An Roinn Airgeadais
Department of Finance

COMPREHENSIVE REVIEW OF EXPENDITURE

26.07.2011

1.1 Introduction

Purpose and Mission of the Department

The Department's Statement of Strategy 2008 – 10 sets out its mission as:

To support the achievement of the Government's economic and social objectives by promoting a sound, sustainable economic and budgetary environment, continuing improvements in the efficiency of public services, and an effective framework for financial services.

In line with the requirements of the Public Service Management Act 2007, this Statement and Mission is currently being revised to take account of the Programme for Government and other policy developments which have occurred over the period since 2008 and those which, it is envisaged, are likely to impact on the Department in the years of the next Statement of Strategy: 2011-14.

Strategic Priorities of the Department

The Department is located at the heart of public administration in Ireland. Its mission, which is framed by legislation and the direction set by Government policy, is concerned with ensuring that the economy, and in particular the public service, maintain a stable trajectory and that they develop in accordance with the needs and expectations of the wider community. This means optimising the use of public expenditure, maintaining a cost effective public administration, achieving the required overall balance between taxation and spending, and promoting Ireland's interests at EU and international level.

In pursuing this mission, the Department's Statement of Strategy 2008 – 10 highlighted that it will focus on seven strategic priorities over that period:

1. To formulate appropriate economic and budgetary policies which achieve sustainable growth and employment creation, social and environmental progress and improved living standards.
2. To develop efficient and effective taxation policies which support and promote the Government's economic, social and environmental objectives.
3. To formulate and promote sustainable public expenditure policies which support the Government's economic, social and environmental objectives.
4. To formulate and promote national income and pensions policies, with particular reference to the public service, which are consistent with budgetary sustainability, competitiveness and high standards of service delivery.
5. To maintain an appropriate policy and legislative framework for the effective regulation of the financial sector, while promoting the interests of consumers and the development of financial services.
6. To formulate and promote policies which drive efficiency and effectiveness across the public service, including effective implementation of the Government's programme of decentralisation.
7. To provide an efficient, high quality service to our customers, in particular by ensuring that we have the necessary skills and expertise, systems and technology to address their needs.

Recent organisational developments

The policy focus of the Department, and as result strategic objectives, changed with the establishment of the Department of Public Expenditure and Reform by the new Government of Fine Gael and the Labour Party on 9th March 2011.

Under the responsibility of Minister Brendan Howlin TD, this new Department is comprised of the Sectoral Policy and Public Service Management Divisions of the Department of Finance with units assigned from the Public Service Modernisation Division of the Department of the Taoiseach.

In contrast, the Department of Finance consists of the following areas of responsibility under the Minister for Finance, Michael Noonan TD:

- Banking and financial services;
- Budget, taxation and the economy including international aspects and the EU; and
- the Office of the Accountant and Paymaster General.

As a result of these changes, the Minister for Public Expenditure and Reform now has responsibility for the management of gross voted expenditure, the annual estimates process, general sanctioning powers in relation to expenditure and policy matters relating to the appraisal, review and evaluation of expenditure, while the Minister for Finance retains responsibility for overall budgetary parameters including fiscal policy and relations with international institutes such as the EU, ECB and the IMF.

Given the background to the establishment of the Department Public Expenditure and Reform out of the Department of Finance, the functions of the two Departments are closely related. For example, the staff of the two Departments constitute a common pool and the two Departments are involved in the provision of shared services to each other.

The Department of Finance provides shared services to the Department of Public Expenditure and Reform in the areas of Corporate Services (Human Resource Management, facilities management and a compliance regime), financial and accounting management, payroll and internal audit. In contrast, the Department of Public Expenditure and Reform provides a shared service to the Department of Finance in terms of ICT services.

1.2 Structure of Department and Budget Estimate 2011

The Department has been structured around three Strategic Programmes and associated *High Level Goals,* with resource allocations in the 2011 Budget Estimate as follows:

	2010 Provisional Outturn			**2011 Estimate**			Change 2011 over 2010
	Current	Capital	**Total**	Current	Capital	**Total**	
PROGRAMME EXPENDITURE	€000	€000	**€000**	€000	€000	**€000**	%
A - BUDGET, TAXATION & ECONOMIC POLICY ...	5,944	-	**5,944**	7,450	-	**7,450**	25%
B - FINANCIAL SERVICES POLICY	10,288	-	**10,288**	9,576	74	**9,650**	-6%
C - DELIVERY OF SHARED SERVICES	9,359	-	**9,359**	9,958	-	**9,958**	6%
Gross Total :-	25,591	-	**25,591**	26,984	74	**27,058**	6%
Deduct :-							
D - APPROPRIATIONS-IN-AID	3,514	-	**3,514**	1,201	-	**1,201**	-66%
Net Total :-	22,077	-	**22,077**	25,783	74	**25,857**	17%
				Net Increase (€000)			3,780
Exchequer pay included in above net total			*16,217*			*18,017*	*11%*
Associated Public Service employees			*276*			*282*	*2%*

- **Budget, Taxation and Economic Policy**

  *The **high level goal** of this policy is to advise the Minister and Government on the most appropriate economic, taxation and budgetary policies to restore sustainable economic and employment growth and to ensure debt sustainability.*

- **Financial Services Policy**

  *The **high level goal** of this policy is to maintain an appropriate policy and legislative framework for securing financial stability and effective restructuring of the financial sector, while safeguarding and promoting the development of financial services and seeking to protect the interests of the relevant consumers; To take action as necessary to maintain the stability of the financial system and ensure that banks continue to meet the needs of the economy as a whole.*

- **Delivery of Shared Services**

  *The **high level goal** of this policy is to deliver efficient and effective accounting, financial management, internal audit, payroll/pension, banking, facilities management, human resource management and statutory compliance services on a shared basis to Government Departments/Offices and Agencies.*

Section 2 - Performance Budgeting

2.1 Background to Performance Budgeting

Vote 6 participated in a pilot approach to Performance Budgeting for the purposes of the 2011 Estimates process. The aim of this process is to sharpen the focus on performance at the Organisational level.

The existing process of resource allocation is heavily focused on financial inputs *('how much money is being spent?'),* rather than on outputs and impacts *('what is being achieved and delivered with this money?').* While reforms such as the introduction of Annual Output Statements have improved the expenditure framework, there is much scope for further progress.

The introduction of a new system of 'performance budgeting' is expected to bring a sharper focus on the actual outputs and outcomes delivered with scarce public resources. This new format will align resources with the High Level Goals in the Statement of Strategy and the Programmes set out in the Annual Output Statement. The information has been supplemented with certain performance information – the inputs (costs), outputs and impact indicators associated with each Programme.

This new Estimates structure is intended to strengthen the type of useful information available to Dáil Committees, and help to develop a stronger focus on the performance of all organisations, including this Department, in keeping with the Government's agenda.

In addition to the above, the Performance Budgeting process led to a decision to create a new programme which catered for the management of a common pool of staff and facilities between both Departments

The estimate has been restructured on a Strategic Programme basis, consistent with the presentation of the Annual Output Statements. This new format will align resources with the High Level Goals in the Statement of Strategy and the Programmes set out in the Annual Output Statement. The information has been supplemented with certain performance information – the inputs (costs), outputs and impact indicators associated with each Programme.

This new Estimates structure is intended to strengthen the type of useful information available to Dáil Committees, and help to develop a stronger focus on the performance of all organisations, including this Department, in keeping with the Government's agenda. The Finance Group of Votes and the Department of Agriculture, Fisheries and Food are part of the pilot project.

Prior to the Government's decision to separate the functions of the Department of Finance and the Department of Public Expenditure and Reform, the Department of Finance operated under four Divisional areas, each one corresponding to a Strategic Programme. This clear delineation of functions has helped in the process of reallocating functions between the Department and the newly-established Department of Public Expenditure & Reform.

Following the split, two programmes stayed with the Department of Finance:

- Budget, Taxation and Economic Policy
- Financial Services Policy

In addition to the above, the Performance Budgeting process led to a decision to create a new programme which catered for the management of a common pool of staff and facilities between both Departments

- Shared Services Function

This Shared Services programme captures the costs associated with the provision of shared banking, accounting, internal auditing, payroll, human resource management, compliance management and facilities management services. In the main, shared services of human resource management, compliance management and facilities management services are provided to the Department of Public Expenditure and Reform. While a banking, accounting and payroll service is provided to a number of other Government Departments and Offices.

2.2 Strategic Programmes – Key Outputs and Impact Indicators

2.2.1 Budget, Taxation and Economic Policy

The resources associated with this goal are as follows:

Numbers 2010	Numbers 2011		2010 Provisional Outturn Current €000	2010 Provisional Outturn Capital €000	2010 Provisional Outturn **Total €000**	2011 Estimate Current €000	2011 Estimate Capital €000	2011 Estimate **Total €000**
81	*81*	A.1 - ADMINISTRATION - PAY	5,159	-	**5,159**	6,456	-	**6,456**
		A.2 - ADMINISTRATION - NON-PAY	231	-	**231**	284	-	**284**
		A.3 - COMMITTEES AND COMMISSIONS	312	-	**312**	330	-	**330**
		A.4 - CONSULTANCY & OTHER SERVICES	30	-	**30**	75	-	**75**
	4	A.5 - FISCAL ADVISORY COUNCIL (GRANT-IN-AID)	-	-	-	300	-	**300**
		A.6 - COMMISSIONS & SPECIAL INQUIRIES ...	212	-	**212**	5	-	**5**
		Programme Total:-	**5,944**	-	**5,944**	**7,450**	-	**7,450**
81	***85***	***of which pay:-***	***5,159***	-	***5,159***	***6,601***	-	***6,601***

As set out in the 2011 Estimates, the Key Outputs include:

- Implement and provide advice in relation to budgetary targets and structural reform commitments set out in the EU/IMF Programme of Support including:

  - o Ensure the delivery of targets set out in Budget 2011 Measures to yield an overall full-year fiscal adjustment of €3.6bn for consideration in Budget 2012
  - o Establishment of an independent Fiscal Advisory Council
  - o Bringing forward proposals for a Fiscal Responsibility Bill.

- Provide advice in relation to and conclude negotiations on EU proposals for fiscal governance reforms:

  - o Deliver budgetary neutral Jobs Initiative.

- o Ensure successful completion of the quarterly reviews for 2011 under the EU/IMF Programme including meeting quantitative performance criteria.
- o Deliver the forecast tax yield for 2011 of €34.9bn.
- o Tax policy measures to be prepared for consideration in Budget 2012 in line with delivering the overall fiscal commitment as set out within the EU/IMF Programme of Support. Finance Act 2011 to be passed; Finance (No. 2) act required to facilitate the Jobs Initiative.
- o Civil partnership taxation legislation to be passed; betting and customs legislation to be published; impact assessment of the prospective CCCTB to be published; a statutory review of property based tax incentives to be completed; papers to be prepared to the Tax Strategy Group and paper/submission to Minister/Government for Budget 2012.

2.2.2 Financial Services Policy

The resources associated with this goal are as follows:

Numbers 2010	Numbers 2011		2010 Provisional Outturn Current	Capital	Total	**2011 Estimate** Current	Capital	Total
			€000	€000	**€000**	€000	€000	**€000**
55	*57*	B.1 - ADMINISTRATION - PAY	4,460	-	**4,460**	4,486	-	**4,486**
		B.2 - ADMINISTRATION - NON-PAY	179	-	**179**	184	-	**184**
		B.3 - COMMITTEES AND COMMISSIONS ...	4	-	**4**	35	-	**35**
		B.4 - CONSULTANCY & OTHER SERVICES ...	4,924	-	**4,924**	4,121	74	**4,195**
2	*1*	B.5 - COMMISSIONS & SPECIAL INQUIRIES ...	721	-	**721**	750	-	**750**
		Programme Total:-	**10,288**	**-**	**10,288**	**9,576**	**74**	**9,650**
57	***58***	***of which pay:-***	***4,531***	***-***	***4,531***	***4,601***	***-***	***4,601***

The Key Outputs include:

- Implementation of commitments, including introduction of legislation, as set out in IMF/EU Programme of Support to restructure and recapitalise Irish banks and in particular:
  - o Enactment of Central Bank and Credit Institutions (Resolution) Bill;

- Completion of bank capital investments to ensure a minimum Core Tier 1 ratio 10.5% under a base case scenario and 6% in a stress scenario with an additional contingency buffer;
- Restructuring and stabilisation of the banking sector to enable banks to meet the needs of the economy including a focus on a two pillar structure of AIB and BOI and the restructuring of Irish Life and Permanent;
- Implementation of board and management renewal at the banks;
- Restructuring plans for Anglo Irish Bank & INBS;
- Measures to foster competition in the banking sector.

