objective will be to outperform the cost of five year government debt over rolling five year periods at a 75% probability level.*

While the Commission has always set investment strategy on the basis that the NPRF's strategic asset allocation is likely to outperform the cost of borrowing over the NPRF's long investment horizon, it has decided that the costs of borrowing should now be formally recognised in its investment objective and explicitly factored into the level of risk it is satisfied to take with regard to the NPRF. The supplementary objective set out above was adopted on the basis that it represents a reasonable balance between maintaining a long-term investment perspective and recognising Ireland's changed fiscal position and the increased budgetary impact of debt service costs. This supplementary objective represents a rolling medium-term target against which the Discretionary Portfolio's actual performance will be measured.

Recommendation No. 2: The State Claims Agency, in defending medical malpractice cases, should propose the use of the mediation provisions of the Civil Liability and Courts Act 2004 as a way of driving down the cost of claims.

The Minister for Public Expenditure and Reform is informed by the State Claims Agency that it accepts the recommendation.

The Minister for Public Expenditure and Reform is further informed by the State Claims Agency that the Agency is strongly committed to the use of mediation in relation to the resolution of medical malpractice cases. The Minister is also informed that mediation is now being used much more extensively by the Agency in appropriate cases.

The Agency states that it should be noted, however, that a proportion of cases, on account of case-specific liability and causation issues, are not suitable for a mediation conference. However, the Agency remains strongly committed to the use of mediation in relation to the resolution of medical malpractice cases.

13. Department of Community, Rural and Gaeltacht Affairs

The Department of Community, Rural and Gaeltacht Affairs was replaced by the Department of Community, Equality and Gaeltacht Affairs in 2010. The functions of that Department were transferred in 2011 to a number of Departments including the Department of Environment, Community and Local Government; the Department of Justice and Equality; the Department of Arts, Heritage and the Gaeltacht.

Recommendation No. 1: The Department of Community, Rural and Gaeltacht Affairs, in conjunction with the Department of Finance, should re-assess the methodology used in value for money reviews so as to be able to measure the longitudinal impact of programmes involved in community intervention.

This is a policy matter for the Minister for Public Expenditure and Reform in the first instance.

All Value for Money & Policy Reviews examine objectives, effectiveness, efficiency and continued rationale. The methodology used for each VFM review varies depending on the nature of the programme being evaluated and also on the type of data that is available or that can be gathered during the evaluation. The type of evaluation envisaged in a VFM and Policy Review is a thorough test of a programme but the capacity to answer the questions posed can sometimes be hindered by a lack of clarity regarding the objectives and a lack of quality data to measure the outcomes.

If the evaluation of effectiveness is likely to involve the measurement of longitudinal impact then this has to be taken into account at the programme design phase and steps taken to gather, on an ongoing basis, the data that will be needed to conduct the evaluation.

Accordingly, the Minister for Public Expenditure and Reform accepts the premise of the Recommendation put forward, and is taking a number of steps to address this issue raised. These include:

- the Performance Budgeting Initiative which will put a much greater emphasis on reporting outputs and outcomes as well as inputs. This should ensure that the focus of those responsible for programmes is performance and delivery, and will put the Dáil Committees in a stronger position to hold Ministers and officials to account in this regard.
- issuing new, clear guidance on the appraisal of proposed expenditure (capital and current) which will include a requirement to specify the information needed for ongoing monitoring and evaluation. As a rule, new programmes should not be approved unless this data is specified and a realistic method in place to gather the data required.

The Value for Money & Policy Reviews can only touch on a limited number of spending areas in any one year and Departments and Agencies are responsible on an ongoing basis for reviewing the performance of the programmes they are responsible for. In order to do so they also need the quality performance data.

Programmes that are already in existence need to be assessed to see if adequate performance data is being gathered to allow for proper ongoing monitoring and evaluation. The reforms to the VFM framework, which the Minister for Public Expenditure and Reform will be bringing forward shortly, will deal with this issue.

