

DÁIL ÉIREANN

AN COISTE UM CHUNTAIS PHOIBLÍ

COMMITTEE OF PUBLIC ACCOUNTS

Déardaoin, 5 Márta 2015

Thursday, 5 March 2015

The Committee met at 10 a.m.

MEMBERS PRESENT:

Deputy Áine Collins,	Deputy Mary Lou McDonald,
Deputy Paul J. Connaughton,	Deputy Gabrielle McFadden,
Deputy Joe Costello,	Deputy Patrick O'Donovan,
Deputy John Deasy,	Deputy John Perry,
Deputy Robert Dowds,	Deputy Shane Ross.

DEPUTY JOHN MCGUINNESS IN THE CHAIR.

BUSINESS OF COMMITTEE

Mr. Seamus McCarthy (*An tArd Reachtaire Cuntas agus Ciste*) called and examined.

Business of Committee

Chairman: We are in public session. Are the minutes of the meeting of 26 February 2015 agreed? Agreed. Are there any matters arising from the minutes?

Deputy Shane Ross: Can we address the HSBC issue? We have had a reply from them.

Chairman: We have had a reply, which is in the correspondence, to the extent that the Irish office does not have the information to hand on the issue. Representatives are willing to attend but do not have information.

Deputy Shane Ross: Were we not meant to contact the London office?

Clerk to the Committee: Arising from the Chairman's request, I contacted the London office and I got a phone call late yesterday evening when I came back from Belfast to say that the reason the banks' representatives appeared before the UK Public Accounts Committee is that its headquarters is in the UK. It did not mean any disrespect to this committee but it does not have any information. That is the gist of the information they gave me. The letter they sent says they are not in possession of records with regard to this matter.

Chairman: Is this from the Dublin office?

Clerk to the Committee: Yes, and the bank is headquartered in London. That is why the bank attended the Public Accounts Committee in London.

Deputy John Deasy: That is a flimsy excuse to give for not coming in. From what the Chairman said, we can take up the offer to attend. Are they willing to come in?

Chairman: The letter says that they are willing and that they would send representatives but they do not know how helpful their representatives could be. If the individual in London was helpful to the Public Accounts Committee in the UK, surely they can provide information via him that is of interest here. If it is the wish of members, we can get back to HSBC in Dublin and in the headquarters and suggest they send to the meeting of the PAC someone who has some briefing material.

Deputy Shane Ross: We want to get the right guy so they can nominate the guy. They will know who has the information and we do not.

Deputy Joe Costello: It is strange to see how some in Dublin can say they have no relevant information or documents. Surely HSBC is a single organisation with different branches and structures. If there were so many Irish HSBC accounts in the Swiss section, surely there is some procedure between the bank's offices here and the bank's offices there. There must be something about the process under which they operate. Under any circumstances, we should invite them to come in here even if they say they have no relevant documentation. They are bound to have useful material about how they operate.

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Deputy John Deasy: We should ask them in and take them up on the offer to come in. Let us not beat around the bush. We can ask them questions directly. If the representative comes back and says that he does not have the information, we will make our minds up then.

Chairman: There may be separate entities within HSBC, but before getting into that, we should write to Mr. Duffy again and to the individual who appeared before the Public Accounts Committee in the UK and ask if someone can be briefed who can assist us with our efforts with the Revenue Commissioners. That would be helpful. A representative should be here.

The next item, No. 3A, is correspondence from Accounting Officers or Ministers. No. 3A.1 is correspondence, dated 4 March 2015, from Mr. Robert Watt, Secretary General of the Department of Public Expenditure and Reform. It is a follow-up from our meeting of 5 February 2015 and is to be noted and published. This correspondence was received yesterday but, as it relates to issues that may arise at today's meeting, it is included in today's correspondence. We can use the correspondence to raise the issue in a later session with the Department.

We also have individual correspondence received since the meeting of Thursday, 26 February 2015, the first being correspondence from Mr. William Treacy regarding ongoing issues with Horse Racing Ireland, the second from Mr. Mairtin O'Riordain, Gaelscoil Charraig na Siuire, regarding costs of rents, which is to be noted, published and forwarded to the Department of Education and Skills for a note on the matters raised. We will indicate that to the writer.

No. 3B.3 is correspondence, dated 19 February, received from the Office of the Commissioner for An Garda Síochána, regarding St. Paul's Garda Medical Aid Society, to be noted and published. A copy will be forwarded to Mr. Michael Keane. It is noted that previous correspondence from Mr. Keane was up on our website. Having discussed it, and the Garda Síochána having reached its conclusion, we can take it down as a public document.

No. 3B.4 is correspondence received from Mr. Eamonn Howard regarding Howth Fisheries Centre. This is to be noted and we will include the issue in our upcoming report. We are awaiting a reply from the Department on the extent of vacant properties, and a reminder should issue to the Department as it is holding up our report. Given what we saw in Howth and reports from our last committee meeting, we must highlight this and get a response from the Department. I would have expected greater efficiency in reply from the Department. We should remind it that it is holding up the work of the Committee of Public Accounts and it is not right that the Department should do so. We must get the information together. Otherwise, we can have a further hearing on the matter and members would not mind sitting on a Tuesday to have the hearing. We will be further delayed by this Department and we should not stand for these delays any longer.

No. 3B.5 is correspondence, dated 23 February 2015, received from Mr. Aidan Horan regarding access to NAMA contracts. This is to be noted and forwarded to NAMA for a note on the matters raised. Is this the big briefing document we received from an individual?

Clerk to the Committee: No, that was a one-page letter about building houses in Castleknock.

Chairman: He is making the point about the distortion in the market because of the activities of NAMA. We will ask NAMA for a response. We will deal next with documents relating to today's committee meeting. Nos. 3C.1 and 3C.7 are the briefing documents and opening statements for today's meeting, to be noted and published. Of the reports, statements and ac-

counts received since our meeting of 26 February, No. 4.1 concerns the Travellers protection fund and No. 4.2 concerns Ordnance Survey Ireland. These accounts are to be noted. The work programme is now on screen.

Deputy Shane Ross: Perhaps the Comptroller and Auditor General can throw some light on the report yesterday about the HSE. The Taoiseach referred to it in the Dáil when he said people should pay back the money involved. The Comptroller and Auditor General produced a draft report, which was leaked to Senators, and it showed a large lack of control in the HSE, overspending on expenses and people being overpaid and the money not being paid back. These are merely samples of what the Comptroller and Auditor General produced in a draft report. He sent it back to the HSE and somehow it leaked. It is something we should interest ourselves in.

Mr. Seamus McCarthy: At the end of each audit of a set of financial statements, the staff at my office prepare a report for the management, bring to its attention control issues, control weaknesses and matters we consider management is required to address and where it needs to make changes to the control systems as necessary. The procedure in general is that the points raised by us are put to management and we ask it for a response. We require it to go on record as to what it will do about these issues. They are incorporated in the management letter and it is then formally sent to the chief executive officer of the HSE, as in this case. It stands then as a record between us of actions we require.