2.2.3 Shared Services Function

The resources associated with this goal are as follows:

Numbers 2010	Numbers 2011		2010 Provisional Outturn Current €000	2010 Capital €000	2010 **Total €000**	**2011 Estimate** Current €000	2011 Capital €000	2011 **Total €000**
138	*139*	C.1 - ADMINISTRATION - PAY	6,527	-	**6,527**	6,815	-	**6,815**
		C.2 - ADMINISTRATION - NON-PAY	2,832	-	**2,832**	3,143	-	**3,143**
		Programme Total:-	**9,359**	**-**	**9,359**	**9,958**	**-**	**9,958**
138	***139***	***of which pay:-***	***6,527***	**-**	***6,527***	***6,815***	**-**	***6,815***

The Key Outputs include:

- Provision of a payroll/pension payment service to Departments/Offices/agencies on foot of Government policy
- Provision of a bank clearing/funding service to Departments
- Provision of accounting services to Departments, agencies, the Exchequer
- Provision of Human Resource Management and Compliance services to this Department and the Department of Public Expenditure and Reform
- Provision of Facilities Management Services to this Department and the Department of Public Expenditure and Reform

3. Costs

3.1 Summary of Key Cost Categories:

As previously mentioned, the Department is organised around three Programme areas with Gross costs in 2011 as follows:

	2010 Provisional Outturn			**2011 Estimate**			Change 2011 over 2010
	Current	Capital	**Total**	Current	Capital	**Total**	
PROGRAMME EXPENDITURE	€000	€000	**€000**	€000	€000	**€000**	%
A - BUDGET, TAXATION & ECONOMIC POLICY ...	5,944	-	**5,944**	7,450	-	**7,450**	25%
B - FINANCIAL SERVICES POLICY	10,288	-	**10,288**	9,576	74	**9,650**	-6%
C - DELIVERY OF SHARED SERVICES	9,359	-	**9,359**	9,958	-	**9,958**	6%
Gross Total :-	25,591	-	**25,591**	26,984	74	**27,058**	6%

However, in reviewing the Vote for CRE purposes it is important to note that the Vote is largely paybill in nature, with more than 70% of the Gross Vote allocated under pay subheads: there is 66% under the Administrative Budget and a further 5% under Programme Budgets.

In summary, the position is as follows:

Category	**€'000**	**%**
Administrative Budget pay	17,757	66%
Administrative Budget non-pay	3,611	13%
Programme Budget *Of which pay*	5,690 *260*	21% *5%*
Total ***Of which pay***	**27,058** ***18,017***	**100%** ***67%***

Given the very large concentration of the Department's costs in pay, it is therefore very constrained in terms of identifying expenditure savings apart from reducing staff numbers and salary costs, coupled with the more efficient and effective use of staffing resources.

However, from a detailed analysis of the current workloads, coupled with an exploration of emerging policy and operational challenges, of the Department's Strategic Programmes (Section 4), it is considered that it is not possible to reduce staffing costs if the policy goals of the Minister and the Government are to be achieved.

Instead, it is contended that additional resources will be required if the Department is to meet its High Level Goals and Key Outputs as set out in the 2011 Estimates. If this is not done, the Department will not be in a position to continue to make a contribution to Ireland's economic and fiscal recovery.

3.2 Paybill and Staffing

Pay costs arise across both Administrative and Programme Cost Subheads for Vote 6. In order to facilitate a comparison of trends over the 2008-11 period, the combined payroll cost for Votes 6 and 42 (the Department of Public Expenditure and Reform) since 2008 are as shown below.

As this information clearly shows, both the overall and Administrative Budget paybills have decreased substantially since 2008, although costs have increased in the 2011 as a result of external skills recruitment as a reaction to the recommendations of the Independent Review of the Department of Finance (denoted as the 'Wright Report').

	2008 €'000	**2009 €'000**	**2010 €'000**	**2011 €'000 (combined Votes)**	**% Change from 2008**
Administrative Budget**	41,170	40,454	34,941	36,867**	**-10%**
Gaeleagras	284	358	188	95	
NDP & ERDF	920	847	809	690	
Fiscal Advisory Council*			0	145	
Banking Inquiry*			71	115	
Change Management Fund	0	0	0	870	
TOTAL	**42,374**	**41,659**	**36,009**	**38,782**	**-8%**
Of which DOF				**17,847****	

***DOF paybill costs arise on the Administrative Budget, the Fiscal Advisory Council and the Banking Inquiry*

***Excludes costs of functions transferred during 2011 in order to compare like with like.*

Staff Numbers (whole-time equivalents)

Staff numbers have decreased by 9% across the Department of Finance and the Department of Public Expenditure and Reform since 2008.

	2008 Staff No's	2009 Staff No's	2010 Staff No's	2011 Staff No's	% reduction 2008-2011
Staff Numbers*	607	563	564	605	
Adjusted staff numbers	607	563	564	553**	-9%

***excludes SEUPB Agency staff*

*** In order to compare like with like the 2011 numbers exclude 52 staff in relation to functions that transferred in during 2011*

ECF and Paybill numbers for this Department and for the Department of Public Expenditure and Reform are calculated as follows:

	Numbers	**Paybill**
Existing allocation for 2012	665	37,376
Of which SEUPB	*65*	*735*
Add:		
Employee Assistance Service	23	1,335
Taoiseach	26	1,691
Civilian Drivers	4	200
CEGA	3	145
Fiscal Advisory Council	4	290
Total	**670**	**41,037**
Of which this Department	**280**	**17,774**

Every effort has been made to reduce numbers and associated paybill costs, but key skills issues must now be addressed to ensure that the Department can continue to assist the Minister and the Government in the State's economic and fiscal recovery. In addition, recommendations from both the Wright and Nyberg reports make reference to a need to resource in-house Economic and Banking resources so as to reduce dependence on external advisors. This can only be achieved by up-skilling existing staff by augmenting the skills of existing staff or improving these skills and expertise through a mixture of direct recruitment into the Department and short to medium term secondments from both the public service and the private sector.

The following increases in existing staffing resources have been envisaged and provided for in the Estimate for 2011:

- 2 Economists
- 2 Administrative Officers
- 1 Special Advisor
- 2 promotions to Principal Officer
- 1 Human Resource Specialist (Principal Officer level)

To date, the Department has undertaken the following actions to address skills and expertise shortages:

- Secondment of the NTMA Banking Unit of 10 persons
- Banking expert seconded from the Central Bank
- Recruitment of a banking expert from the private sector
- 2 diplomats seconded from the Department of Foreign Affairs)
- Recruitment form the private sector of a Human Resource Specialist.

At this juncture, the Department is unable to make any saving against our ECF headcount. The Department does have a €0.500m Administrative Budget carryover that might be used for the temporary resourcing of advisors/staff with specialist skills, but this must be done in the context of returning to our ECF ceiling by end-year.

Business Unit managers have also been requested to identifying surplus staff that might be redeployed or functions that might be ceased or outsourced. This review is ongoing.

As well as taking into account the current policy and operational challenges facing the Department, this review will also attempt to examine the likely demand for extra staffing and other resources in the context of Ireland's Presidency of the EU in the first half of 2013. The demands upon the Department for this work are likely to be significant and they will not be accommodated within existing resources.

Shared Services

The Comprehensive Review of Expenditure must also recognise that 139 of the Department's staff are involved in the provision of Shared Services to other Departments and Offices, including the Department of Public Expenditure and Reform. The expansion of Shared Services has meant that while productivity has increased and corresponding savings are required to be seen for those Departments and Offices of these services, no savings are generated on the Department's Vote.

At this stage, shared services are provided to a number of Departments and Offices:

- The Accountant's Branch/Paymaster General's Office (PMG) is a long standing supplier of banking and accounting services to all Government

Departments and Offices by virtue of its central role and its remit as the Paymaster General.

- As an expansion of these functions, the Department is actively seeking to provide payroll services and accounting services at various levels to many Government Departments/Offices, including:

    - Dept of Finance, Office of the Attorney General, Chief State Solicitor's Office, Office of the Director of Public Prosecutions, Public Appointments Services, Civil Service Public Appointments Authority, State Laboratory, Office of the Ombudsman, President's Establishment and the Central Fund (all payroll).

- In addition to its own payroll, the PMG pays the pensions of all retired civil servants from the Superannuation Vote and provides a bank funding service for all Government Departments and Offices.

- Department of Public Expenditure and Reform – Finance Unit (accounting services and expenses), Corporate Services (Human Resource Management and compliance) and Facilities Management, including File Management, Registry and Service Attendant services.

This approach will be reviewed in the context of the Comprehensive Review of Expenditure and, in particular, the 2012 Estimates campaign. One option being explored by the Department will be the imposition of a 'charge' on these Departments and Offices where they will be required to transfer staffing resources (ECF and A1 allocation) in return for the provision of services to them on a shared service basis by the Department.

Another area of work which is currently being explored is the feasibility of establishing a shared payroll, expenses and pension system to other Departments and Offices. This would possibly operate in conjunction with another shared service centre for these functions leaving a small number of the larger Departments and Offices such as the Revenue Commissioners, the Department of Social Protection and the Department of Agriculture Food and Fisheries to operate their own processes on a standalone basis. This work is closely related to commitments in the Programme for Government and the Croke Park agreement where there are requirements to provide a number of public services on a more efficient and effective basis. Any progress in this area will be closely linked to other commitments in the Croke Park agreement, both in general and specifically for the Department, in relation to increasing the use of electronic funds transfer (EFT) for payments and decreasing the use and frequency of paper transactions for payroll, expenses and pensions.

In relation to the shared services provided to the Department of Public Expenditure and Reform, the increased pressure placed by this work on existing staffing resources and internal systems is becoming an issue of concern. Since mid-March, staff in these shared service areas have dealt with split of the Department of Finance and the establishment of the Department of Public Expenditure and Reform in conjunction with the appointment of two new Ministers and their associated staffing complement. This has resulted in significant additional work reflecting the requirement to development and maintain parallel systems to cover Human Resource management, compliance regimes, facilities management and financial management. This work has been done within existing resources which have decreased over the period since the establishment of the Department of Public Expenditure and Reform.

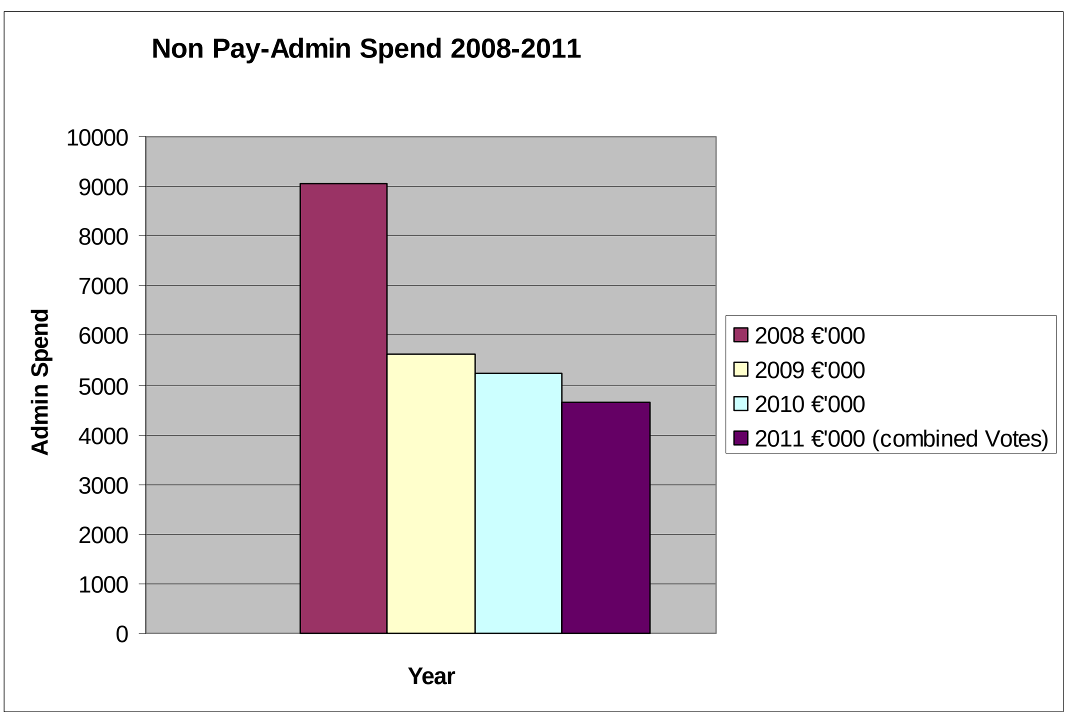
At this stage, the continuance of a shared service to two Departments with the current much reduced level of staffing resources is unsustainable and has to be addressed as a matter of urgency. Initially, staffing will have to be increased at Assistant Principal and Administrative Officer/Higher Executive Officer levels in the Corporate Services Division and the Finance Unit. Over time, the possibility of splitting these functional areas between the two Departments to effectively create a separate Corporate Services Division and Finance Unit for each Department may have to be explored to alleviate the pressure on staff in these areas in the Department.

3.3 Non-pay Administrative Budget

The table below shows trend figures for the combined non-pay Administrative Budget for both the Department of Finance and the Department of Public Expenditure and Reform since 2008.