Recommendation No. 2: The Department of Community, Rural and Gaeltacht Affairs should prepare a report on the key learning points identified in the review by the Centre for Effective Services of the design of the two main social spending programmes of the Department with a view to developing a shared learning on programme design across State Departments and Bodies.

The Minister for Public Expenditure and Reform was informed that the then Department of Community, Equality and Gaeltacht Affairs accepted the recommendation.

The Minister was further informed by the that Department that as part of the overall project, the Centre for Effectiveness Services conducted a review of the international evidence on 'what works' in publicly-funded community development programmes. The evidence review analysed literature from countries with political, social, economic and welfare features similar to Ireland in which these types of programmes are relatively well-established.

Recommendation No. 3: The Department of Community, Rural and Gaeltacht Affairs should, in conjunction with other Departments involved in community enterprise and development, review the administrative infrastructure now supporting community development with a view to eliminating overlap, creating a one-stop-shop approach to support and realigning, where possible, such support networks within a local authority framework.

The Minister for Public Expenditure and Reform was informed by the then Department of Community, Equality and Gaeltacht Affairs that it accepted the recommendation.

The Minister was further informed that the Department of Community, Rural and Gaeltacht Affairs was established in 2002 against a background of concern at the multiplicity of structures and agencies through which local and community development schemes and programmes are delivered. The cohesion process initiated by the Department (in co-operation with the Departments of Environment, Heritage and Local Government and Justice, Equality and Law Reform) to address these issues has resulted in a significant reduction of local delivery structures for a range of rural and local development programmes. Until last year, there were 94 Partnerships and LEADER companies operating and this has been reduced to a total of 52 entities providing full county-wide coverage across the country;

The community functions of the Department of Community, Rural and Gaeltacht Afffairs were transferred in 2011 to the Department of Environment, Community and Local Government and the Minister has been advised that:

- Since January 2010 a national model involving the full integration of CDPs with Local Development Companies has been rolled out, and with the exception of a few alternative models (for e.g. Travellers, Womens groups etc;) the national model has been achieved. This work has resulted in the numbers of delivery bodies for local and community development being reduced from over 230 to some 72.

Relevant Departments have worked closely within the context of bringing about greater coherence and efficiencies in the delivery of public services at local level and any required interdepartmental co-operation will continue.

The policy in relation to further integrating community and local development programmes complemented and informed the work of the Local Government Efficiency Review Group. The issue of better alignment between local government and local and community development was considered by the Group and its report published. Matters regarding the re-aligning of support networks for community development within a local authority framework will, of course, be for decision by Government.

14.Special Report –No. 10

The Abbey Theatre

> ***1. The Abbey Theatre should in future receive all its State funding via the grant in aid to the Arts Council rather than directly from the Department of Arts, Sport and Tourism. A similar arrangement should apply to other Bodies that are in a similar situation.***

This is a policy matter for the Minister of Arts, Heritage and the Gaeltacht in the first instance. The Minister for Public Expenditure and Reform is informed, however, by that Department that this recommendation is noted.

The Minister is further informed by that Department that:

- The approach to capital funding of the Abbey Theatre was reviewed by the Department, following the discussion on the Abbey by the Committee of Public Accounts on 8 October 2008. In particular, the following recommendation made by the Comptroller and Auditor General in response to a question by the Committee, was considered of particular importance by the Department:-

- *"there would be much more coherence to the system if all capital funding was coming from the same source, either the Department or the Arts Council. In that way a single agency would be monitoring it."*
  Mr John Buckley, C&AG, 8 October 2008.