In a subsequent financial audit, we would look at the actions it has undertaken to take to see whether it actually made the changes it committed to make. In the normal way, that document would not be published. It is not published by us. If there was a control weakness which we felt was important and it was not addressed in a timely way, I could then reflect on it and consider that a report should be published and action taken. That is basically the origin of the document. As I understand it, the material that came into the public domain was a draft being prepared by it to respond to our recommendations. It is not a complete document from its side. There is quite a bit of material there and not everything has the same weight or importance but certainly there are issues on which we felt action was required from it and we would expect to see that action undertaken.

Deputy Shane Ross: Has the Comptroller and Auditor General seen the document?

Mr. Seamus McCarthy: I have scanned it.

Deputy Shane Ross: I saw it last night and it seems that it reflects very badly on the HSE. It has a column called “rankings” and it is low in a number of very key areas.

Mr. Seamus McCarthy: The rankings would be rankings we would provide. We would determine whether something is a high priority, a medium priority or a low priority.

Deputy Shane Ross: The control flaws in various areas are quite serious, are they not?

Mr. Seamus McCarthy: They are weaknesses and where there is a weakness, there is obviously scope for loss to arise. It may not have happened yet, but we are trying to draw it to its attention so it can make changes that would avert any losses. If we find in any of those areas that a loss has actually occurred, we would certainly require it to draw attention to it in its statement of internal financial control and to disclose there has been a loss. However, in the normal way where it is just a weakness, we bring it to its attention and require it to address it before a loss can occur.

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Deputy Shane Ross: We are not just talking about losses. We are talking about extravagance and lack of controls. We are not necessarily talking about losses. Are we just talking about controls?

Mr. Seamus McCarthy: There is a variety of issues. Generally a management letter will focus on controls but controls can include controls which should ward off circumstances where there is extravagance.

Deputy Shane Ross: How does the Comptroller and Auditor General do this? Does he do this by sampling?

Mr. Seamus McCarthy: Yes. If we are looking at travel and subsistence, for example, we look at a sample and may identify problems in the sample. It could be that we would look at 20 samples and find difficulties with one. In the greater scheme of things and given the expenditure of the HSE, some overexpenditure in a travel and subsistence area is not that significant in terms of its overall budget but it is something that would have a reputational risk for the HSE. We try to ensure it is aware of what is expected in terms of using travel and subsistence expenditure in an appropriate manner.

Deputy Shane Ross: Maybe I am wrong but it looks that in sampling, the Comptroller and Auditor General found in one case it was €2.9 million of overpayments, of which €1.4 million had not been paid back. Is that correct?

Mr. Seamus McCarthy: I do not have the details.

Deputy Shane Ross: That was just found in a sample.

Mr. Seamus McCarthy: I think that might be a full analysis of payroll.

Deputy Shane Ross: Some of the others would be just-----

Mr. Seamus McCarthy: Some would be analytic-based where one would look at the full database. In other cases, one would be drawing samples.

Deputy Shane Ross: Chairman, I suggest we bring in the HSE and ask it a few questions about this. It is now in the public domain and I think we should ask the HSE about it.

Chairman: We will come back to that suggestion.

Deputy Joe Costello: Arising from what the Comptroller and Auditor General told us, what he is outlining is a process which is ongoing where he has provided certain documentation. He has asked the HSE for a response to that documentation. It is its response that has come into the public domain rather than the documentation he submitted to it. Have both come into the public domain?

Mr. Seamus McCarthy: Yes, because what we provide it with is a template and we require it to respond to each point. The first three or four columns are ours and then its response is in the final column, but it is still only a draft, or a work in progress, on its side.

Deputy Joe Costello: Was it the intention that the Comptroller and Auditor General would bring that to our attention in a report at some stage?

Mr. Seamus McCarthy: No. That was not the intention.

Deputy Joe Costello: It was not going to see the light of day with this committee.

Mr. Seamus McCarthy: No, I would not expect it to. What we do when we prepare the management letter is to create a record of our engagement with the HSE in relation to the 2013 financial statements, as in this case. The higher level issues or higher priority issues we identify in that letter have already been brought to the attention of the audit committee in the HSE. When the report is finalised, it will be with the audit committee and we will explain to it our concerns and then it would work with HSE management to ensure that the weaknesses were addressed.

Deputy Joe Costello: I am not clear how that would work out but very substantial issues have come into the public domain. If there is a mechanism for us to bring this to the attention of the committee and to bring in the HSE, I think we should pursue that.

Deputy John Deasy: I refer to the note we received in regard to a different issue. Does the Chairman want to bring it up now or will he wait?

Chairman: I will bring it up in the context of this issue. The documents were released yesterday. They could have been released in error or for any reason but the history of the HSE and the Committee of Public Accounts has been that we have often had hearings and while people from the HSE have been with us, documents would be released to the newspapers. There is more than one example of that. Now that this issue is in the public domain, we need to understand why it happened. Some Senators and other people had this document yesterday but we still have not been provided with it out of courtesy in order that we would know what is in it. Luckily enough, we were meeting today and the Comptroller and Auditor General explained it.

I want to tie what has happened into a note members received this morning. Members received the note this morning simply because a big document was presented to me and I gave it to the clerk, about which I informed the committee a number of weeks ago. This document shows where contracts were awarded without any tender. They were awarded to former employees of the HSE who are now acting outside of the HSE in an independent business. In more than one instance, these contracts were awarded without a competitive tender and in one case at least a report was prepared at a cost of €98,374.23. That report was reviewed by another company at a cost of €58,216.41 to date. This is all happening between HSE and companies outside of the HSE which happen to employ former employees of the HSE. It is alleged in the document that in one instance the Health Service Executive is recommending former staff to section 39 bodies where investigations are needed, at a cost of €1,000 per day. In light of the information that emerged in the public domain yesterday and the allegations made in the note circulated by the clerk to the committee, which is a summary of the information in the larger document, we should have representatives of the HSE come before the committee sooner rather than later.

Deputy John Deasy: The most worrying element of this information is the potential conflict of interest that arises. Having recently dealt with two or three cases involving sexual or physical abuse of people in care, I find it very worrying that someone who may be contracted by the HSE could potentially have a conflict of interest. One of the tasks of the committee will be to ascertain how widespread is the practice of not tendering contracts and employing former HSE staff to do various jobs and carry out investigations.

Deputy Mary Lou McDonald: I do not know if the HSE will even forward to the committee the document that was inadvertently released. Perhaps we need to ask some of our Seanad

colleagues to provide us with a copy. We should also ask the HSE to provide a copy.

I agree that representatives of the HSE should come before the committee. I note they are scheduled to appear on 2 April, which is four weeks from now and perhaps a little too long a period to wait. Would it be possible to re-jig the agenda and have the HSE appear sooner? Will members be given the full dossier?

Chairman: The document is so large, we chose not to circulate copies but members may have copies.