The table clearly shows that there has been a substantial decrease in the non-pay element of the Administrative Budget since 2008 – an overall decrease of €4.277m or 48% for the four year period from 2008 to 2011.

	2008 €'000	2009 €'000	2010 €'000	2011 €'000 (combined Votes)	% Change from 2008
Non Pay Admin	9,045	5,625	5,228	4,662	-48%
Of which Department of Finance				**3,611**	



Detail of the costs included within the non-pay Administrative Budget are set out below. Savings in respect of these non-pay Administrative subheads are proposed in Section 4, but it is important to be mindful of the fact that these costs relate to two Departments, accommodating 600+ staff in five buildings which are provided and maintained by the Department of Finance, involving a significant level of staffing resources.

The non-pay administrative budget for 2011 is comprised of:

Admin Subhead		**2011 Estimate €'000**
(ii)	Travel & Sub	306
(iii)	Incidental Expenses	797
(iv)	Postal & Telecoms	775
(v)	Office Equipment	980
(vi)	Premises Maintenance	725
(vii)	Consultancy	28
	TOTAL	**3,611**

3.3.1 Subhead Administration (ii) – Travel and Subsistence

This subhead provides for travel and subsistence expenditure incurred by Civil Servants and the Minister while on Departmental business. This covers all three Programmes of the Department.

The provisional estimate for 2011 is €306,000 – this is €82,000 (37%) higher that the provisional outturn for 2010, which was €224,000.

The Department has a contract with Club Travel which is due for renegotiation in late 2011. The tendering process in respect of this new contract is being organised by the National Procurement Service section in the Office of Public Works.

The budget for 2011 is broken down as follow:-

Category	2011 Estimate €000
Home Travel	99
EU Travel	151
Non-EU Travel	56
Grand Total	**306**

The provision has increased this year to reflect projected additional travel costs associated with the programme of financial support agreed between Ireland and the EU/ECB/IMF. Outturn year to date is €117,000 but costs are outstanding in relation to Civilian Drivers home travel expenses for the period since April.

The provision on this subhead has decreased by more than 50% from a high of €1.316m in 2005 to a combined total of €568,000 for the two Departments in 2011.

3.3.2 Subhead Administration (iii) – Training and Development and Incidental Expenses

The main items of expenditure under this subhead are staff training and development, official entertainment, security, cleaning, subscriptions and sundry running costs of the Department. Staff training includes specialist training, post-entry academic training courses and attendance at conferences and seminars.

The provisional estimate for 2011 is €797,000 – 22% of the overall provision under the non-pay administration subhead, which is €116,000 (17%) higher that the provisional outturn for 2010.

The analysis of the budget for 2011 for the Department and the Department of Public Expenditure and Reform, including a comparison to the 2010 pre-split outturn is as follows:

Category	2010 Provisional pre-split Outturn	2011 Estimate Finance €000	2011 Estimate PER €000
Entertainment & Catering	20	21	9
Staff Training & Development	173	151	98
Security, uniforms, miscellaneous*	765	625	445
Grand Total	**958**	**797**	**152**

In overall terms, the key items of expenditure under this subhead of Training and Development and Incidental Expenses include:

- Professional Subscriptions and Training €150k
- Departmental Subscriptions (Breugel €63k; EIPA €55k; Leuven Institute €25k)
- C&AG Audit Fees €50k
- Cleaning, security and drinking water costs €320k
- Sundry (Advertising, publications, printing, etc) €134k

Bruegel is a European think- tank working in the field of international economics. Established in 2005, Bruegel is independent and non-doctrinal. It seeks to contribute to European and global economic policy-making through open, fact-based and policy-relevant research, analysis and debate. Bruegel's membership includes EU governments and leading international corporations. Bruegel was established as a non-profit international association under Belgian law (AISBL). Bruegel draws its unique nature from a balanced partnership between private and public stakeholders. Its member base is currently composed of EU member states, international corporations and international institutions. It comprises a core fellowship of top researchers from around the world, resident and non-resident, plus a team of operational staff. Bruegel's funding is mainly composed of yearly subscriptions from its members, and is balanced between public and private-sector contributions. As members of Bruegel, we have signed up to the State Membership Agreement. Under that agreement the *state subscription unit* remains in 2011 at the same nominal level as in 2010 (€31,604). Ireland is currently in Category 2 and pays SSU x 2 (€63,208 was paid in 2010 and 2011). Bruegel will be re-examining the categories set for state members (based on population and GDP) in the course of 2011.

During Ireland's last Presidency in 2004, we were one of the drivers behind the establishment of Bruegel. The Minister is concerned to be seen supporting the development of the EU and we see Bruegel with its high quality and independent research as playing a significant role in this matter. Bruegel's high quality staff and scholars produce valuable work on issues of importance to the EU but with an alternative outside point of view. One of the roles of the Department's Counsellor at the EU Permanent Representation in Brussels is to liaise with Bruegel. There may be some scope for a saving on training within this subhead.

The European Institute of Public Administration (EIPA) and the Leuven Institute for Ireland in Europe are two further subscriptions of a similar nature. The EIPA is an independent institute, with a Board of Governors composed of representatives of EU Member States and the Institute's associated members. These representatives form a permanent link between EIPA and national public administrations, and also guarantee a strong institutional network at the highest level of public administration throughout Europe. EIPA's representative office in Brussels serves as a meeting point in the heart of the European Union and close to the European Institutions. In fulfilling its core mission to provide relevant and high quality services to develop the capacities of public officials dealing with EU affairs, EIPA works along three lines: Learning & Development, Consultancy and Research. The training activities are complemented and enriched by applied research and consultancy missions, and are of benefit to national and regional public administrations, as well as the European Institutions. EIPA's work contributes towards a better knowledge of the European integration process and European policies, whilst strengthening the capacity of public servants to perform effectively in this area.

The Leuven Institute for Ireland in Europe was established to develop the Irish College as a resource to assist all sectors in both Northern Ireland and the Republic of Ireland in meeting the challenges and maximising the opportunities of EU membership by increasing understanding of EU policies/programmes (as well as mainland European business practice), through the provision of high quality programmes for business, the public sector, higher education and voluntary sector. Since that time, more than 30,000 individuals across all sectors have participated in programmes provided by the Institute. In the process, strong partnerships have grown between the Institute and a wide range of organisations in both parts of Ireland and an extensive network of experts, particularly in Brussels, has been cultivated to provide input to the Institute’s programmes.

3.3.3 Subhead Administration (iv) – Postal and Telecommunications Service

This subhead provides for the postal and telecommunications costs of the Department, including fixed and mobile voice telephony. Costs have decreased substantially by 45% from a high in 2006. Substantial savings have been achieved over the past few years through re-tendering of contracts and downward pressure on prices as a result of market competition.

The provisional estimate for 2011 is €775,000 – 21% of the overall provision under the non-pay administration subhead. The estimate for 2011 is €85,000 or 12% higher that the provisional outturn for 2010 which reflects anticipated costs associated with the transfer in of the Employee Assistance Service and Taoiseach staff. These costs will be apportioned to the Department of Public Expenditure and Reform through the Allied Services Statement in the Estimates for 2011.

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3.3.4 Subhead Administration (v) – Office Equipment and External IT Services

The subhead provides for the purchase and maintenance of items of office equipment, software licences and maintenance, the cost of photocopying and print room operations, the purchase of office stationery supplies and the costs associated with the printing of various publications/legislation/etc.

The provision has decreased by almost 60% since 2006. The provisional estimate for 2011 is €980,000 – this is 27% of the overall provision under the non-pay administration subhead. The estimate for 2011 is €20,000 or 2% lower that the provisional outturn for 2010, which was €1m.

The 2011 estimate provides for the following areas of expenditure:

- Computer and data preparation and equipment (€250,000) including licenses for the HR and Financial Management Systems
- External IT Service Providers (€385,000), including support, software development and maintenance on a number of payroll, pension and banking systems
- Office Stationery supplies and printing (€200,000)
- Photocopying equipment (€90,000)
- Other Office equipment costs (€75,000)

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3.3.5 Subhead Administration (vi) – Office Premises Expenses

This subhead provides for the maintenance, furniture and fittings, and heating and lighting costs of the Department's buildings, including its decentralised offices in Tullamore.

The provision on this subhead has decreased from a high of €2.150m in 2008 to this years' provision of €725,000 – a 66% reduction. The estimate is €78,000 higher that the provisional outturn for 2010 (€647,000) reflecting anticipated costs associated with the transfer in of the Employee Assistance Service and Taoiseach staff. These costs will be apportioned to the Department of Public Expenditure and Reform through the Allied Services statement – because of this arrangement, there is no allocation for this subhead in the Department of Public Expenditure and Reform as the office premises costs are captured on the Department of Finance Vote and are apportioned through the Allied Services statement.

There may be scope for some savings on maintenance, but this will have to be assessed in light of the fit-out costs incurred for the new Department of Public Expenditure and Reform.

	2010 Provisional Outturn €'000	**2011 Estimate €'000**
Maintenance	261	276
Heat, light, fuel	372	439
Furniture & Fittings	14	10
	647	**725**

3.3.6 Subhead Administration (vii) – Consultancy and other Services

This subhead provides for the cost of miscellaneous consultancies of an administrative nature required for training, studies, research and support services for some Departmental functions.

The provisional estimate for 2011 is €28,000 – 1% of the overall provision under the non-pay administration subhead. The estimate for 2011 is €28,000 higher that the provisional outturn for 2010, which was nil. Costs on this subhead are small and it is important that this relatively minor provision is retained to provide for any such administrative consultancies that might be required. This may arise in the context of examining the skills and expertise available to the Department as a follow-on to the Wright Report.

The only expense incurred on this subhead in recent years was in 2008 in respect of procuring external expertise to assist with the conduct of the Department's Capacity Review which was undertaken to assess the organisation's ability to fulfil its current and future challenges and to recommend whether these needed to be strengthened. Sixteen recommendations were made in the areas of Structure, Capacity and Strategic Positioning. Many of these recommendations are already underway within the Department because they were also addressed in the context of the Wright Report.

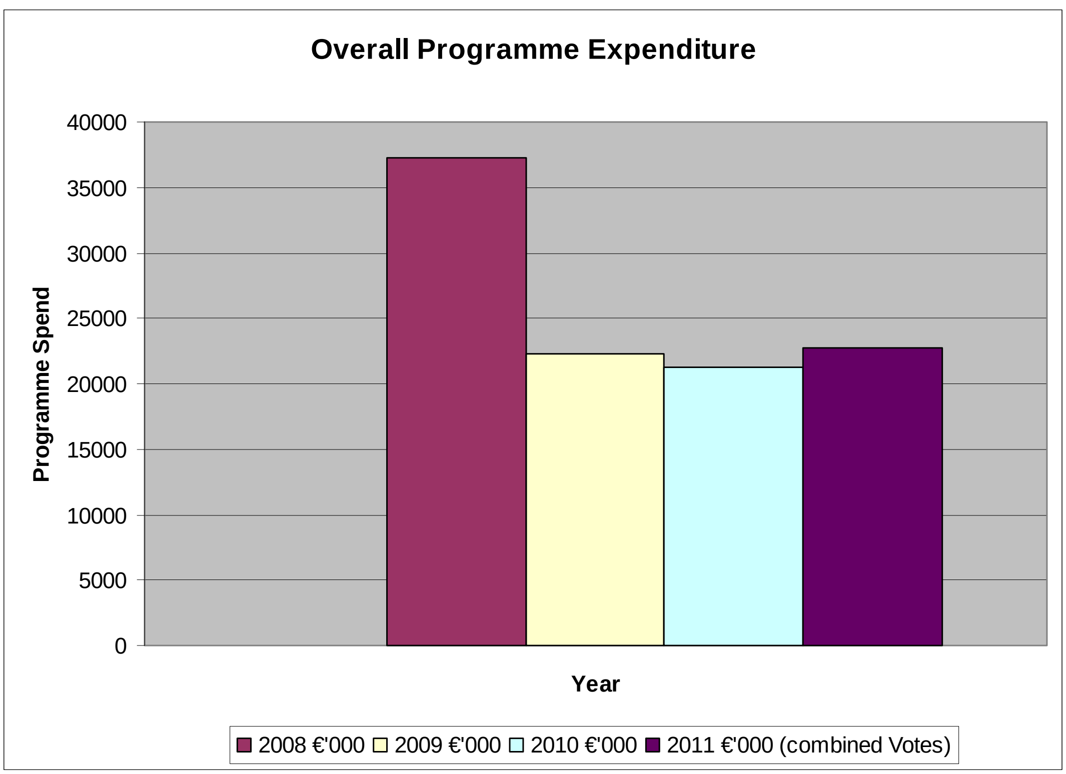
3.4 Programme Budget

3.4.1 Overall Position

The table below shows figures for the Department of Finance for 2008 to 2010 and the combined estimates for both the Department of Finance and the Department of Public Expenditure and Reform for 2011 for comparison purposes.