  The Department implemented the advice of the C & AG by designating the Department as the single source of capital funding for the Abbey Theatre;

- all capital funding for arts projects, including capital funding for the Abbey Theatre, is now consolidated within the Department's Cultural Development subhead. There is a high level of experience and expertise in the management of arts capital programmes in the Department and there are significant synergies in this approach. In its management of capital programmes, the Department has systems in place which require each capital grantee to provide evidence that public procurement guidelines have been observed as well as certification by project auditors that expenditure has not been recouped from another source. The Model Arts Gallery in Sligo and the Visual Arts Centre in Carlow are just 2 examples of such projects;

- traditionally capital has been and continues to be provided to arts organisations by the Department through its funding of arts capital projects. Correspondingly, the Arts Council has traditionally provided current funding to those organisations and in this context all government current funding for the Abbey Theatre is administered by the Arts Council;

- the Arts Council receives limited annual capital provision. This is intended to cover its own internal capital requirements, including such items as computer equipment, office equipment and maintenance of its building;

- changes to the present arrangements, by transferring responsibility for some arts capital funding to the Arts Council would create confusion in the arts sector and not contribute to the efficient management of the arts capital funding programme. The Arts Council's primary role is in providing arts organisations and artists with current funding while provision for arts capital is through the Cultural Development subhead of the Department of Tourism, Culture and Sport. This mirrors the institutional arrangements in the Department's Sports Division where the Irish Sports Council provides current funding to sporting organisations and the Department provides sports capital funding.

The Department of Arts, Heritage and the Gaeltacht considers that these changes, which were implemented in 2008, will address the matters raised by the Committee.

2. The Department of Finance should review funding procedures to see whether some mechanisms such as carryover provision can be put in place to ensure that capital works for which funding has been committed can be completed in compliance with procurement rules.

This is a policy matter for the Minister for Public Expenditure and Reform in the first instance.

The Minister draws the attention of the Committee to the fact that:

- Provision exists for carryover of unspent capital allocations up to 10% of the total for a Vote at the discretion of the Minister for Public Expenditure and Reform. This is one of a number of measures introduced in recent years to help Departments and Offices to better manage their capital expenditure requirements on a multi-annual basis;

- He considers that existing provisions should be adequate to address the issues raised by the Committee.

The National Library

1. The collection development policies and acquisition guidelines of the National Library that are being finalised should include provisions designed to mitigate the procurement risks associated with the acquisition of material of interest to the Library.

The Minister for Public Expenditure and Reform is informed by the Department of Arts, Heritage and the Gaeltacht that this recommendation is noted.

The Minister is further informed by that Department that:

- The National Library has established a formal, written Collection Development Policy (This can be accessed at http://www.nli.ie/en/udlist/reports-and-policy-documents.aspx). Section 2.3.3 of this requires the National Library to "consult with other institutions collecting in the same or related areas or subject fields to ensure that conflicts of interest are avoided and opportunities for the development of the national collections maximised. In certain curatorial areas, the Library will work with other collecting institutions to further define areas of specialism" ;

- The Collection Development Policy states in section 2.4 that "Responsibility for the identification and selection of material for acquisition is assigned to the Library's curatorial staff. In practice, this means that the active selection of material for the national collection is a collections management function exercised by designated curatorial staff in special collections areas (for example, rare books, manuscripts and archives, prints, drawings and ephemera, and photographs)" ;

- In addition section 2.4.1 states that "All decisions are subject to the following:

    i. - the criteria for selection set out in this policy document
    ii. - the financial authorisation limits set for different classes of materials in the budget adopted annually by the Board and including the requirement that expenditure on purchases exceeding €100,000 must be authorised in advance by the Board";

- These measures will mitigate risks associated with the acquisition of material by this national cultural institution.

2. The National Library should, as part of its acquisitions policy, retain the services of a reputable dealer who can enter the market quickly and thus compete with private collectors and traders in respect of items that have an inherent cultural and possessive value to the Library.

The Minister for Public Expenditure and Reform is informed by the Department of Arts, Heritage and the Gaeltacht that this recommendation is noted.

The Minister is further informed by that Department that:

- the limited number of experts in the fields of interest in respect of acquisitions by the National Library of Ireland, coupled with the minimal budget provided to the institution for the expansion of its national collection precludes the retention on a permanent or regular basis of such a dealer.
- Management of the National Library have undertaken to ensure that acquisitions will be approached with requisite oversight and professionalism and may employ the services of a reputable dealer where warranted.