Deputy Mary Lou McDonald: There are clearly two elements to the document. The first is the unhealthy, cosy insider relationship between entities that are contracting for business, while the second relates to an allegation or allegations of sexual abuse, how these allegations are pursued, the structure of investigations and so forth. Not having seen the dossier, I am not sure whether I should be more concerned about the issues related to procurement and tendering or the suggestion that there may have been malpractice involved in pursuing complaints of abuse. The committee will have to consider how we can advance this issue.

Chairman: While both issues are extremely serious, the issue with which the committee must concern itself is the procurement of services and the background to same, as outlined by the clerk to the committee. As Deputy Deasy stated, we must determine if the practice is widespread. The other issues have been reported under the whistleblower's legislation as they are matters for the Garda. That is the position.

Deputy Mary Lou McDonald: That is fine.

Deputy Patrick O'Donovan: I concur with Deputy Deasy on the importance of ascertaining how widespread are the practices highlighted in the document. Is this an isolated incident or are complaints in respect of vulnerable adults, children and others being investigated in a similar fashion? Members are at a loss because we do not have access to the information that is available to the media. The Health Service Executive has a responsibility to ensure that people who approach it are treated with dignity. The scant information available to us suggests there are serious questions to be asked.

Chairman: On the basis of members' comments, I will ask the representatives of the HSE to appear before the committee sooner rather than later. The clerk will contact the HSE to arrange a meeting. It may be necessary to arrange it outside the dates set out in our work programme.

Deputy John Deasy: How many of the contracts awarded by the HSE in the past ten years went to former staff? That is the simple question we should put to the HSE in the meantime. We could then take the matter from there. That is an easy question that can be answered immediately.

Chairman: We will proceed on the basis that the sooner we can have representatives of the HSE before us, the better.

Deputy John Deasy: We need to find out if certain contracts were tendered.

Chairman: Are there any other questions on the work programme? We have provided clarity on next week's meeting. St. Patrick's Day falls in the following week and we will meet representatives of the Dublin Docklands Development Authority on 26 March. Is that agreed? Agreed.

BUSINESS OF COMMITTEE

I will comment briefly on yesterday's meeting with the Northern Ireland Public Accounts Committee, which was interesting, productive and worthwhile in cross-Border terms. It was also good to have the Comptroller and Auditor General from both jurisdictions give a report on a cross-Border project that resulted in a loss of €4.3 million to the authorities North and South. Many issues arising from this project must be addressed through public hearings of the Committees of Public Accounts, North and South. One of the issues that stood out was that €1.3 million was spent on equipment valued at €30,000 that was almost obsolete. This gives a flavour of the extent of the problem with the project in question. While it was initially to be funded by the European Union, it was ultimately funded by the Governments in both jurisdictions and some substantial payments were made without any paperwork being provided. The end result of the project was to be a cross-Border fibre optic cable and broadband service. There is a question as to whether some of the cable was already in the ground. The company that tendered for the project had a profit of €30,000 on a turnover of €500,000 and one director and other internal entities were trading with each other and drew down money in a highly questionable project. We agreed yesterday that the two clerks would liaise and set a date for two separate hearings, one in the North on 18 March and a second in this jurisdiction shortly thereafter. Can the report be circulated?

Mr. Seamus McCarthy: It was circulated electronically this week.

Chairman: Was the full report circulated?

Mr. Seamus McCarthy: Yes.

Chairman: It is an interesting report which members should read because it indicates how the Department functions. As with the Health Service Executive, one wonders how many of the regulations and agreements on procurement and spending of taxpayers' money are ignored, resulting in the making of these types of payments. The committee should do this job of work as soon as possible.

Members have been circulated yesterday with a draft report on wards of court. I ask to contact the clerk directly if they have any amendments.

Deputy Mary Lou McDonald: I have only had an initial read of the report as we only received it yesterday. My initial reaction is that families I have been dealing with will regard it as fairly weak and defensive of the *status quo*. However, I want to read it again and perhaps I will talk to some families who have seen what they regarded as adequate provision for their loved ones whittled away to almost nothing or substantially less than is required for the care of that person over the duration of his or her lifetime. This is a desperate situation for people to find themselves in. I do not necessarily suggest that we are the people to remedy that, but given the circumstances, we should be saying something that points beyond that the HSE should look at adequacy of services and so on. That sounds a little pat from the point of view of families of wards of court. We can bring forward amendments to this, but is there a particular timeframe for dealing with the issue? When do we propose to complete, agree and launch the report?

Chairman: I think members have time to come back directly to the clerk with whatever amendments they have or with whatever strengthening of language they see necessary in the report. Perhaps then, after St. Patrick's week, we can launch the report.

Deputy John Perry: In regard to recommendations to government and the regulation that the Government should reply to recommendations within 60 days, does this apply to recom-

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mendations made by the Committee of Public Accounts? Does it happen that the committee gets a mandatory reply from the Government?

Chairman: It does happen. We get the reply, but we do not necessarily get it as speedily as the Deputy has described. We get a reply and can remind the Government of the need for an early reply whenever we deem that necessary. We get an overview of the Government's position on the issue.

Deputy John Perry: I understand an audit of this process is outside the remit of the Comptroller and Auditor General, but who audits it?

Mr. Seamus McCarthy: A private audit firm is appointed by the High Court.

Deputy John Perry: What level of access does the Comptroller and Auditor General have to that audit?

Mr. Seamus McCarthy: I do not have access to it.

Deputy John Perry: That is quite astonishing. Deputy McDonald's comments on the report are key and we should emphasise them.

Chairman: Those recommendations are in the report.

Deputy John Perry: I saw that. However, the anomaly is significant, particularly in light of the losses incurred. Is it the case there were very significant losses from the investments? How was this benchmarked?

Chairman: We had a full meeting on this and all of this information resulted from that. This information informs the background to the report and from that we have drawn up the recommendations. This is only a draft report. Members may want to read the report again and take advantage of the week or more we have left to deal with the matter and then send their submissions to the clerk.

Deputy John Perry: Who are the certified auditors on this?

Mr. Seamus McCarthy: I cannot remember offhand, but it is one of the larger firms.

Deputy John Perry: I compliment the Chairman on his work on this.

Chairman: Is there any other business? As there is no other business, we will agree our meeting for Thursday, 12 March at which we will have presentations from the Revenue Commissioners and HSBC. I will ask the clerk to report to committee members on the availability of the delegate from HSBC and on what we can expect, so that members are briefed before the meeting.

Deputy Shane Ross: Sorry, can the Chairman repeat that please?

Chairman: I will ask the clerk to ensure members are aware of the response from the HSBC and the extent of the information the delegate will have, so that we are clear in regard to what information can be gleaned through questions.

In regard to the HSE, we should get representatives in as soon as possible. If that is to happen next week, we will sit on Tuesday. The matter is in the public domain and because the HSE caused it to happen, we need an explanation. They will be told we are available to meet them

on Tuesday or Wednesday.

We will now deal with the first part of today's meeting at which we will have presentations from the Small Firms Association and the Irish Schools Arts Supply Federation. Then at noon, we will consider the Comptroller and Auditor General's Appropriation Accounts 2013 for Vote 11 - the Office of the Minister of Public Expenditure and Reform, Vote 12 - superannuation and retirement allowances, Vote 18 - shared services, and then the Comptroller and Auditor General's special report on the effectiveness of audit committees in State bodies, and then issues with procurement.