The table clearly shows that there has been a steady decrease in the programme budgets since a high of 2008. The overall decrease from 2008 to 2011 is €14.5m which represents a decrease of 39%.

	2008 €'000	2009 €'000	2010 €'000	2011 €'000 (combined Votes)	% Change from 2008
Overall Program Spend	37,259	22,324	21,261	22,745	-39%
Of which the Department of Finance				**14,514**	



3.4.2 Budget, Taxation and Economic Policy

3.4.2.1 Overview of the policy area

The Department continues to face ongoing challenges posed by the serious economic downturn. The focus of the Budget, Taxation and Economic Programme is to develop policies to support the implementation of the Government's medium-term strategy to achieve its EU Stability and Growth Pact targets and commitments under the EU/IMF Programme of Support, including reducing the General Government deficit to below 3% of GDP by 2015.

This policy area is currently organised into two Divisions, each headed by an Assistant Secretary:

- Budget and Economic Division
- Taxation Division

In the context of examining the possibility of securing savings under the Comprehensive Review of Expenditure, the work of this policy area is analysed in detail for each of the two Divisions.

In overall terms, each Division has experienced significant increases in work-loads over recent years with the emergence and ongoing development of the State's fiscal difficulties and problems in the financial services sector which culminated in the programme of financial support from the EU/ECB/IMF and the fiscal measures taken over successive Budgets to reduce public expenditure, increase taxation revenues and stabilise the economy.

These increased work-loads have resulted in a significant policy output and a large rise in engagement with international institutions such as the EU, ECB and IMF; both have been based upon a far greater degree of policy analysis and policy advice to the Minister and Government than previously required.

As a result, it is considered that it is not possible to identify any savings in the context of the Comprehensive Review of Expenditure. Instead, it is contended that additional resources will be required if the Budget and Economic Division and the Taxation Division are to be in a position to continue to make a contribution to Ireland's economic and fiscal recovery.

3.4.2.2 Budget and Economic Division – analysis of current resource pressures

This Division, consisting of an Assistant Secretary and 5 Principal Officer areas (a total of 36 staff), has experienced a significant increase in workloads arising from the economic and financial crises which have continued to dominate the workload and work agenda. The current crisis situation is likely to exert substantial on-going additional work demands above and beyond what might have been considered in the past to be more normal patterns.

The work of the Division is central and critical to the functioning of the Department. All areas in the Division have been subject to additional work and this additional burden will continue for the foreseeable future. Across the Division a very significant additional amount of extra hours are worked as a matter of necessity. In very crude terms, across all grades the additional hours worked can be indicatively translated into the equivalent of 4 posts. Further details in this regard are provided below.

Against this background, there is no scope for further staff reductions in the area unless some element of critical work is abandoned and such an approach is not realistic. On the contrary, there is in reality a need for significant additional resources in the absence of the continuing goodwill on the part of many of the staff.

Productivity improvement in the Division

Examples of <u>additional</u> work items that have had to be accommodated are as follows:

- Co-ordination of compliance with the EU/IMF Programme of Financial Support across the Departments of Finance and Public Expenditure and Reform and other Departments as appropriate (carried out by the External Programme Compliance Unit – EPCU). Additional attendance above normal working hours is a constant feature and is estimated on an annual basis to amount to at least an additional 3 months extra effort each for the PO and the 2APs – in indicative terms this translates to at least 0.75 of a full post.

- Ensuring that specific commitments within the EU/IMF Programme of Financial Support are complied with within the deadlines set down in the Programme e.g. establishment of a Fiscal Advisory Council (by end-June 2011) and publication of Fiscal Responsibility Bill by end-2011.

- Servicing/attending the quarterly review meetings arising from participation in the EU/IMF Programme of Financial Support. The reviews last for 1.5 to 2 weeks each time and require dedicated participation from the entire staff cadre in two of the five PO areas in addition to the full-time effort of a third PO area (the EPCU), including significant extra attendance. This will be a feature of the work of the area at least until end-2013.

- In advance of the establishment of the Compliance Unit to manage the Troika programme, the International Financial Institutions Unit had to undertake significant work related to the programme: work on the technical details of the programme, coordination and communication with the IMF, monitoring of IMF reports and papers on Ireland, and coordinating Dept of Finance comments on such papers.

- The demands on the Central Budget Unit have increased very significantly in recent years due to the need to address the banking and public finance crises. The section is required to maintain up-to-date budgetary data and must provide regular returns to the Troika under the EU/IMF Programme. In addition, the Unit is required to provide briefings to investors, rating agencies and others. This work has increased in importance in the current environment. It is estimated that, on an annualised basis, the additional hours worked by the Unit amounts to 3 months work each for the AP and the 2 AOs, equivalent to 0.75 of a full post. In this area, for 2011 to-date, the number of PQs has doubled compared with the same period in 2010.

- Similarly, in the Statistics Unit, the increased complexity of the solutions being put in place to address the banking crisis has given rise to additional work demands as compared with the position in previous years. The evaluation of the solutions being put in place to determine their appropriate classification in General Government terms together with the need to explain the rationale to our External Partners is new additional work being undertaken with existing resources.

- Attendance at EU Economic Policy Committee (EPC) and Economic and Finance Committee (EFC) Meetings. The intensification of EU and eurozone activity related directly to the ongoing crisis and to the introduction of the European Semester (EU2020) as well as to the development of other new measures to enhance the economic and fiscal governance has resulted in additional effort being required to consider and address emerging proposals.

- Servicing Eurogroup/Ecofin meetings: Given the background of economic and financial crises, the number of these meetings has increased and the work associated with servicing the meetings and preparing relevant briefing etc has escalated. At the same time, the staffing levels in the EU coordination sections have decreased by two staff.

- Co-ordination of the National Recovery Plan in late 2010: This was an intensive exercise conducted over a period of 8 weeks or so requiring contact with all Divisions of what are now the Departments of Finance and Public

Expenditure and Reform. This was new additional work carried out in addition to other usual work. Significant additional attendance at PO level was a feature. For example in the month of November, an additional 145 hours, equivalent to 4 weeks extra work, was carried out by the PO.

- Co-ordination of the jobs initiative in early-May 2011 by the Central Budget Unit.

- Development and implementation of the Fiscal Reform Agenda: Since early in 2011, the primary responsibility for driving this agenda has reverted back to the Budget Policy Unit (from Central Section, D/PER where it had resided due to shortage of resources in the Budget Unit in 2010). Outputs delivered so far this year include:

    - Preparation and publication of a discussion document outlining the rationale for, and policy options in respect of, the key elements of the fiscal reform agenda to be pursued viz. medium-term expenditure framework, fiscal rules, proposals on performance budgeting and a Fiscal Advisory Council.
    - Ireland's Fiscal Reform agenda was presented to other EU member states as part of an EU EPC peer-review process in early May. This was a joint Finance/PER presentation which required advance preparatory work which was completed over the weekend preceding the relevant presentation.
    - A one-day seminar involving leading expert speakers from Ireland and abroad, was held at end-May (EU/IMF Programme commitment). All aspects of the organisation of the day were co-ordinated by the Central Budget area.
    - The Irish Fiscal Advisory Council was established at the end of June 2011 as committed to under the EU/IMF Programme of Financial Support. All aspects of work including the determination of initial

arrangements, obtaining Ministerial/Government approval, securing members for the Council etc. were carried out by the Budget Policy Unit.

The above work was completed in addition to other tasks in the Budget Policy Unit which had also to be completed under constant time-pressure. In relation to the PO post in the Budget Policy Area, the additional effort required on an on-going basis is equivalent to an extra 0.33 of a post over a full year.

Over the remainder of 2011, a key task will be to secure the publication of the Fiscal Responsibility Bill to give legal effect to the reforms mentioned above. This is a structural benchmark to be achieved by end 2011 under the EU/IMF Programme. It will require liaison/discussions with key stakeholders including the newly established Fiscal Council as well as consultations with Ministers etc.

Liaison at a technical level with the Fiscal Council is a new item of work which will have to be taken on board by the Economic Forecasting Section.

Increase in the demands of existing tasks

Besides the foregoing, the demands from existing items of work have escalated. For example, on the EU Budget side, the negotiations on the next Multiannual Financial Framework (MFF) have just commenced. The Commission published its proposal on this issue at end-June on where EU funds should be spent and how the funds should be raised over the period 2014-2020 – including a proposal to introduce two new tax based mechanisms to fund the EU budget. This represents the opening position on this complex dossier and it is clear that there are many challenges ahead for Ireland in the negotiations. This will, in turn, have significant budgetary implications for Ireland (under the current MFF we will receive about €13.5bn and pay in over €10bn).

For the EU Budget area, this additional job represents a considerable increase in its workload. This is a “once-every-seven-years” event. The relevant inter-Departmental consultation process has been put in place, and this is being led by this section. This section will drive the analysis on the overall proposal and weigh up the competing views to make the ultimate call on positions. The Government has committed to actively engaging in these debates over the next eighteen months as we head towards to next Irish Presidency of the Council in 2013.

In addition, negotiations have commenced on the Financial Regulation which lays down the rules for how EU Budget funds are spent – this large task is undertaken every few years and involves significant co-ordination across Departments.

The establishment of the Programme for Ireland has resulted in much greater international interest and attention in the country from the International Financial Institutions (IFIs). Over the course of the past 12 months various officials have visited from the World Bank and the ADB to gain a greater understanding of the situation on the ground here. These missions placed increased pressure on the IFI unit in terms of briefing material, setting up bilateral meetings, the holding of a successful high-level seminar with MAC, public lectures, and the overall coordination of such visits (e.g. the ADB President’s visit alone resulted in 405 emails for one official).

The IFI unit also coordinates Ireland’s representation at the Annual and Spring Meetings of the IMF and World Bank. Again, the increased attention on Ireland has resulted in a significant increase in the demands for bilateral meetings and briefing material at such events e.g. seven officials (including two Assistant Secretaries) accompanied the Minister to the 2010 Annual Meeting requiring additional coordination, briefing material and logistical support.

As a result of the reform of the IMF all members had to agree to the amendment of the IMF's Articles of Association. This required primary legislation in January 2011, the Bretton Woods Agreements (Amendment) Act, 2011; further reforms to the IMF's Articles of Association will require enactment of the Bretton Woods Agreements (Amendment) No.2 Bill, 2011 during the Autumn session of the Oireachtas. Both these pieces of legislation have taken on far greater significance for Ireland given their knock-on effect on the interest rate which Ireland pays on the IMF portion of the EU-IMF assistance.

The above activities over the past year have placed the unit under particular pressure and have resulted in officials working beyond normal working hours on a regular basis. In addition, this work was undertaken without any clerical support

Ireland's Presidency of the European Council of Ministers in early 2013: Ireland's Presidency of the European Council of Ministers in 2013 will add increasingly to EU Co-ordination; International economy, and EU 2020 and Economic Governance sections' workload from now until the end of 2013. Already, the preparation process for the Presidency has begun and it is inevitable that extra staff resources will be needed in this work area (as well as in the rest of the Department) well before the beginning of 2013.

In the NTMA/NPRF/EIB Section, the workload had increased substantially arising from a number of factors:

- the proposals in the Government Programme which envisage a new role for the NPRF in the context of NewERA. This has generated significant additional work demands in recent months and this is likely to continue having regard to the need for change in the legislative mandate of the NPRF to accommodate the new role envisaged for it. Separately from NewERA, there will be a need for a policy review of the NPRF to be carried out by the section in the latter half of 2011 to take stock of matters with reference to its original mandate and in the light of recent legislative changes affecting the Fund.

- Ireland has secured the post of Alternate Director on the EIB Board of Directors for a period of 3 years beginning in later Summer 2011. The person to fill the position has yet to be identified and could be from within the Budget and Economic area. If this is the case, attendance at the meetings will require a minimum time commitment of 2 days per month for 10 months of the year for a person at P or A/Sec level. This is a very significant time commitment amounting effectively to 1 month of extra effort per year. In addition, for the section, it will mean additional effort in preparing briefing for the Alternate Director. Having regard to the increased importance of EIB funding to Ireland in the context of the current crisis, this work is considered to be of high importance.
- the issue of remuneration in the NTMA and transparency with regard to same has been a feature of the work of the section in recent months and this is likely to continue for the remainder of 2011 at least. The Minister has undertaken to examine the pay issue over the coming months in consultation with the Minister for Public Expenditure and Reform and this will require significant input from the section.

The number of PQs in this section has increased substantially in 2011 over 2010. In the first 7 months of 2011, the section drafted 61 PQ replies compared with a total of 70 for the full year 2010. The following table illustrates the position:

	NTMA	NPRF	Total
2010 (12 months)	38	32	**70**
2011 (first 7 months)	52	9	**61**

The Macroeconomic Analysis and Forecasting Section provides analysis, briefing and speaking material on the macro-economic developments and prospects to the Minister, Government, and senior Departmental management. Given the deterioration in the economy in recent years, the workload has increased significantly, involving approximately a one-third increase in the number of hours worked per head. There are 6 staff in the area so, in very simple terms, this equates to additional effort equivalent to 1.5 additional posts.