Beaumont Hospital

1. ***All IT investments should be guided by an IT strategy which is drawn-up with an appropriate input from the staff who will use the systems in addition to the senior management of the organisation and the ICT specialists employed by the body.***

This is a policy matter for the Minister for Public Expenditure & Reform in the first instance.

The Minister draws the attention of the Committee to the fact that:

- Circular 2/09 and its associated guidance documents, which set out the approval arrangements in respect of ICT-related expenditures, require organisations to have an up-to-date ICT Strategy. The approval process is also intended to ensure that public bodies have the ability to develop and implement the solution.

The Minister is informed by the Minister for Health that:

- The HSE has an ICT strategy developed during 2007 and 2008 which is used to validate all ICT projects and guides decisions regarding capital investments.

- The HSE is working on updating the ICT strategy and a draft is currently available. It should be noted that all HSE ICT proposals including any from Beaumont Hospital are now considered by the Department of Public Expenditure & Reform on a case-by-case basis.

2. ***Hospitals, including voluntary hospitals such as Beaumont, should not invest in stand-alone IT systems that develop outside the national strategy of the HSE.***

The Minister for Public Expenditure and Reform is informed by the Health Service Executive that this recommendation is accepted.

The Minister is further informed by the HSE that:

- Circular 2/09 and its associated guidance documents set out the approval arrangements in respect of ICT- related expenditures. The HSE requires all hospitals to comply with Circular 2/09. Beaumont Hospital has been working in conjunction with the HSE since 2007 on the implementation of Circular 16/97 and Circular 2/09.

3. ***Major IT investment projects in the public sector should be guided by external review such as a gateway review which involves bodies such as Centre for Management and Organisation Development (CMOD).***

The Minister for Public Expenditure & Reform accepts this recommendation.

The Minister would draw the attention of the Committee to the fact that:

- The Department introduced a Peer Review Process in 2005-06, similar to the Office of Government Commerce Review System in England, in respect of IT projects which are estimated to cost in excess of €5m or are complex in nature or which could otherwise stretch the resources of an organisation. Nine such projects are within the Peer Review Process as of October 2011.

Irish Blood Transfusion Service

1. ***All ICT projects should arise from a long term strategic plan for IT in the organisation which should outline how IT will support current and future business activities.***

The Minister for Public Expenditure and Reform accepts this recommendation.

The Minister draws the attention of the Committee to the fact that:

- as mentioned earlier in this minute, Department of Finance Circular 2/09 and its associated guidance documents set out the approval arrangements in respect of ICT-related expenditures. When seeking approval for expenditure, public bodies must certify that a proposal has been approved internally at top management level including, where applicable, by the parent body of the organisation. They must also certify that the proposal adheres to Government Policy and is aligned with the business priorities and objectives of the organisation;

The Minister is informed by the Minister for Health that:

- the Irish Blood Transfusion Service (IBTS) Strategic Plan contains a section on ICT and this is aligned with the business strategy for the period 2010 – 2012.

2. Risk assessment should be undertaken so as to ensure clarity in terms of ownership of the risks identified and this should then form part of a formal written contract for the project.

This is a policy matter for the Minister for Public Expenditure and Reform in the first instance.

The Minister accepts that:

- a risk assessment should be undertaken prior to contract signature in order to identify risks and to assess whether the level of risk is acceptable and manageable. However, risk assessment must be ongoing throughout the life of a project and must be managed by an appropriate officer of the body concerned formally assigned to the function by the Accounting Officer;

- this approach is encompassed in the Risk Management Guidance issued by his Department in 2004 to Departments and Offices and in the guidance documentation associated with Circular 2/09.

The Minister is informed by the Minister for Health that:

- risk assessments form an integral part of each of the IBTS project plans;
- it has implemented a Project Management Framework, called PAVE, Projects Adding Value through Excellence;
- that this framework is used for projects over a certain limit and is used for all major projects;
- that in the clinical/laboratory projects the risk assessment document is also reviewed by the IBTS Regulator, the Irish Medicines Board, during inspections; and,
- that all future projects will have a written contract with the vendor.