Procurement Issues: Small Firms Association and Irish Schools Arts Supply Federation

Ms Róisín Fleming (*Secretary, Irish Schools Arts Supply Federation*) called and examined.

Mr. A.J. Noonan (*Chairman, Small Firms Association*) called and examined.

Chairman: I remind members, witnesses and those in the public Gallery that they should turn off their mobile phones as they interfere with the sound quality and transmission of the meeting.

I draw the attention of witnesses to the fact that by virtue of section 17(2)(l) of the Defamation Act 2009, they are protected by absolute privilege in respect of their evidence to the committee. However, if they are directed by the committee to cease giving evidence on a particular matter and they continue to so do, they are entitled thereafter only to a qualified privilege in respect of their evidence. They are directed that only evidence connected with the subject matter of these proceedings is to be given and are asked to respect the parliamentary practice to the effect that, where possible, they should not criticise or make charges against a Member of either House, a person outside the House or an official, either by name or in such a way as to make him or her identifiable.

Members are reminded of the provisions within Standing Order No. 163 that they should also refrain from inquiring into the merits of a policy or policies of the Government or a Minister of the Government or of the merits of the objectives of such policies.

I welcome Ms Róisín Fleming, secretary of the Irish Schools Arts Supply Federation, ISASF, and Ms Breda Gibson. I also welcome Mr. A.J. Noonan, chairman of the Small Firms Association. I call on the witnesses to introduce themselves.

Ms Róisín Fleming: I am Róisín Fleming, secretary of the ISASF.

Mr. A.J. Noonan: I am A.J. Noonan, chairman of the SFA.

Ms Patricia Callan: I am Patricia Callan, director of the SFA.

Ms Breda Gibson: I am Breda Gibson, from the ISASF.

Mr. Ian Martin: I am Ian Martin, a member of the SFA and Martin Services.

Chairman: You are all welcome. I invite Ms Fleming to make her opening statement.

Ms Róisín Fleming: I thank the Chairman and the committee sincerely for this opportunity

to speak on this issue, which is of such importance for small businesses throughout Ireland.

We represent the Irish school art supply industry, a group of family run micro businesses which serve their local schools and employ approximately 1,600 people. Our industry, like many others, is under threat of extinction from the Office of Government Procurement, OGP. We need the committee's help, not just for the companies we represent but for microbusinesses throughout Ireland. The heart of the problem is that Ireland has a public procurement policy which is not fit for purpose. Our economy is mainly comprised of microbusinesses which are locked out of the €9 billion public procurement spend. The current OGP policy is to get the lowest price for goods and services and to use large aggregate contracts to achieve price economies. These policies exclude microbusinesses in several ways. While microbusinesses may not offer the cheapest price they do offer value for money. If the criterion of the most economically advantageous tender were used instead of price, then value for money, after sales service and social value could be assessed. This approach is encouraged by the EU and would allow microbusinesses to win tenders. Procurement savings can be made while achieving other Government goals such as boosting job creation, preventing regional imbalances and fostering innovation. The OGP sees these goals as outside its remit and contrary to EU policy, despite their successful use in other jurisdictions such as Wales. The narrow price focus has led to the OGP exporting vital business to other countries. The amount lost is unknown because there are no figures. When the amount is tallied in the future, probably by the EU, Irish people will demand answers.

It is a practical impossibility for a group of microbusinesses to win an aggregate contract. It needs one principal applicant big enough to take responsibility for the entire tender, and if our products become the subject of an aggregate contract, our industry will be wiped out overnight. Even if groups of small companies overcome the practical difficulties of forming consortia, they cannot win against multinationals with deep pockets such as Office Depot, the winner of the stationery contract, which has an annual turnover of \$17 billion. The OGP has insufficient safeguards against predatory pricing. Aggregate contracts are not designed to deliver quality or, in some instances, safe products. They may also have losses on non-core items. There have been piecemeal attempts to make current procurement policy more SME, not microbusiness, friendly but they have failed to stanch the haemorrhaging of jobs. Educating SMEs about procurement was one. Lack of participation is not down to ignorance but to a business decision not to waste money chasing contracts they have no hope of winning. Circular 10/14 is another. It encourages SME involvement but is purely aspirational and has no sanctions for non-implementation. Breaking contracts into lots will not work unless the lots are sufficiently small and limited to one per company.

Why save microbusinesses? We would make a costly addition to the live register and microbusinesses put more money back into the localities than large firms, which has a multiplier effect. We support local supply chains, regional employment and pay rates. Our profits remain in Ireland and, unlike multinationals, we support our communities. We maintain competition and, by destroying so many microbusinesses, the OGP may be acting anti-competitively. We ask the committee to conduct an economic impact study on the effects of current procurement policy and find a new model more suited to the Irish economy, one which utilises the €9 billion spend to achieve value for money, boost employment and support local communities. The OGP is capable of so much more than merely delivering cheap goods and services. Why waste it?

Mr. A.J. Noonan: I thank the Chairman and members of the committee for the invitation to make a submission and have a discussion on issues regarding public procurement today. I

am joined on our delegation by the Small Firms Association, SFA, director, Patricia Callan, and Ian Martin, who is a member of the SFA national council and the managing director, MD, of his own business, Martin Services. I too have my own business, Rhonellen Developments. The SFA is the voice of small business in Ireland and internationally, with 8,000 members and seven affiliated organisations in all sectors and parts of the country. Our written submission today contains some detailed commentary on the issues our members face with public procurement and some examples of the type of specific feedback we have received from members on the tendering process.

In my brief opening remarks, I would like to highlight a few key points. In its pursuit of lowest price, the Government is neglecting the fact that this will not deliver either the quality, cost in use savings or service levels it desires, but will result in lost jobs here at home. Centralised large aggregated contracts make it increasingly difficult for small innovative companies to compete and this means a serious potential loss of business. These should be broken into lots. The idea that small companies can simply join together with their competitors and compete for larger contracts is simplistic in the extreme.

In 2013, the published data suggest that 28% of tenders are being awarded to countries outside of Ireland, up from a previous high of 18% recorded. Ireland frequently tops the list of countries most likely to award to non-national countries, and this trend is increasing all the time. This is completely unsatisfactory. We need to put supporting Irish SMEs and microbusinesses at the heart of all Government policy-making. While some progress has been made over the past year with the publication of circular 10/14, the establishment of the SME working group on public procurement by the OGP, and the development of the Competition and Consumer Protection Commission guide to consortium bidding, there has been no tangible improvement in SME access to public procurement over the past year.

What is now needed is removal of the price priority. Where price accounts for more than 35% of a contract, the whole contract becomes based on price. We need to set targets for SME procurement, as in other jurisdictions, and 75% is reasonable for local communities. The OGP needs to start thinking value as opposed to price. We need regionalised contracts, lower thresholds and a change in the provisions around subdividing a contract into lots as currently set out in circular 10/14 because it is easier for procurers to opt out than in. A full appeals mechanism should also be implemented forthwith, which would include mandatory feedback on all lost tenders, more scrutiny and transparency throughout the system, an internal appeals procedure in each Department and the opportunity to appeal to an ombudsman.