The number of (published) forecasting rounds has increased, along with additional requirements emanating at European level (and indeed from the Troika). For instance the SPU / PBO will have greater emphasis on risk assessments, which will additional demands on staff.

Staff regularly undertake meetings with investors on the performance of the Irish economy, to provide reassurance of its underlying strengths.

Ongoing work continues on refining and updating macro-economic models as well as technical work at EU level to improve the methodology underpinning analysis of the fiscal stance (output gap, structural budget balance). Technical work to produce the next set of long term fiscal projections has just begun and will continue two years.

The section participates in the committee which coordinates economic and budgetary policy at EU level and prepares the monthly Ministerial (eurogroup, Ecofin) agenda. Given the uncertainties in Greece and the financial stability problems encountered by the euro area over the past while, the work-load on this front remains very high.

Staff in the section are in regular contact with members of the Troika in relation to economic developments and prospects. In the future, as indicated above, staff will be involved in liaising at a technical level with the Fiscal Advisory Council. The section has taken over the secretariat for the new Economic Management Council, as well as providing economic analysis to the EMC.

At Assistant Secretary level, the current crises have resulted in very significant additional demands on the post-holder requiring substantial additional effort. Weekend working is a constant feature and 50-60 hour weeks are common place. Overall, the additional effort amounts to at least 0.5 of a post in annualised terms.

3.4.2.3 Taxation Division – analysis of current resource pressures

This Division is responsible for the development of efficient and effective taxation policies which support and promote the Government's economic, social and environmental objectives through the publication of an annual Budget and Finance Act.

Up until the onset of the international financial crisis, the overall direction of tax policy in Ireland over the previous two decades had been to shift taxes away from labour and profits in order to support competitiveness, employment and enterprise.

One of the characteristics of tax reform in Ireland had been the maintenance of a relatively high burden on indirect taxes in order to facilitate the policy direction on personal income taxation in particular. In many respects this is a "model" economic orientation of policy. It is an approach that is consistent with the OECD's hierarchy of taxes that help, or perhaps more correctly do not unduly hinder, economic growth. Notwithstanding our "model" approach, all the evidence suggests successive Governments went too far in the process of reducing taxes leaving us with a very painful process of policy adjustment in recent years.

The overriding policy priority of the Taxation Division of the Department of Finance since 2008 has been to advise the Government on how best to address the imbalances in the Irish tax system, broaden the tax base and to increase tax revenues in an efficient and fair way, in order to meet our fiscal targets in the

EU/IMF Programme of External Support while also seeking to minimize any negative impact on the competitiveness of the economy.

The following are the estimated full-year yields from the tax revenue measures implemented by the Taxation Division in recent years:

- Budget 2009 (October 2008) - €2bn
- Supplementary Budget 2009 (April 2009) - €3.6bn
- Budget 2010 (December 2009) - €0.1bn
- Budget 2011 (December 2010) - €2.6bn.

In recent years, significant tax base broadening has been achieved at a time when overall staff resources in the Taxation Division have reduced significantly from 37 in 2007 to 30 in 2011, representing a 23% reduction in headcount.
Any further reductions in staff resources would represent a significant risk to the ability of the Taxation Division going forward to perform its tasks to an adequate standard and in a timely manner.

The Taxation Division is split into a number of policy teams:

- The Capital and Savings Taxation Team deals with Capital Acquisitions Tax, Capital Gains Tax, Stamp Duty (including property, shares & insurance levies), DIRT, Exit Taxes, Residence, Ordinary Residence and Domicile Issues and Property Taxation.

- The Tax Administration and Revenue Powers Team are responsible for Finance Bill and Tax Strategy Group coordination, and Pre-Budget Submissions management, various tax policy areas including Tax Clearance, Relevant Contracts Tax, Public Service Withholding Tax, Cycle To Work Scheme, Travelsave Scheme, Benefit-In-Kind, Mandatory Disclosure and Revenue Powers.

- The Indirect Taxes Team deals with Value Added Tax, Energy and Environmental Tax Policy, Air Travel Tax and Betting Duty, and Other Excise Duties including Excises on Alcohol and Tobacco Products and Vehicle Registration Tax.

- The Income Tax Policy Team deals with aspects of income tax such as Income Tax Credits Rates & Bands, the Universal Social Charge, the Income Levy, the Health Levy and PRSI. It also deals with Mortgage Interest Relief and Medical Expenses Relief. The Income Tax Incentives team deals with income tax incentives with the exception of property based reliefs.

- The Business Tax Team deals with business related tax policy issues including Corporation Tax policy, IFSC tax policy, Tax Expenditures including legacy property tax reliefs, pensions tax policy, the R&D tax credit, the intellectual property regime, the holding company regime, bilateral tax treaties and other EU and international tax policy issues.

On foot of the Wright Report on Strengthening the Capacity of the Department of Finance, the Taxation Division is seeking to increase its technical skills capacity. In this regard, the Division Unit has engaged, on a pilot basis, with the Irish Taxation Institute to provide a certified tax policy training programme for its staff. This training programme involves over a 100 hours of tax technical training. In addition, a number of staff in the Taxation Division are currently undertaking professional tax qualifications and a number of short term secondments to external agencies (such as the European Commission) to increase specialist knowledge have been organised.

The Taxation Division has also sought in recent years to increase its interaction with external stakeholders including enterprise state agencies, tax practitioners, the social partners and civil society groups.

Since 2008, the following have been the main outputs of the Division:

Legislative Outputs:

The following pieces of tax legislation have been progressed by the Tax Policy Unit in recent years, in consultation with the Revenue Commissioners:

- 7 Finance Acts have been prepared and have successfully passed into law between 2008 and 2011. An individual Finance Bill can run to, typically, 250 pages, 150 sections and 4 schedules.

- 3 separate Finances Acts have passed into law in 2011.

    - Finance (No 2) Act, 2011 provided for the tax law changes to support the Government's Jobs Initiative
    - Finance (No 3) Act, 2011 provided for the tax law changes to support Civil Partnerships

- The Value Added Tax Consolidation Act was passed in 2010.
- Health Insurance (Miscellaneous Provisions) Act 2009 (introduction of Health Insurance Scheme – health insurance levy and age related tax credit).
- NAMA Act 2009 – Introduction of windfall tax.
- A Draft Customs Bill and a Betting (Amendment) Bill have been prepared.
- 12 Statutory Instruments, relating to tax policy issues, have also been introduced over the period 2008-2011.

Pre-Budget Submissions:

The Table below gives an indication of submissions received from external agencies, interest groups and individuals in the run-up to the Budget and Finance Bill. Submissions to the Minister represent policy advice papers sent to the Minister containing details of proposed Budget measures.

	Pre Budget Submissions	**Submissions to the Minister**
Budget 2008	289	45
Budget 2009	313	37
Supplementary Budget 2009	327	16
Budget 2010	809	25
Budget 2011	1,064	35
2011 Jobs Initiative	27	4

Significant Individual Tax Policy Initiatives:

A Universal Social Charge was introduced in Budget 2011. It replaced the Income levy and Health Levy. The USC will be revenue neutral in 2011 and is expected to yield €420 million in a full year. It is estimated that approximately 514,000 more income earners will pay the USC when compared to the income levy. The total yield for the USC in a full year is €4bn (€420m above the HL&IL combined). The USC is designed to apply across income levels in a smoother progression while also addressing the irregularities caused by ‘step effects’ in the previous system of levies.

A Carbon Tax at the rate of €15 per tonne was introduced in the Budget 2010 which applied to transport fuels and home heating fuels from Budget night and 1 May 2010 respectively. Applying the carbon tax to solid fuels is subject to a Commencement Order.

Notwithstanding the current difficult fiscal position, the Tax Policy Unit has also sought to provide policy advice designed to enhance the competiveness of the economy. Measures taken by Government in recent years in this area have included:

- Significant enhancements to the R&D tax credit scheme, including an increase in the rate to 25% and the introduction of the payable credit where company has no CT liability.
- Introduction of a scheme of tax relief for capital expenditure incurred on acquiring intangible assets, including non-depreciating assets such as brands.
- 3 year exemption from CT liabilities of up to €40,000pa for new start-up companies.
- Scheme of accelerated capital allowances for expenditure on energy-efficient equipment.
- Introduction of transfer pricing legislation.

Tax Policy Papers and Reviews:

As part of the annual Budget process, the Tax Policy Unit chairs and provides the Secretariat for the Government's Tax Strategy Group. The Tax Strategy Group considered 24 separate Tax Policy Papers prepared by the Tax Policy Unit in advance of Budget 2011. Further details are set out in the table below.

Year	TSG Policy Papers	TSG Meetings
2008	10	3
2009	25	6
2010	24	5

In 2010-2011, a review of the Business Expansion Scheme was carried out and an Ex-Ante Economic Impact Assessment of the new Employment and Investment Incentive was published.

A Study on the Economic and Budgetary Impact on the introduction of a Common Consolidated Corporate Tax Base in the European Union was commissioned from Ernst and Young, Washington DC and was published in January 2011.

The Division assisted in the preparation of the National Recovery Plan 2011 – 2014, published in 2010.

The Division prepared a comprehensive review of tax expenditures in 2010 in line with the provision in Section 1 of Finance Act 2011.

The Programme for Government states that property tax reliefs and other tax shelters which benefit very high income earners will be reduced, capped or abolished. In line with this a process is under way to assess the possible impacts of such changes on the "legacy" property-based tax relief schemes. A public consultation is taking place from 23 June to 29 July 2011 to provide an opportunity for all interested parties to offer input on the matter. The assessment will consider the economic impact of curtailing the costs to the State of outstanding or 'legacy' reliefs, which have so far not been fully claimed by investors. It will provide a better understanding of the benefits that may accrue to the Exchequer in terms of additional tax yield as well as consequences for investor groups and the wider economy arising from possible changes to the treatment of property-based legacy reliefs. The results of the assessment will be considered in the context of Budget 2012.

International Tax Treaties, Agreements and Policy Forums:

The Taxation Division has prioritized the expansion of our international network of tax treaties and agreements with other countries in recent years so as to boost international trade from Ireland and also to assist the Revenue Commissioners in their tax collection duties. New Tax Treaties have been signed with 18 countries since 2008. In addition, 17 Tax Information Exchange Agreements have been signed. In June 2011, the Minister of State at the Department of Finance, Mr. Brian Hayes TD, signed the Joint Council of Europe/OECD Convention on Mutual Administrative Assistance in Tax Matters.

The Division represents Ireland at a number of international tax policy forums including the OECD Committee on Fiscal Affairs, the EU Code of Conduct on Harmful Tax Competition, the EU Direct Tax Questions Working Group etc. EU related work in the Indirect Taxes area is extensive involving attendance at on average around 25 to 30 meetings in Brussels per annum in regard to Council Working Party and Commission meetings on Directives especially in the areas of VAT, taxes on fuels, alcohol and cigarette products and vehicle registration taxes.

The Division also deals with EU Infringement and state aid cases, for example there are currently some 8 different ongoing cases regarding indirect taxes.

All of the above Legislative changes, Policy Papers, Reviews and international agreements can be accessed on the Tax Policy Unit's new dedicated website: www.taxpolicy.gov.ie.

In terms of the future, the Division was heavily involved in the negotiation of the EU/IMF Programme of Financial Support and remains involved in the ongoing reviews of the Programme.

The ongoing fiscal priority is to meet the targets set out in the EU / IMF Programme, namely:

- The key target for 2012 is to introduce revenue measures to yield €1.5 Billion in a full year.

- The key target for 2013 is to introduce revenue measures to yield €1.1 Billion in a full year.

As the Programme of External Support continues over the next couple of years, the policy challenges in terms of delivering base broadening measures designed to increase overall tax revenue will become more significant. Our overarching tax policy priorities going forward will be:

- to meet our fiscal targets

- to ensure that at the end of the EU/IMF Programme that we have an efficient and effective tax system which is fit for purpose and

- to work with the Revenue Commissioners to ensure that we have a tax system with a high level of tax payer compliance combined with as low an administrative burden on business as is reasonably possible.

3.4.3 Financial Services Policy

3.4.3.1 Overview of the policy area

Financial Services Policy has two separate, but connected, work streams:

- the stabilisation of the banking sector and
- the strengthening of the regulatory environment for financial services, including EU developments in this area.

A number of output targets were identified in the Output Statement and significant progress has been made to date in achieving these targets. A number of the targets arise from our Programme agreement with our EU and IMF partners.

This policy area is currently organised into two Divisions:

- Banking Division
- Financial Services Division

In the context of examining the possibility of securing savings under the Comprehensive Review of Expenditure, the work of this policy area is analysed in detail for each of the two Divisions.

In overall terms, each Division has experienced significant increases in work-loads over recent years with the emergence and ongoing development of the State's fiscal difficulties and problems in the financial services sector which culminated in the programme of financial support from the EU/ECB/IMF and the fiscal measures taken over successive Budgets to reduce public expenditure, increase taxation revenues and stabilise the economy.