3. Inbuilt reviews should be a feature of all capital projects, especially IT projects and public sector bodies should act decisively in terminating such projects where an increased risk materialises that the project will not deliver the required functionality.

The Minister for Public Expenditure and Reform accepts this recommendation.

The Minister draws the attention of the Committee to the fact that:

- the Capital Appraisal Guidelines published by his Department in 2005 set out the procedures with regard to the appraisal and management of projects and advises public bodies that they should be prepared at any stage to abandon a project if, on balance, continuation would not represent value-for-money;

- with regard to ICT projects, Department of Finance Circular 2/09 and its associated guidance documents set out the approval arrangements in respect of ICT-related expenditures. Under the terms of the Circular, public bodies are required to continually monitor the progress of projects with regard to planned functionality, usability, timescales and cost. They must draw up proposals to address the situation in the event that there is persistent or serious lessening of the cost-effectiveness of the solution or project approach and to notify the Department of Finance accordingly;

The Minister is informed by the Minister for Health that:

- within the IBTS Project Management Framework there are regular reviews built into the process and that in relation to terminating projects the IBTS did terminate the eProgesa project which led to the report.

15.Developmental Agencies

1. The IDA should make an arrangement whereby it has access to cash for investment purposes which would lessen the need to carry large credit balances in its bank account.

The Minister for Public Expenditure and Reform is informed by the Department of Jobs, Enterprise and Innovation that it accepts this recommendation.

The Minister is further informed by that Department that:

- under the Industrial Development Act, 1986 to 2009, the IDA is empowered to buy and sell property for industrial purposes. The agency property function is almost entirely self-financing, with the agency using the proceeds from sales for the purchase and development of suitable sites as well as the maintenance of existing business parks. In the year under review, exchequer funding towards the property function was €3.4 million; in 2010 it was €1 million;

- Most money in IDA accounts relates to property transactions, which are not exchequer funded. In these cases, the balances are reviewed annually and their carryover to the following year approved, where appropriate, by the Department of Jobs, Enterprise and Innovation and the Department of Public Expenditure and Reform. Amounts not approved for carryover are returned to the exchequer;

- Interest earnings are derived from these cash balances while they are held by IDA. Interest earned is transferred to IDA's non-pay budget as "own resource income", as an alternative to further drawings from the Exchequer. However, clear limits are set during the Estimates process on the amounts of interest that can be transferred to the non-pay Budget. Any earnings in excess of these agreed amounts are returned to the Exchequer, unless an alternative use is approved by Department of Jobs, enterprise and Innovation and Department of Public Expenditure and Reform in accordance with normal funding principles;

- The cash balances held by IDA at the time of these PAC reviews were larger than normal. Most of the balance money at that time related to a 'refundable deposit' for a site purchase which had been paid by an industrial company to IDA but which required to be held to see if its return would be sought by the prospective purchaser. In the event, its return was subsequently requested by the company involved and sale of the site did not proceed. During the period that these balances were held by IDA, the procedure on interest earned, as outlined in the previous paragraph, applied.

2. There should be a central register of vacant State property maintained by OPW. State Agencies who find that they have surplus accommodation in hand should notify OPW and seek its assistance in off-loading such properties.

The Minister for Public Expenditure and Reform is informed by the Office of Public Works that it notes this recommendation.

The Minister is further informed that work is currently underway on the development of a web portal which is intended to provide access to records of property held by public service bodies and facilitate scrutiny of properties owned by the State.

16. Food Safety Authority of Ireland

The cost of food regulation in Ireland and the outputs achieved by those regulating the industry are spread over a number of Agencies and these should now be consolidated into a single output statement for the programme on the lines of that produced in Government Departments.

The Minister for Public Expenditure and Reform is informed by the Department of Health that it accepts this recommendation.