I thank the committee for its time and attention and we look forward to a discussion.

Chairman: Many thanks, Mr. Noonan. May we publish both statements? We may. Thank you.

Deputy Mary Lou McDonald: I welcome all the witnesses very warmly. I know their organisations have been very active on this and have advocated strongly. I commend that work. They have put forward a very compelling argument and identify quite precisely the flaws in the system. I am conscious of the necessity for the State to get this right given the level of spend, €9 billion, and the cost if we get it wrong in respect of jobs and innovation for SMEs and particularly for microbusinesses. The submissions and discussion today can inform from the front line the questions we pursue with the OGP and the Department.

The witnesses have said making price the benchmark is problematic. Can they say a bit

more about that? They mention predatory pricing. An alarm goes off in my head when I hear that term. I would like to hear more about that. Mr. Noonan mentioned quality being undermined or not considered. Could he tell us about that? Both witnesses identify the problem of aggregate contracts. When we raise this with the system we get a simplistic view that people can club together if they are trained and join forces. We need to hear the reality check on that. What is the realistic level for the unbundling of contracts?

Mr. A.J. Noonan: I will give a good example of quality versus price. In the past year the Health Service Executive, HSE, awarded a contract for a machine in a hospital. The unsuccessful bidder was 12.5% below the price. I made the point that it was way off the mark and was the same machine. He said his machine had a life cycle of 20 years, but the machine that was bought has a life cycle of two years and parts would not be available in two years time. It is a good example of the quality issue.

One of the major issues in regard to unbundling is that 50% of Irish companies only operate within a 25 km radius. They will not tender for any business unless it is regionalised and in much smaller lots. They will not bother tendering for business, because it is outside their comfort zone. I understand another 40% operate within 100 km. Many companies do not get a chance to tender because it is outside their comfort zone. The unbundling, regionalisation and disaggregation of contracts is necessary. The Minister's predecessor supported that, and I pay tribute to Deputy Perry.

There is disengagement with the system. Reference was made to training in SMEs. The first people who should receive training are those working in procurement. They have no training in procurement and are awarding contracts willy-nilly. Many go for the lowest bid and keep things simple. They will say their job is to get savings for the Exchequer, but they are not doing that. They are doing the polar opposite. If the Committee of Public Accounts was so minded, it could do an exercise on some of the contracts that were awarded over the past year or 18 months. It will find there were no savings. Ms Fleming will discuss predatory pricing.

Ms Róisín Fleming: I will give an example in respect of a stationery contract in regard to predatory pricing. We had a long meeting with Mr. Paul Quinn from the Office of Government Procurement and asked him about his predatory pricing policy because when we spoke to the office in the past we were told that the only thing which triggers an investigation of predatory pricing is a price difference between competitors of 10% to 25%. We explained that was a difficulty because if more than one company is engaged in predatory pricing, that safeguard goes out the window.

When we asked about the stationery contract, the office explained it had investigated predatory pricing at the framework stage. However, the problem is that the contract is not awarded at the framework stage, but rather at the mini-competition stage. At that stage, during which anybody participating in it can only go below the initial quoted price, there was no investigation of predatory pricing.

Some of the largest companies in Europe are involved. I spoke about Office Depot. It has since merged with Staples and is now a company with a turnover of €34 billion. One has to remember that Office Depot supplies small companies throughout Ireland. Through the Office of Government Procurement it has been given the opportunity to take all of its suppliers away and go directly to the Government, cutting out an entire layer of small businesses.

Deputy Mary Lou McDonald: Is it Ms Fleming's impression that predatory pricing has

happened in the stationery sector?

Ms Róisín Fleming: It is my impression that there is the possibility that current safeguards are insufficient and leave the possibility open for predatory pricing in the future. I cannot say for sure whether there was predatory pricing, but there are insufficient safeguards in place. The more one goes with large contracts, the more incentive there will be for larger companies to use their deep pockets and resources to oust competition in the marketplace.

Deputy Mary Lou McDonald: I ask Ms Fleming to remind us of the numbers currently employed in her sector.

Ms Róisín Fleming: Approximately 1,600, but we have been haemorrhaging jobs over recent years thanks to the contracts. Oriel, which is in Deputy Collins's constituency, has lost several people. It is happening countrywide.

Deputy Mary Lou McDonald: Can Ms Fleming quantify that loss for us?

Ms Róisín Fleming: Unfortunately, we cannot. We would need to do some surveys. We are a very small group of microbusinesses, which means we do not have the resources. That is why we are asking the committee to do an in-depth survey of what is happening, how many companies are going down and how many jobs are being lost. It is not just us. We recently met other groups - the Minister, Deputy Noonan, was there - that have lost business because their industries have come under contract. Ours is not under contract yet.

Deputy Mary Lou McDonald: I will finish on this point to allow others to come in. Ms Fleming said that the aggregate contract model is so dangerous to the sector that if it is applied, it will wipe it out.

Ms Róisín Fleming: The Government is our only customer. If we cannot supply our only customer, we will have no route to market and we will go out of business.

Deputy Mary Lou McDonald: I will speak very directly. In the absence of a change of policy and approach, if we do not go for a regionalised, unbundled, disaggregated model that does not set price as the be-all and end-all but factors in things like quality, service and so on, is Ms Fleming saying that we are facing inevitable large-scale job losses?

Ms Róisín Fleming: We are facing inevitable job losses on a large scale. To put this very simply, Ireland has a supply structure which is based on microbusinesses. The Government has put in place a public purchasing structure with a €9 billion spend which is only accessible to large companies. There is an imbalance. There is a supply chain of microbusinesses and a purchasing system which means only large businesses can win. There has been an attempt to force the current supply model to fit the current purchasing model. It has not worked. We have to start again.

Mr. A.J. Noonan: This is a subsection of the entire small business community throughout Ireland. This is exactly what is happening. The committee is getting an example of one group which has fought its way in here with us in the hope that the committee will help us to address it.

Ms Breda Gibson: We sat at a table last week with Senator Darragh O'Brien. Among us there were 280 companies. It is another small sector comprising people involved in paper. This is widespread. The candlestick maker, baker and vegetable supplier are all affected. When we

use the term “microbusiness”, we mean every business on every high street in Ireland. That is our problem.

Ms Patricia Callan: I want to add to that. The critical element is data. The absence of data is problematic for all of us. In particular, it is noticeable that this was one of the major tasks placed upon the Office of Government Procurement when it was established. We do not know what type of contracts are involved, how much they are worth, who is getting them and so forth. Until we have all of that information, it is impossible for any of us to give the committee the answers. In terms of good governance and the public accounts, it is essential that we get those data.

We would go further in terms of the economic assessment of the price piece in saying that we have to work out the consequences. One of the consequences of eliminating the supply chain is that 1,600 more people will be on the live register at a cost of €20,000 per person. In terms of the overall economic impact of the decision to save X amount in a contract, the State costs itself money because, in the round, it will end up paying out more money. This is not just about one office or Department. There has to be a whole-of-Government approach to assessing the impact on jobs.