These increased work-loads have resulted in a significant policy output and a large rise in engagement with international institutions such as the EU, ECB and

IMF; both have been based upon a far greater degree of policy analysis and policy advice to the Minister and Government than previously required.

As a result, it is considered that it is not possible to identify any savings in the context of the Comprehensive Review of Expenditure. Instead, it is contended that additional resources will be required if the Banking Division and the Financial Services Division are to be in a position to continue to make a contribution to Ireland's economic and fiscal recovery.

3.4.3.2 Banking Division

The failures of the Irish banking system have cost the Irish taxpayer some €65 billion since 2008 in the form of injections of capital to the banks, needed to prevent them from failing. As a direct consequence, the State is expected soon to own all or virtually all of Anglo Irish Bank (Anglo), AIB and IL&P and a sizeable stake in Bank of Ireland (BoI). Two former building societies, EBS and INBS were initially taken into effective State control as part of their recapitalisation and subsequently merged with AIB and Anglo respectively. In addition to capital support, the banks are also supported by guarantees on their funding liabilities without which they would be unable to finance themselves and would therefore fail.

Against this background, the Minister for Finance, in his statement on banking matters on 31 March 2011 stated that *"It is now vital that the efforts to financially restructure the banking system are supported by real improvements in corporate governance and the management of the financial institutions in Ireland."* He further stated that *"another key plank of our proposed measures is to strengthen and enhance the capacity of the Department of Finance in the area of banking policy…. It is essential that the Department of Finance has the appropriate policy responsibilities and financial market and banking expertise to be able to advise Government on potential systemic threats and on measures to address and mitigate these".*

In order to achieve the objectives described by the Minister, the Banking Division in the Department must ensure improvements in the management of those banks in which the State has an interest, ensure a restructuring of the banks as has been set out in the Minister's 31st March statement, assume appropriate policy responsibilities and be in a position to advise Government on potential systemic threats and responses.

In a further statement on 19 April in response to the Nyberg Report, the Minister stated that: *"The restructuring of the banks… will require a hands-on approach by the banking unit in the Department of Finance… This unit will… draw on the resources of the NTMA to carry out its work."* In order to give effect to this announcement by the Minister, it is anticipated that the order delegating certain banking system functions of the Minister to the NTMA, in place since March 2010, will shortly be rescinded and the staff engaged in these functions in the NTMA will be seconded to the Department of Finance.

The future role of the Banking Division will therefore focus on the management of the State's interest in the individual banks, to be done through the Implementation Unit within the Division leaving policy and systemic issues to be addressed by other units within the Division. The implementation unit will encompass the resources seconded from the NTMA to strengthen the resources of the Department in this respect.

The focus of the NTMA banking unit which forms the core of the intended implementation unit in the Department has been the identification of the capital needs of the banks, the identification of the available sources of such capital and the oversight of the delivery of the maximum contribution to the capital needs from sources other than the State. The critical value to the State from this activity is illustrated by the savings to the State even in the period since 31 March 2011 when the revised capital requirements of the banks were announced by the

Central Bank. Of an announced requirement of €24 billion, through close and continuous engagement by the Implementation Unit in conjunction with the Department, some €5 billion will have been delivered from burden sharing with holders of subordinated debt in the banks. Absent this, the cost to the State of the recapitalisations would have been potentially the full €24 billion as compared with a now anticipated outcome not exceeding €19 billion. (The unit continues to work in pursuit of private investment which has the potential to further reduce the cost to the State of this recapitalisation).

The remit of the implementation unit extends to both a wider and deeper engagement with the banks and will require increased levels of resourcing as signalled in the Minister's statement. The implementation unit staffing to be seconded from the NTMA extends to 10 people. As a minimum, 3 people on each of the core pillar bank teams is likely necessary if we are to deliver even a modestly intrusive level of engagement. For the narrower IL&P, 2 people should enable a similarly light touch. It is perhaps advisable that we should apply a heavier weight of oversight for the initial period given the fragile state of the banks and the scale of potential consequences when things go wrong (as has been all too clearly demonstrated in the past three years). The non-core operations of the three continuing banks warrant a high level of engagement by the Department as is envisaged in the deleveraging governance arrangements for these banks recently presented to the Troika. With a disposal of some €70bn of assets required of these banks by end 2013, even a 1% variation on the prices achieved will be worth €700 million, the vast bulk of which value accrues to the State. Management has little incentive to maximise the value achieved given that the capital has already been committed so a very close and intrusive oversight will be necessary if we are to achieve this value for the State.

Anglo/INBS is a business in wind down. With over €35 billion of assets to be disposed of and a business infrastructure to be wound down over time in a cost- and time-effective way, there is a very strong case for a highly intensive continuous engagement in this business. It is likely that best value for the State will be achieved by having a bigger team dedicated to the supervision of the wind-down of this business. It is unlikely that such a team would be less than 5 to 6 people.

In the short term, there is considerable litigation threatened and pending, particularly in relation to the burden sharing initiatives that have been pursued and also in relation to recapitalisations. The implementation Unit is in the process of putting in place a dedicated team to defend this litigation. This is being done on a contingent basis, relying on the secondment of appropriate resources from external providers and to be drawn upon only on an as needed basis.

The foregoing indicates that the implementation unit will have a resourcing requirement of c. 20 people to engage effectively with the banks in order to deliver value for the State from the massive resources that have been committed to the banks. 10 of these people are to be seconded from the NTMA to be supplemented by such resources (if any) as are currently available for this work within the Department. To the extent that the existing staff complement in the Department cannot meet this need, there will be a resourcing need. In addition the litigation team mentioned above may have to be mobilised, depending on the level of litigation that arises. While perhaps best addressed at a Banking Division level, the indicative resourcing need does not provide for the public administration requirements of the unit, including Government / EMC / Ministerial and management briefings, meeting needs of the external authorities (Troika), PQs, FOI requests etc.

The capitalisation and restructuring of the banks has involved significant use of investment bank, consulting, accountancy, tax and legal advice and support. While these matters have been in the remit of the NTMA, it has been policy to recover to the maximum extent possible such costs from the banks. It is recommended that a similar approach be maintained so as to minimise the net cost that falls directly on the exchequer.

The Policy and Systemic Risk Units form the second major pillar of the Banking Unit. These units will focus on four major areas of work:

- Developing a unit to focus on financial stability and systemic risk (banking and co-related elements) across the economy in line with MoU/MEFP deliverables and establishing a Financial Stability Committee
- Generating policy responses to the banking crisis and ensuring that core elements of the Programme for Government (temporary, partial credit guarantees, lending in the SME sector, mortgage forgiveness/arrears)) can be implemented and delivered within the timeframes identified
- Supporting the Implementation Unit with regard to policy and systemic issues (remuneration policies for banks, deleveraging and liquidity across the banking system) as well as developing MoU relationship documents with the Central Bank regarding operations across the banking system
- Managing and servicing the normal requirements of the Units through the provision of policy advice to the Minister as well as the Economic Management Committee on relevant issues and the Government; increasing the accountability to the public of banking policy interventions and banking related issues via briefings, Oireachtas business, Parliamentary Questions and FoI requests; servicing MoU/MEFP, EU State aid requirements etc.

The Policy and Systemic Risk unit's success will be dependent on the resourcing and management of these four blocks of work. There are two main drivers behind the need to ensure that this Unit's operations require some priority:

- In order to comprehensively address the issues that had been raised by the C&AG's (2008, 2009 and 2010 reports), the Wright review, PAC queries, as well as the Nyberg Commission cited above, the Units will have to be given adequate resourcing and funding to respond to the key blocks of work ; and

- In recent months, there have been a number of changes within the former FSD unit that focused on banking issues. As a result, the rebuilding of the Policy and Systemic Units will require proper and appropriate personnel and financial resources.

While there were 4 PO's and 6 AP's in the Division in the recent past, there is currently half a PO and 4 AP's. Additionally staffing at AO and Clerical Officer level, providing critical analytical and administrative support, is also required to achieve the expected objectives. While some alignment with the Implementation Unit will be sought, the basic body of work of the Policy and Systemic Risk Unit which is distinctly different in scope and nature from the work of the Implementation Unit requires bringing staffing levels, at a minimum, back to levels that had been there in the recent past while acknowledging that greater resourcing of the wider Division via the Implementation Unit integration.

The policy specialists within the Policy and Systemic Risk units will be utilised across the system linking into the Implementation Unit as well as the Financial Services Division and the Budgeting and Economic Division within the Department.

Financial Services Division

The Financial Services Division is primarily tasked with ensuring that there is an effective and efficient financial services sector which operates in line with EU guidelines and provides consumer confidence in the providers of financial services.

Measures to foster competition in the banking sector

As part of the bank restructuring process Ireland made a commitment in 2010 to the European Commission to undertake a package of alternative measures in order to restore the competition in the Irish banking market by facilitating entry and expansion of competitors and enhancing the consumer protection in the financial sector. In particular, Ireland committed to carry out specific measures in order to enhance:

(a) Customer mobility and protection (provision of information; transparency to facilitate consumer decision making; financial inclusion);

(b) Entry of competitors (electronic banking, SEPA migration, quality and availability of credit history information and reporting by banks);

(c) Corporate governance.

In general, good progress has been made in implementing these measures. In particular, statutory switching codes have been put in place to facilitate customer mobility, and a number of measures are to be implemented by way of a review of the Central Bank’s Consumer Protection Code which is underway. Work is also well underway on the development of a legislative framework to support best practice provision of information on credit histories. A number of the measures will be implemented by way of amendments to the Consumer Credit Act 1995 – these proposed amendments have been included in the draft heads of the Central Bank Supervision & Reform Bill, which is expected to be published before the end of July 2011. The Financial Inclusion Steering Group was established in October 2010 and has now completed a review of the options available to achieve financial inclusion in Ireland, a final report will be published shortly and the banks have commenced work on the design of a Basic Bank Account.

The key outputs relating to the broader issue of effective financial sector regulation fall into two broad categories – domestic legislation and developments at the EU level.

Domestic Legislation

Reform of Financial Legislation

The Central Bank Reform Act 2010 (“the Act”) was introduced in order to renew confidence in our financial system. The Act, which was commenced in October 2010, established a new single integrated institution known as the Central Bank of Ireland, with a Board known as the Central Bank Commission. The Act sets out powers for the Central Bank to ensure fitness and probity of nominees to key positions within financial service providers and of key office-holders within those providers.

The Act was the first of a multi-stage legislative process to:

- create a new fully-integrated structure for financial regulation;
- enhance the powers and functions of the Central Bank;
- address weaknesses in consumer protection and related issues; and
- consolidate existing Central Bank and financial services legislation.

The second bill will be the Central Bank (Supervision and Enforcement) Bill 2011 and will be published by end-July. It will provide for the enhancement of financial regulation, expanding the supervisory and enforcement powers of the Central Bank. The Bill will deal with prudential supervision of individual financial institutions and will seek to protect consumer interests and the overall stability of the financial system. Publication of the Bill is a commitment under the Memorandum of Understanding under the IMF/EU Programme of Support.

Once the second Bill is enacted, a further legislation to address consumer issues and to consolidate all legislation relating to the Central Bank and financial regulatory arrangements will be prepared. Members of the Troika have indicated that completion of the legislative programme is a considered to be a major element in the renewed framework for financial services in the future.

Credit Unions

The Department is responsible for policy development and legislation on credit unions. Significant change in credit union legislation was provided for as part of the Central Bank Reform Act 2010 which included provisions to amend Section 35 of the Credit Union Act 1997. The changes enabled credit unions to assist borrowers in difficulties by increasing the proportion of their loans that could be given for durations in excess of five years thereby allowing for rescheduling of impaired loans. These changes were balanced by statutory requirements relating to provisioning for loans in arrears and greater transparency in accounts.

The Department also provides the secretariat for the Credit Union Advisory Committee (CUAC). CUAC is a statutory committee established under section 180 of the Credit Union Act 1997, to advise the Minister for Finance in relation to (a) the improvement of the management of credit unions; (b) the protection of the interests of members and creditors of credit unions; and (c) other matters relating to credit unions specified by the Minister

There were two requirements relating to credit unions included in the IMF/EU Programme of Support delivered by end-May: (i) submission of strategy to enhance the viability of credit unions; and (ii) establishment of a Commission on Credit Unions. Both of these objectives were delivered on time. The Department is represented on the Commission, provides the secretariat and research support to the chairman. A further structural benchmark under the IMF/EU programme is the publication of legislation to establish a new regulatory framework for credit unions by end-December 2011.

Credit Histories

The Department provided the chairman, secretariat and research support for the Inter-Agency Working Group on Credit Histories. The report of the group’s findings and recommendations were submitted to the Minister for Finance at end-June 2011 – fulfilling an IMF/EU commitment for end-September 2011. Work on legislation to establish a central credit risk registry, a licensing system for credit information service providers and the prudential regulation required for the sector has commenced. Under the IMF/EU programme a bill must be published by end-September 2012 providing a statutory basis for these recommendations.