The Minister is further informed by that Department that:

- it is proposed that the Food Safety Authority of Ireland (FSAI) will coordinate the production of this output statement. Food is regulated by the FSAI through its service contracts with a number of bodies including the Department of Agriculture, Fisheries and Food, the Local Authorities, the Sea Fisheries Protection Authority and the Health Service Executive.

17. Other State Agencies (No recommendations)

Fáilte Ireland
Broadcasting Commission of Ireland

18. The Pensions Board

Recommendation No. 1:_The Pension Board should draw up guidelines, having consulted the National Pensions Reserve Commission, on prudential investment policies that should be pursued by trustees of private pension schemes.

These are policy matters for the Minister for Social Protection in the first instance. The Minister for Public Expenditure and Reform is informed by that Department that it notes the recommendation.

The Minister is further informed by that Department that:

- the role of the Pensions Board with regard to the investment approach adopted by the trustees of pension schemes is one of a range of issues being dealt with in the context of the consideration of the implementation of the National Pensions Framework (published in March 2010). Section 5.6.1 of the National Pensions Framework sets out a number of areas where regulation will be enhanced in order to help secure the pensions of scheme members. In particular, it includes a commitment to reviewing the Pensions Board's powers in relation to the regulation of schemes. This review will include consideration of providing the Board with further statutory authority in relation to the investment approach adopted by the trustees of pension schemes, for example, in relation to life-styling, and the option of licensing schemes;

- the National Pensions Reserve Commission and others will be consulted as part of this review;

- that the National Pensions Framework also states that the information being provided to scheme members will be kept under review and enhanced as considered necessary; and that the funding standard will be kept under review;

- that a number of other initiatives have been underway to encourage prudential investment decisions by trustees of private pension schemes. These include facilitating the purchase of sovereign annuities and the development of a new model of defined benefit (DB) pension provision (as provided for in the National Pensions Framework). With regard to the later, the Minister is informed that a number of options are under consideration including changes to the funding standard and a requirement to hold additional risk reserves;

- these initiatives follow a range of practical measures which have been introduced over the past few years in order to assist DB schemes with the challenges they face. These measures include, allowing greater flexibility and time to recover funding positions; the introduction of a Pensions Insolvency Payment Scheme (PIPS) for DB schemes in deficit where the sponsoring employer is also insolvent; and broadening the scope of benefits that can be included in a restructuring in the event of under-funding.

Recommendation No. 2: Tax relief on pension contributions should be re-balanced in favour of those on the lowest tax band.

These are policy matters for the Minister for the Department of Finance in the first instance. The Minister for Public Expenditure and Reform is informed, however, by that Department that it notes the recommendation.

The Minister is further informed by that Department that:

- Tax relief on individual pension contributions is currently allowed at the taxpayer's marginal income tax rate, that is, at the standard or higher rate of income tax as appropriate in each case;

- The National Recovery Plan 2011- 2014 published in November 2010 contains proposals for changes to the tax and other relief arrangements for private or supplementary pension provision over the period of the Plan, including a gradual reduction to standard rate income tax (20%) relief on employee/individual contributions to pension arrangements commencing in 2012. The intention behind these proposals is that a reduction in tax relief of 7% each year from 2012 to 2014 will be given effect by the Budget and Finance Bills for each of those years. These proposals now form part of the fiscal consolidation measures in the Memo of Understanding (MOU) between the EU Commission and Ireland and in the Memorandum of Economic and Financial Policies (MEFP) involving the EU/IMF/ECB;

- It is recognised that the various changes proposed may reduce saving for private pension provision and there is scope for the pension sector to come forward with alternative proposals to achieve the same quantum of savings. The MOU and MEFP have targeted savings of between €700 and €940 million from the broad pensions area in the period to 2014;

- Certain changes in the area of reliefs for private pension provision have already been given effect from 1 January 2011, including the application of employee PRSI and the Universal Social Charge to employee pension contributions.

Given under the Official Seal of the Minister for Public Expenditure and Reform on this the day of November, 2011

L.S.

Robert Watt
Secretary General
Department of Public Expenditure and Reform