Deputy Mary Lou McDonald: Do we take that as an ask from the organisations that we pursue this matter with the office-----

Ms Patricia Callan: Absolutely.

Deputy Mary Lou McDonald: -----and consider what the committee can do by way of assessment and analysis?

Deputy John Perry: I am delighted to have the opportunity to raise a few important issues affecting the survival of small and microbusinesses. With regard to the €9 billion market share to which Ms Fleming referred, what is the total market in Ireland in cash terms?

Mr. A.J. Noonan: I understand 28% has gone abroad. Is that the latest figure?

Ms Patricia Callan: One only has to publish contracts that are more than €25,000. That is the problem, in terms of whether-----

Deputy John Perry: I want to deal with the school market. I understand the figure is 28%. I would prefer to deal with the issue before us today, namely, the schools supply end. What is the total market for that area?

Ms Róisín Fleming: I do not have any specific figures for it, unfortunately. Some office suppliers do some school business and others do some janitorial work. It is difficult to quantify in terms of money what is involved.

Deputy John Perry: I will explain from where we are coming. I refer to circular 10/14. Ms Fleming indicated that schools would be the only customer.

Ms Róisín Fleming: Absolutely.

Deputy John Perry: I want to get some balance. Would suppliers be doing other normal distribution?

Ms Róisín Fleming: Some do, but the vast majority would be school supplies specialists.

Deputy John Perry: We are dealing with conglomerates, unfortunately, in Ireland, not alone in Government agencies. Those of us in the business world know very clearly about both wholesale and retail. It is very much a conglomerate backdrop.

Ms Róisín Fleming: We have spoken to the Deputy about this matter. I wish to take this opportunity to thank the Deputy for his assistance in keeping us afloat when he was Minister of State. He gave us a letter which said that if we could provide value for money then we could continue to trade with schools. If Deputy Perry had not given us that letter we would not be sitting here today.

Deputy John Perry: That letter was issued from the Department to state that the principal of a school could be deemed to be the Accounting Officer for the school. Once that letter was issued, regardless of quality, quantity and value, the school was not obliged to deal with a centralised customer billing system. What has happened since then?

Ms Róisín Fleming: There are two issues with regard to our industry. The first is the effect of current aggregate contracts. Previously we were a one-stop-shop for schools. A small country school could come to us and get everything it needed. Now those schools must get their paper from one supplier, their cartridges from another supplier and their stationery from a third supplier. If the janitorial contract goes ahead - which we all hope it will not - this will add a fourth supplier. There is also the addition of arts and graphic supplies from ourselves. The result could be that a small country school with a couple of hundred euro to spend must go to six different suppliers.

Deputy John Perry: The position of the Accounting Officer was clarified by the procurement officer, Mr. Quinn, that if the principal of a school could certify that the school was getting value for money across the whole range, then it would not be prevented from dealing with the local supplier. Does this situation still pertain?

Ms Róisín Fleming: At the moment it does but we are finding that there is a general level of unease and fear among school principals. As more aggregate contracts come along, many principals feel compelled to go ahead with them and, for example, to buy stationery from Office Depot. There is a core and a non-core problem in that many principals feel they are tied in to the likes of Office Depot for stationery and they feel they must buy all products from one supplier rather than just the core products. There is a definite perception among principals and it has been an uphill struggle for us.

Deputy John Perry: It is very important to take the benchmark that is accepted by the Office of Government Procurement that the principal of a school as the Accounting Officer can still deal with a supplier and the school does not have to go through centralised billing.

Ms Róisín Fleming: Some perceive that they can while others perceive they cannot. What would be most useful would be a circular to the principals from the Office of Government Procurement which would nail that down and give them that information. It would be most useful.

Deputy John Perry: We are attempting to resolve this issue. We are talking about the definition of micro and small business. National procurement is a bigger issue but we are dealing here with the supplies to schools. I refer to Circular 10/14 which deals with the breaking down of that contract. Has direct contact been made from the small firms? I presume there is a database of school suppliers. Schools are quite within their rights to buy from local suppliers based on the authority given to the school principals.

Ms Róisín Fleming: All we have is the letter from Deputy Perry when he was Minister of State. A letter from the Office of Government Procurement would be most beneficial.

Deputy John Perry: I ask Ms Fleming to explain the systems used in Wales and Scotland.

Ms Róisín Fleming: The Welsh have 99% micro-businesses. Their situation is similar to ours and they understand the importance of the spend. They look at getting the best value for every single Welsh pound. They look for the most economically advantageous tender referring to the full life cycle of the goods while looking at the economic and social benefits that the contract can have to the locality and the least possible environmental impact. If we were to take that as a starting point, as the remit for the Office of Government Procurement, it would certainly go a long way towards alleviating many of these problems. The most economically advantageous tender is extremely broad. It can include an after-sales service and technical support. Because schools suppliers give a professional service, 85% of us give good competent after-sales service and we provide information. This could be taken into account. Social value is very important because it can take job losses into account. It can take into account potential job creation. It can take into account taking people off the live register. It can take into account community groups. It can be sufficiently broad to incorporate all Government goals into procurement and give us a world-class procurement service.

Deputy John Perry: I ask the chairman his opinion on the anti-competitiveness aspect.

Mr. A.J. Noonan: Where suppliers have aggregated?

Deputy John Perry: Yes.

Mr. A.J. Noonan: We think it is very difficult for small suppliers to group together and give knowledge about their businesses. It is very difficult. Mr. Martin is a good example of that.

Mr. Ian Martin: I can give the committee a couple of examples of some of these tenders. We are a small business in the first aid and hygiene business. We deal with many of the big multinational companies operating in this market place. Those multinational companies have, perhaps, 20, 30 or 40 people who are also selling their goods, including the multinational companies who are also based here. From a pricing point of view, the multinationals are in a very awkward position because they may want to charge me €10 for something and charge somebody else €12. They are then trying to control the pricing in the marketplace. They are saying to us that they will give us the price we put in for that tender and that they will give us a margin of X%. That is how they are starting to do pricing which means a fixed price from everyone. They are trying to get the SME to talk to the larger company, so that the SME name gets on the list. It is a bit like me going to my larger competitor and saying, "Mr. Competitor, there is a tender out there at the moment. Would you mind putting my name down on your list as one of the suppliers because we have common goods which we are supplying". My competitor will not do that, rather he will be trying to buy me out. That application is not practical.

The aggregation of contracts is happening. We are specialists in first aid supplies and we have been in the business for about 30 years. The industry is a specialised industry. The safety clothing and first aid industries have been put together. We had a tender last year where we gave some pricing to one of our competitors for the first aid items and we got some pricing for safety clothing. We partly won the contract on the safety clothing but we are not experts in safety clothing. We lost the overall contract because we were told we did not have sufficient knowledge of the first aid market. The person who got the contract is a safety company whom

we are supplying with first aid and this is all going to the same customer. The logic does not make sense. Then they said we had left out one line in the tender - because we did not know what the item was - but we did not quote for it. That was the reason we lost the contract.