Consumer Credit Directive

The Department prepared the transposition of the EU Consumer Credit Directive into Irish Law by the deadline of 11 June 2011. Significant implementation work is ongoing including necessary amendments to the statutory instrument and the application of the terms of the directive to sectors granted temporary exemption (credit unions).

The Department participates on EU Council Working Groups on the Mortgage Directives which will require significant policy development and input.

The Department also has statutory responsibilities in relation to the Financial Services Ombudsman, the Irish Financial Services Appeals tribunal and the development of policy in relation to consumers of financial services.

Mortgage Arrears and Personal Debt Group

The section provided secretarial and research facilities for the *Mortgage Arrears and Personal Debt Group* which issued its report in late 2010. The recommendations of the Report have generated much work by way of representations, PQs and Dáil and Seanad motions. A new group under the chair of Mr Declan Keane has been established to carry forward and built on the previous work. The section will be heavily involved in the further research and in secretarial duties. The issue of personal debt, particularly the difficulties facing people with high mortgages (and in negative equity) is a major issue for politicians and in the media generally. Consequently, the generation again of a large amount of ‘low profile’ but essential and time-consuming work.

Anti-Money Laundering/Anti-Terrorist Financing/Financial Sanctions

The Department has responsibility for delivering Ireland's international obligations in relation to Anti-Money Laundering (AML), Anti-Terrorist Financing and International Financial Sanctions. The Department contributed significantly to the passage of AML legislation in 2010 and represents the Government on the Financial Action Task Force. The Department prepares the required legal instruments to enforce international anti-terrorism sanctions against individuals and States (most recently Iran, North Korea and Libya). This work is ongoing and compliance is essential to maintain Ireland's international reputation in opposing money laundering and terrorist financing.

The Department also discharges statutory responsibility in relation to issuance of coinage and escheatment of estates. These are ongoing, low profile but essential responsibilities.

EU Developments

Implementation of Solvency Level 2 measures.

These measures are still being developed and are unlikely to be finalised till the start of 2012. They will be implemented from 1 January 2013

Transposition of Solvency II by 31 December 2012:

Work is ongoing on this exercise and we are close enough to agreeing heads of draft regulations with the Central Bank which can be sent to the Attorney General's Office for drafting

Commencement of work on an Insurance Guarantee Directive

EU Commission has yet to publish a proposal. This work is unlikely to start till the end of the year.

Reach agreement at EU Level on a range of proposals for financial sector reforms.

Financial stability and the impact of the crisis on the EU financial integration process have been at the centre of EU financial services policy since the start of the financial crisis. The EU, working with international bodies such as the G20, IMF, and the FSB, continues to shape the international response to the crisis. The June 2010 Commission Communication, "Regulating Financial Services for Sustainable Growth," sets out the Commission's full financial reform programme and is articulated around four main principles; enhanced transparency, effective supervision and enforcement, enhanced resilience and financial stability, and finally strengthened responsibility and consumer protection. The Commission has now published the vast majority of its proposals within the June 2010 Communication.

Among the legislative proposals currently under negotiation (already adopted in the case of the new EU supervisory regime) which will play a key role in mitigating the possibility of another financial crisis are:

- new EU supervisory regime for the financial services sector;
- the Basel III agreement on capital and liquidity standards for banks;
- proposal for an EU Crisis Management Framework;
- revisions to the Investor Compensation and Deposit Guarantee Schemes Directives;
- proposed Regulation on short-selling and credit default swaps;
- proposed Regulation on Over-The-Counter Derivatives;
- proposed Regulation on credit transfers and direct debits in euros;
- amendments to Financial Conglomerates Directive; and
- Omnibus II - amendments to align the sectoral supervisory rules for the insurance sector with the new EU supervisory regime

Other notable EU related outputs

Transposition of the Electronic Money Directive by 30 April 2011 - this was transposed on 21 April 2011.

Transposition of the UCITS IV suite of Directives by 30 June 2011 – the Regulations were signed on 28 June. The S.I. number has not yet been assigned but a copy of the Regulations is published on the Department’s website.

Shared Services Function

This new programme was created in 2011 to capture the following costs:

- Shared-service costs associated with the provision of services to various Departments and Agencies in the accounting, banking and payroll/pension processing areas;
- common costs associated with the provision of accommodation, HR, press office, internal audit and internal financial management services to this Department and the newly formed Department of Public Expenditure and Reform.

These costs will be apportioned to the relevant Departments and Agencies as part of the Allied Services statement in 2011. With effect from 2012, and in the spirit of the performance budgeting framework, it is intended that the costs that are common to Dept of Finance and Dept of Public Expenditure and Reform would be allocated to the individual programmes in both Votes.

The shared services are provided under five distinct functional areas:

- Accountant’s Branch/Paymaster General’s Office
- Finance Unit
- Internal Audit Unit
- Press Office
- Corporate Services Division

The Accountant's Branch/Paymaster General's Office is a long standing supplier of services to Government Departments by virtue of its central role and its remit as the Paymaster General. As part of the drive for more efficient, cost effective public services (Croke Park agreement etc), the Department is actively seeking to provide services to additional public sector entities. In addition to its own payroll, the Office provides payroll services and accounting services at various levels to many Government Departments/Offices, Agencies and the Exchequer. In addition, the PMG pays the pensions of all retired civil servants from the Superannuation Vote and provides a bank funding service for all Government Departments/Offices. In overall terms, there are 64.3 staff (whole time equivalent basis) involved.

The Corporate Services Division (CSD) provides services on a shared basis to both the Department of Finance and the newly established Department of Public Expenditure and Reform. It is responsible for human resource management, compliance management, facilities management, freedom of information, health and safety, files management and general corporate governance issues. These services have been established on a shared service basis to minimise costs and avoid duplication, while also securing synergies from existing skills and expertise.

Finance Unit provides Budget Management and Internal Financial Reporting services for both Departments and, to a lesser extent, for other Votes. In addition, the Unit plays a key role in the provision of external financial data and reports.

The Internal Audit (IA) Unit is a shared service providing an internal audit function to both the Department of Finance and the Department of Public Expenditure Reform (DPER). The Unit provides an independent, objective assurance and consulting activity to both Departments with the objective of evaluating and improving the effectiveness of risk management, control, and governance processes.

The IA Unit's planned audits are set out in the 2011 audit work programme and include audits of Divisions in both Departments. The remit of the Unit also includes the President's Establishment (Vote 1), the Superannuation Vote (Vote 7) and the Central Fund.

The Department has proven experience in the successful provision of Shared Services from the decentralised office in Tullamore and is actively pursuing additional work in this area.

Payroll shared services

As a shared services provider the Department currently processes the payroll of 10 central Government entities plus the Central Fund payroll. This year the Department is adding a further three entities. This will give rise to savings estimated at €270,000 per annum, before savings on overhead costs. Payback, having regard to the upfront outlay, will be achieved in less than a year. Two other entities are in the pipeline for transfer to the shared service and discussions have taken place with others.

The Department considers that there is very considerable scope to reduce payroll servicing as an overhead cost in the public sector through consolidation, greater use of technology, streamlining of operations and with a reversion to fundamental principles. The Department has outlined a strategy as to how other Departments/Offices, who still have their own payroll service, could be migrated to central facilities.

Management of expenses systems

The Department's expense system is used by four organisations. The system, which is integrated with its payroll system, is offered to other public sector entities that join the shared payroll service. The Department of Transport is joining the payroll and expense systems this year. The sharing of resources will lead to a more cost effective service though centralisation of expertise and reduction in overhead costs.

Provision of a pensions shared services

The Department is taking over the payment of VEC pensions from more than thirty local authorities. There are 6,000 pensioners involved and it is hoped to have them all on the Department's system before the end of 2012. Centralisation will enhance efficiency and reduce costs. It will bring the total pensioners in payment to over 25,000. A payslips online facility is being provided to pensioners to improve the service and reduce costs on postage and stationery. Uptake of this by pensioners is encouraging. Other measures to reduce the costs of operating a pension payment service are being considered.

Accounts/Financial Management System

The Department's system is already used by four central Government entities which cover six Vote accounts, the Exchequer (Finance Accounts) and twelve other non-voted accounts. In 2011 the Department provided its system to the National Education Welfare Board at very little cost. It will be providing a system to the Department of Youth and Children and is anxious to leverage the investments already made by adapting its system for other State entities in need of such modern facilities. Two State agencies are considering this option.

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Other Issues of relevance to the provision of shared services

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- The Department has been encouraging (with some success) the election Returning Officers move to electronic banking. This will make accounting for returning officers' expenses much easier for them and centrally for the Department of Finance.

Programme A – Budget, Taxation and Economic Policy

The table below shows the programme A budget for 2011, the 2012 existing level of service allocation and the proposed savings that have been identified.

Budget, Taxation and Economic Programme Subheads		2011 Estimate €'000	2012 ELS €'000	Proposed Savings €'000
A.3	Committees & Commissions	330	330	0
A.4	Consultancy	75	75	25
A.5	Fiscal Advisory Council	300	650	**Increase -350**
A.6	Commissions and Special Inquiries	5	0	0
Total				**-325**

In overall terms, an increase in the estimate will be required over and above the estimate for 2011. This results form the establishment of the Fiscal Advisory Council and represents the full year cost; there was provision for a six-month cost of €300,000 in 2011.

Subhead A3 – Committees and Commissions

This Subhead funds the cost of the Disabled Drivers and Disabled Passengers (Tax Concessions) Appeals Board which is recouped by the Department to the National Rehabilitation Hospital (NRH), which hosts the Medical Board of Appeal.

The provisional outturn for 2010 is €0.312m which is €0.059m below the 2009 outturn and reflects a decrease in pay rates from 1 January 2010, including that of hospital consultants. The 2011 estimate of €0.330m is some €18,000 higher than the 2010 outturn and reflects the planned increase in the number of Medical Board of Appeal meetings/sessions.

The Disabled Drivers and Disabled Passengers (Tax Concessions) Scheme

The Disabled Drivers and Disabled Passengers (Tax Concessions) Scheme is open to people with disabilities who meet the specified criteria and have obtained a Primary Medical Certificate to that effect. Where the grant of the required Certificate is refused, this can be appealed to the Disabled Drivers Medical Board of Appeal, an independent body. The medical criteria for the purposes of the tax concessions under this Scheme are set out in the *Disabled Drivers and Disabled Passengers (Tax Concessions) Regulations 1994.*

Following a number of staff changes in late 2004, it was decided to reconstitute the Board of Appeal and make a number of changes to improve and streamline its operation. The Disabled Drivers Medical Board of Appeal, i.e. its Chairperson and panel of members (doctors) are appointed by the Minister for Finance on the nomination of the Minister for Health. The Chairperson is also a consultant in the NRH and the Department of Finance recoups her salary costs to the NRH. In addition to the Chairperson, two doctors from a panel of doctors attend each Appeal Board sitting.

It is a demand driven service based on the appeals received. Any reduction in the allocation for the Medical Board of Appeal would inevitably result in an increase in the backlog of appeals waiting to be heard. Previous backlogs lead to significant administrative and political difficulties which could not be countenanced again. Consequently there is no room to reduce the allocation for the Medical Board of Appeal. Indeed it may be necessary to increase the allocation if the numbers of appeals increase as they at present appear to be doing or if there is any increases granted in public sector salaries.

Savings cannot therefore be proposed at this time and must be addressed in tandem with a Tax policy based approach to the provision of this relief.

Subhead A4 Consultancy and Other Services

This subhead covers costs associated with the Department's engagement (under a fee for services) of an expert retired member of staff to represent the Department at the OECD's Economic Development and Review Committee (EDRC).

The outturn for 2010 was €30,000 and the estimate for 2011 is €75,000 some €45,000 or 150% higher. Costs in 2010 were lower than anticipated because the Advisor was redeployed to assist the Panel of experts who were performing the Independent review of the Department. Activity on this subhead is expected to return to normal levels in 2011.

EDRC is the most important economic working committee in the OECD. Its main role is to examine economic trends and policies in individual OECD countries, assess the broad performance of each economy and make policy recommendations. The committee is made up of representatives of all OECD countries and most of their representatives are permanently based in Paris. The EU Commission and the IMF also have membership. The Committee meets frequently – approximately 25 meetings annually.

The OECD normally conducts surveys of member countries about every 18-24 months and is currently conducting an economic survey of Ireland. The draft survey will be examined at a meeting of the EDRC in September 2011. In addition, Ireland, like all other members, is required to act as lead examiners in the review of other member countries. We are currently examiners for Greece. Attendance at these EDRC meetings requires greater input from the Department's representative. There were no OECD economic surveys of Ireland or Greece in 2010 hence the variation in the budget between 2010 and 2011.

Subhead A5 - Fiscal Advisory Council (Grant in Aid)

Under both the Programme for Government and the EU/IMF Programme of Financial Support, the Government is committed to reforming the Budgetary Framework including the establishment of a Fiscal Advisory Council. This new subhead makes provision for the part-year costs of this Council.

It is envisaged that the costs under this subhead will cover:

- Staff costs, including 2 Economists and 2 administrative staff
- Fees for a Chairman and 4 members
- Other administrative costs

Some fee-based support may also be sought from the Economic and Social Research Institute.

As this is a newly-established Institution, there was no provision for it in 2010. The provision in 2012 represents the full year cost and it is estimated that it will be in the order of €650,000 – this is an increase of €350,000 over the 2011 estimate of €300,000.

Subhead A6 Commissions and Special Inquiries

This new subhead was created in 2010 for payments in relation to the Report of Independent Review Panel on the Department of Finance (Wright Report). It will be retired in 2012 and there is no provision within the 2012 ELS.

The Wright Report

In September 2010, the Minister for Finance appointed an Independent Review Panel to assess the Department's performance over a ten year period and based on the lessons learned from that assessment, to make recommendations for the future development, structure and resourcing of the Department. The Review was carried out by a Panel comprising Mr. Rob Wright (Chairman), former Secretary General, Department of Finance, Canada, Dr Hans Borstlap, former Director General of the Ministry of Social Affairs and Employment, Netherlands and Mr John Malone, former Secretary General, Department of Agriculture and Food. The Review was completed in December 2010.

The Report is a direct and thoughtful assessment of the Department and it recommends a wide-range of significant changes. The assessment of the Department's performance is, in general, reasonable. The recommendations for action have the capacity to make the Department significantly more effective and to enhance its role in the management of the Irish economy and fiscal affairs.

Key Findings

The Panel's key findings may be summarised as follows:

- Having reviewed in detail the annual Budget Strategy Memoranda, the Panel found that advice prepared by the Department did provide clear warnings on the risk of pro-cyclical fiscal action.
- With few exceptions, the quantum of spending and tax relief outlined in annual Budgets was substantially above the level advocated by the Department and the Minister in June.

- The Panel considered that there were **three** reasons for what they describe as “the failure of fiscal policy”. These were:

  - There were extraordinary expectations on Government in Ireland to create spending and tax initiatives to share the fruits of economic gains; all political parties were eager to meet public expectations for more and better services. Consistently higher growth and revenue outcomes late in the Budget cycle further inflated expectations.
  - The Government’s Budget process was overwhelmed by two dominant processes – Programmes for Government and Social Partnership.
  - The Department should have done more to avoid this outcome. While it did provide warnings on pro-cyclical policy, it should have adopted its advice in tone and urgency “after a number of years of fiscal complacency.

- The Department should have been more sensitive also to and provided specific advice on broader macro-economic issues. It should have shown more initiative in making these points and in its advice on the construction sector and tax policy generally. Policy makers were insufficiently sensitive to the effects of extraordinary expansive monetary conditions at the time, and to the fact that fiscal policy was the key counterbalance to this pressure

Report Recommendations

The recommendations cover a wide range of issues regarding organisational structures, skills, staffing and procedures. In summary, the Department supports these recommendations, the most significant of which are summarised below:

- *The Department should put in place an enhanced budgetary process and should release for parliamentary and public review its technical economic and fiscal forecasts.*

- *The establishment of a Fiscal Council is supported. Such a Council should review and publish commentary on the Department's analysis and the Government's proposed quantum for fiscal action.*

- *The Department's responsibility for assessing systemic macro-economic risks should be formalised in legislation.*

- *The Department should sharpen its focus on core business. The Public Service Management and Development Division should be managed as a separate entity, as either a separate Department or reporting directly to the Minister of State for Public Service Modernisation.*

- *The Department should examine working level structures and the devolution of responsibilities to ensure greater delegation and broader areas of responsibility at middle management level.*

- *The Department needs to substantially increase the number of economists trained to Masters level or higher and add other technical capacity, especially accounting, banking and financial market expertise*.

While a number of recommendations are matters for Government and require further consideration, a significant number relate to the future development, structure and resourcing of the Department. These include organisation, work practices and skills - many of which can be implemented without delay- in order to assist the Department in taking on the complex challenges arising in the coming years. An Implementation Group has been established to address these issues and some changes at organisational and procedural level have already taken place.

Programme B – Financial Services Policy

The table below shows the programme B budget for 2011, the 2012 existing level of service allocation and the proposed savings that have been identified.

Financial Services Programme Subheads		2011 Estimate €'000	2012 ELS €'000	Proposed Savings €'000
B.3	Committees and Commissions	35	35	0
B.4	Consultancy	4,195	3,080	580
B.5	Commissions and Special Inquiries	750	0	0
Total				**580**

Subhead B3 – Committees and Commissions

The subhead funds the cost of the Credit Union Advisory Committee. The Credit Union Advisory Committee (CUAC) is a statutory advisory body comprising of seven people, a Chairman and six members, who report to me as Minister for Finance in relation to credit union matters. The CUAC met on a monthly basis until the end of its term on 30 September 2009, a replacement Advisory Committee was appointed in September 2010.

The 2010 outturn was €4,000 and the 2011 estimate is €35,000 – this is €31,000 or 775% higher than the 2010 amount. This increase reflects the fact that Credit Union Advisory Committee (CUAC) was not in place for most of the previous year.

In addition to the provision for the Credit Union Advisory Committee, this subhead will also be required to provide for the costs of Commission on Credit Unions in 2012 and accordingly no savings can be identified.

The Credit Union Advisory Committee is a statutory committee established under section 180 of the Credit Union Act 1997. Its statutory function is to advise the Minister for Finance and such other persons as the Minister thinks fit in relation to:

(a) the improvement of the management of credit unions;
(b) the protection of the interests of members and creditors of credit unions; and
(c) other matters relating to credit unions upon which the Minister, the Central Bank or such other persons as may be specified by the Minister may from time to time seek the advice of the Committee.

In recent years, the Committee has provided the Minister for Finance with reports on Social Finance, Stabilisation, and Credit Unions from an International Perspective. The current Committee is particularly active. It provided updated recommendations on Stabilisation for Credit Unions and wrote to you last week enclosing a critique on the Grant Thornton Phase 1 report of the *Strategic Review of the Credit Union Sector*. It has also brought issues to the attention of the Minister for Finance, for example, the question of credit union investments in Irish Banks and the possibility of a credit union bond. The Committee is a useful link between officials of this Department and the credit union movement on the ground and their expert views and feedback is appreciated at their monthly meetings.

The annual fees payable to the CUAC are €3,705 per annum to the Chair and €2,470 per annum to each to the six ordinary members. Other expenditure relates to expenses to attend the monthly meetings and conferences.

The seven Committee Members, who currently hold office for three years from 1 September 2010, are

- **Pádraig O'Cearbhaill, Chairman**, Chartered Accountant/Auditor,Treasurer - Blackrock Credit Union
- **Noreen Byrne**, Lecturer, Centre for Cooperative Studies, University College Cork
- **Donal G. McKillop**, Professor of Financial Services, Queen's University Belfast.
- **Gerry Murphy,** Barrister, Former Deputy Financial Services Ombudsman
- **Michael O'Conaill**, Manager - Clondalkin Credit Union
- **Denise O'Connell**, Partner, Audit and assurance services - Grant Thornton
- **Iris White**, Barrister, Former Chairman - Dundrum Credit Union

Sealuchais Arachais Teoranta (SAT)

This subhead also covers company secretarial services provided by A&L Goodbody for Sealuchais Arachais Teoranta (SAT), the former holding company for Icarom shares. Icarom plc (under administration) is the run-off company of the Insurance Corporation of Ireland. The annual cost of the secretarial services is €2,863

SAT in effect serves no purpose since the ICAROM shares were transferred to the Minister for Finance in the MIFID and Miscellaneous Act 2007. We sought legal advice about winding it up, however the AG's Office advised that because SAT was the vehicle used to counter indemnify AIB in relation to the Institute of London Underwriters (ILU) guarantee as part of the ICAROM transaction, there would be a concern that if the company was dissolved that this could impact the guarantee. The matter is being kept under review.

Subhead B4 – Consultancy and other services

This subhead provides for non-administrative consultancies and other costs in relation to the stabilisation of the banking sector. There is no scope at present for a reduction in the cost of these consultancies however it will be kept under review.

The 2010 outturn was €4.924m and the 2011 estimate is €4.195m – this is a reduction of €729,000 or 15% in comparison to the figure for 2010. The 2010 provisional outturn of €4.924m relates to specialist advice in relation to the banking crisis. Some €2.335 was recouped in respect of these costs in the form of Appropriations-in-Aid in relation to the stabilisation of the banking sector during the course of 2010.

Provision of €3.080m is made on this subhead (Consultancy and Other Services) for legal advice and other costs incurred in connection with the banking sector (the Stabilisation of the banking sectors, NAMA, recapitalisation of financial institutions, legal due diligence process, Anglo Irish Bank, advice on general banking matters and sundry associated costs).

There is a proposal to add €12m of consultancy costs to the Vote in 2012 in respect of work done by NAMA staff working within the Department. These costs are currently paid from the Central Fund and as such, while representing an increase on our Vote, will be Exchequer neutral. It is envisaged that we can achieve overall cost reductions as a result of the merging of this work with that of the Department and accordingly a saving of €0.580m has been proposed. This is subject to review by the Programme Manager.

Subhead B5 – Commissions and Special Inquiries

There is no provision within the 2012 ELS for this subhead. The 2010 outturn was €721,000 and the 2011 estimate is €750,000 or €29,000 (4%) lower.

Expenditure under this Subhead is associated with the Financial Services Policy Programme. This subhead was created in 2010 to capture payments in relation to the Banking Inquiry. It followed precedents set in other Votes of establishing separate subheads tribunals and commissions of investigation.

On 19 January 2010, the Government agreed a detailed framework for an inquiry into the banking crisis and for its subsequent consideration by the Dáil.

Members of the Committee will be aware that the inquiry process set up by the previous Government consisted of two separate stages:

In the first stage, two preliminary reports were first commissioned to scope out the issues for more detailed consideration by a statutory Commission of Investigation:

- one report was prepared by Professor Patrick Honohan, Governor of the Central Bank of Ireland, on the performance of the functions of the Central Bank and the Financial Regulator over the period from the establishment of the Financial Regulator to the end of September 2008;
- a second report was prepared by Mr Klaus Regling and Mr Max Watson who conducted a preliminary investigation into the recent crisis in our banking system to inform the future management and regulation of the sector.

Both reports were submitted to the Minister on 31 May 2010, and were subsequently considered by Government, and laid before the Oireachtas and published on 9 June 2010. The second stage of the inquiry saw the establishment of a Statutory Commission of Investigation, pursuant to the Commissions of Investigation Act 2004, chaired by Finnish banking expert, Mr Peter Nyberg. The Oireachtas approved the establishment of the Commission on 8 July 2010 and the Commission's final report was published on 19 April 2011.

Programme C – Shared Services Programme

The only costs attaching to this Programme are of an Administrative Budget nature. These were dealt with under the Administrative Budget section.

4. Cost Savings Proposed

4.1 Summary table

A summary of the ELS allocation on the Vote together with proposed cost savings is set out below:

Admin Subheads		**2012 ELS €'000**	**Proposed Savings €'000**
(i)	Salaries & Wages	17,740	0
(ii)	Travel & Sub	306	25
(iii)	Incidental Expenses	797	
(iv)	Postal & Telecoms	775	150
(v)	Office Equipment	980	120
(vi)	Premises Maintenance	725	25
(vii)	Consultancy	28	0
Programme Subheads			
A.3	Committees & Commissions	330	0
A.4	Consultancy & Other Services	75	25
A.5	Fiscal Advisory Council	650	-300
A.6	Commissions and Special Inquiries	0	0
B.3	Committees & Commissions	35	0
B.4	Consultancy & Other Services	3,080	580
	TOTAL	**25,521**	**625**

It is important to note that the existing allocation for Vote 6 under 2012 ELS encompasses an “unidentified saving” of €1.141m (i.e. we were short of our required savings targets by this amount). Therefore, the above savings must first be applied to meet this shortfall before any further contribution is made to the CRE.

5. Further Information

The following proposal is also presented for consideration by the Secretariat:

- It is planned to leverage the Department's resources and its expertise as a shared provider of payroll to provide services to other Departments/Offices. Already in 2011 we have 3 payrolls moving to the Department of Finance service, without additional costs arising other than for the initial transfer. This should enable the organisations concerned and overall public sector numbers to be reduced by 7 WTEs, saving about €270,000 before employers' PRSI and overheads and achieving a payback well inside one year. It is obvious from surveying the environment that there are similar efficiency gains to be harvested from centralising other payrolls. The typical medium sized Department will have at least three people involved in payroll. The efficiency dividend could be even larger if there was investment in further automation of payroll processes and through greater streamlining, XXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXX XXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXX XXXXXXXXXXX

- There are other options that are actively under review within the Department, particularly in the area of Shared Services – cross-training of staff to achieve economies of scale, improved use of systems to move away from paper based and manual transactions.