There is currently a very large contract in our industry. The tender document contains 122 pages of information. One would need an MBA in a couple of subjects to actually understand the document. There are 291 lines of product which are to be supplied and they require a price for every line of product. For example, the multinational company will decide to tender for one of the lines, such as a pen. That company will decide to tender a price of €1 for the pen. It will go to the world-wide market and say it has a contract from the Irish Government for 1 million pens and that it needs them for 10 cent each. They will go to three or four suppliers in the world who will give them a similar pen. They have the world-wide buying power whereas the SME market does not.

We have a small business in the North. We are successful in some of the public tendering businesses in the North of Ireland because they will award contracts of under €30,000 to the micro-businesses. That is a nice big order for an SME turning over €100,000 or €150,000 and an SME can cope with that order whereas an SME cannot cope with an order worth €1 million because we do not have the resources.

An SME going for any reasonably sized contracts here will take on extra people and buy extra vans when the contract may be for two years. However, if the contract is lost after two years, the SME has a van fleet it does not need and workers have to be let go. The loss of a contract involves a massive cost. What they are doing is not practical.

Deputy John Perry: I have a final question about the national procurement office which is audited by the Comptroller and Auditor General. I refer to the question of value for money, quality and business methods. What might the Office of Government Procurement do to enhance the opportunity for SMEs to compete? One must take into account economies of scale and so on. We are increasingly seeing a centralisation of operations in the grocery sector. There are no longer delivery vans going to different towns, because it is all about centralised distribution in the retail market. The whole thing is gone in the direction of automated ordering, with no sales representatives on the road. That is the shift we are seeing. While it would be lovely to have more individual small suppliers, the marketplace has shifted dramatically around all of that. How can we beat this change?

Mr. A.J. Noonan: Ms Fleming made the point that the Welsh and Scottish models are working well for communities in those countries. The social element is very important in that. Notwithstanding Deputy Perry's point about centralised distribution, there are still many opportunities for small businesses in this country. We have spoken before about examining what local authorities spend in their communities and encouraging them to target expenditure locally. A target should be set for them in this regard, perhaps something like 75%. If a school principal, say, has to go to six different suppliers to get six different products, that is pure madness and creates many difficulties.

We have come to the conclusion during our discussions that we are very close to a situation where the Office of Government Procurement is simply not fit for purpose. We are getting to that stage. The experience of Ms Gibson, Mr. Martin and people like them is that the office is not doing its job in the way it should be doing it. It is supposed to be looking after our country by delivering good quality products for the public service. In my view, it is not doing that.

Ms Breda Gibson: The committee asked us to educate it because we have been doing this job for so many years and know what it is all about. We would not question what members know in terms of their job and expertise. In the case of the Office of Government Procurement, it must educate its staff and give them a remit beyond simply price. If it educated its staff on the ten steps, as has been done in Wales, it would be very hard for them to go outside that. If that format were followed, it would be very difficult for the money to go outside the community.

On 17 February, the Government announced its decision to put €250 million back into rural areas. We told it two years ago that companies on the high street would close down. There is a knock-on or domino effect in that if one business goes, every shop in the high street may go. Only now is €250 million being given to try to address this. We could have saved the Government that money if the Office of Government Procurement had listened to us and it could have been spent elsewhere. That is all we are asking.

Ms Patricia Callan: On the specific question about demonstrating value for money, which is important, I would throw that back and ask how can the Office of Government Procurement demonstrate that it has secured value. Going back to the data aspect, there is plenty of anecdotal evidence that even after these large contracts are awarded, a lot of off-contract buying goes on, which ultimately ends up being more expensive than what was originally projected. All of that buying must be monitored but, equally, we need to look at the other end of the equation. Large contracts present particular problems, but we also have a lot of members telling us that some contracts are simply too small. In our submission, for example, we note that some local enterprise offices, which should know all about micro-businesses, are tendering for a half-day training course. One of our member companies, TenderScout, which works in this area professionally, has given us data showing that €200 million is being spent by suppliers each year on tender proposals, only some 20% of which will be successful. In essence, some €150 million is being wasted in our economy by all of these businesses spending time and money on unsuccessful tenders. I was talking to a business owner yesterday who is in the website business. This person told me that for one large contract, applicants were given just ten days to respond even though the process was not simply producing a written document but involved a design component and showing what the website might look like. There are problems at both ends, with large contracts and with small contracts, and too many companies are wasting a great deal of money trying to operate within the system. It is important to note that in Ireland, approximately double the number of companies would be trying to get into the tendering process as would be the case abroad. It is a waste of their time.

Deputy Mary Lou McDonald: Was the contract which gave only ten days to tender a Government contract?

Ms Patricia Callan: Yes, it was a contract for the Department of Arts, Heritage and the Gaeltacht.

Deputy Mary Lou McDonald: A ten-day timeframe is astonishing.

Deputy John Perry: Ms Callan referred to local enterprise offices, whose mandate is small business and micro-enterprise. Has there been any link-up by those offices with small firms, principals of schools and so on? A seminar I am dealing with is all about local business-building, which is important.

Ms Patricia Callan: InterTradeIreland has been exceptional in this regard, running very useful “meet the buyer” events in many parts of the country that have been very positively

received. As we move towards specialised category councils, the idea in the new framework is that the Office of Government Procurement will come to the market and talk to us before producing the tenders in the first place. It will be about training per contract or per category council, and getting in front of the people who are buying for the specialists in that industry. It is only by doing this that everybody will up their game. As I said at the launch of Circular 10/14, unless we make feedback mandatory, we are at nothing. If a company has not been successful in a tender, there must be information given as to why it was not successful. That is not happening at the moment because, we are told, it takes too much time, but all these small companies are expected to spend time writing tenders. One will never learn and improve if one does not get feedback.

Mr. Ian Martin: A new trend I see in the marketplace in the United Kingdom relates to facilities management companies. Twenty years ago these types of companies would essentially have provided contract cleaners and not much else; these days they provide stationery supplies, security staff and a range of other services. They are becoming massive conglomerates in the UK. I am aware of a tender over there worth €20 million for just one facilities management company. In my industry, we would be talking about a contract worth perhaps €10 million a year. I have never seen such an amount of documentation required for a tender. We are dealing with much larger contracts in the UK, and this type of aggregation is going to exclude a lot of the marketplace.

Deputy Paul J. Connaughton: I welcome the delegates. Most of the points have already been covered. The overriding problem here is the remit of the Office of Government Procurement. Essentially, if it can come out in a year's time and say it saved X amount, then it can claim to have done its job and that will be the headline. The difficulties with that approach have been clearly outlined by the witnesses today. Departmental officials came before the committee last year to discuss these issues, at which time the Secretary General committed to reviewing matters with the Office of Government Procurement. However, there has been only a figleaf acknowledgement of what we were trying to say. Mr. Noonan hit the nail on the head when he asked whether the office is really fit for purpose. The problem is that some of the people in the office will say they were told to do a job, namely, save money, and must do that come hell or high water.

Having had a quick look through the report by the Office of Government Procurement, I did not see the words "jobs" or "employment" mentioned once.

Mr. A.J. Noonan: That is not part of its remit.

Deputy Paul J. Connaughton: Yes, that is precisely the problem. There is reference to the target of ensuring 66% of public expenditure goes to the SME sector. That sounds good and like everything is going in the right direction but, as the delegates pointed out, we never find out the figures behind it.

Mr. A.J. Noonan: That is it. As Ms Callan pointed out, we do not have data.

Ms Patricia Callan: There is an issue, too, with the definition of an SME. The definition used is the EU definition, which includes any company with fewer than 250 employees. In this country, however, there are only 500 companies employing more than 250 people. By that definition, many of the multinationals operating here are categorised as SMEs. We need to see what is happening with micro-enterprises, which make up 84% of all businesses, and small companies, which make up 97%. That is the level at which we need to see the data.

Mr. A.J. Noonan: Deputy Connaughton made a very good point that it is up to the Government to set the remit for the Office of Government Procurement. That office can only implement the policies that are put in front of it. When he was Minister of State with responsibility for small business, Deputy Perry would have heard us say time and again that the remit for the Office of Government Procurement is too narrow. The word “savings” can justify anything. If its remit were along the lines Ms Fleming outlined, it would be a completely different ball game for everybody.

Deputy Paul J. Connaughton: To play devil’s advocate for a moment, if representatives of the office were to come in to us and say we need to prove to them that what they are doing is wrong and show evidence of the problems it is causing, how should we respond to that?

Ms Patricia Callan: Let us go back. I give a lot of credence to this committee as it was amazing how quickly the circular was reissued and republished after the hearing last year. It was actually done within four weeks. The circular in and of itself is good, but the implementation on the ground is not. What is the point in having a circular if it is guidance not law and, therefore, not mandatory? I took an approach last year whereby every time somebody brought to my attention a tender that was in breach of the circular, I would e-mail Paul Quinn and say “Tender”. He would reply “I have no power to tell them that they are wrong or to stop and do something different”. He would e-mail them and say “By the way, this is in breach”. Sometimes, they would come back, put their hands up, apologise, rewrite and give people extra time. Sometimes, they would not. That is only those which were brought to my attention. Certainly, it has improved in the last year in the sense that turnover threshold, insurance threshold and all those basic things were changed and that is all good. However, there are many other things on which we need to make progress.

Deputy Robert Dowds: I apologise that I was not here for the opening addresses. I had to be elsewhere. A couple of years ago, I sent a circular letter to all the businesses in my constituency and one of the responses I got was from people the witnesses are trying to defend at the moment. I made an intervention at the time and spoke to the then Minister of State responsible, who was Brian Hayes. My timing was probably not good because at that stage the Government was under huge pressure to save money, come hell or high water. I suspect that was part of the reason I did not make progress.

Mr. A.J. Noonan: If it is any consolation to the Deputy, we made no progress with him either.

Deputy Robert Dowds: He has now gone on to what are, if not higher things, different things.

Ms Patricia Callan: He actually used the words “as long as the price is right” at the launch of Circular 10/14.

Deputy Robert Dowds: I ended up being frustrated as I recognised the problem. As a former principal, I could understand the benefit for a school of dealing with one supplier for the maximum requirements of the school. I do not want to quiz the witnesses on the truth of what they are arguing, but I ask the Chairman and the Comptroller and Auditor General whether we can bring in the relevant Minister and the Office of Government Procurement on this matter.

Chairman: They are coming at noon. The Minister is not coming in but the Deputy can have a chat with him himself.

Deputy Robert Dowds: I knew representatives of the Department of Public Expenditure and Reform were coming at noon. I would really like to see some progress on this. In a sense, two arms of Government are contradicting each other. On the one hand, Government is saying get jobs going, help business start-ups, protect small rural towns and villages, but on the other it is asking to save as much as possible. I get the impression the witnesses do not have a great sense of whether the system has actually saved money for the State or not.

Ms Breda Gibson: The State does not either. The OPW does not have any figures. It is not about two Departments contradicting each other, it is two Departments not talking to each other.

Deputy Robert Dowds: I do not mean there is a contradiction, but they are operating in contradictory ways.

Ms Breda Gibson: Their priorities are different. What we need is for the two of them to talk. If businesses close down, we are looking at the loss of jobs. While we might have gained money somewhere, jobs will have been lost. We have to balance the books. If jobs are going, we have to acknowledge that the social bill is higher. That is what we have to look at. If the Departments spoke to each other, we might get somewhere. We have to balance both sides of the equation.

Deputy Robert Dowds: Is there a role for the Department of Education and Skills in this? One of the witnesses mentioned circulars. From my time as a principal, I note that circulars dictated what one did. If a circular came from the Department of Education and Skills stating that one had to do things in a particular way, that was what one had to follow. Is there a role for the Department to issue a circular allowing people some flexibility?

Ms Róisín Fleming: That would be of tremendous benefit.

Deputy Robert Dowds: I will speak to the Minister for Education and Skills in that regard.

Ms Róisín Fleming: That would be much appreciated.

Deputy Robert Dowds: To some extent, she is being directed by the Office of Government Procurement also. It is a pity we do not have a picture from the Department of Public Expenditure and Reform of whether money has been saved. Perhaps we can get one. I take on board fully Ms Gibson's remarks on the social consequences of this. Job losses must be taken into consideration as they are a cost to the State. There are also huge social costs. I will go back to it again. If a few of us do, maybe we can make more progress this time. I regret the fact that some small firms have closed as a result of this. Hopefully, we can turn things around a bit.

Chairman: While the members were contributing, I had an opportunity to look at the annual progress report on the public service reform plan for March 2015. It was in our post this morning. On page 6 of the report, it states the procurement reform programme is implementing a new centralised model for public procurement to generate significant savings in non-pay expenditure. It is stated that €63.5 million was saved on procurement in 2014. To arrive at that figure, the Department must have carried out some sort of analysis.

Ms Breda Gibson: That is all news to us.

Chairman: It is news to me too. This is a Government publication and probably comes with a health warning.

Deputy Robert Dowds: Did that just come today?

Chairman: Yes.

Ms Patricia Callan: We have a quarterly structure and working group on SME procurement with the Office of Government Procurement. At our last meeting, which the Minister of State, Deputy Simon Harris, attended, there was no data. Certainly, it is good if we have it now.

Chairman: Another item in the report on which I would like the witnesses' views is set out on page 25. It refers to public procurement and circulars. The report states that Circular 10/14, the infamous one, which contains new public procurement guidelines that make it easier for small businesses to bid for State business, was launched in April 2014.

Mr. A.J. Noonan: That was when it was launched. It is tinkering with the system.

Chairman: What is Circular 10/14?

Ms Patricia Callan: The big improvements were that it reduced the turnover threshold, insurance threshold and details around finances to make them more sensible and workable. The big thing is that in terms of things like breaking into lots, the circular is very fuzzy. The language almost encourages procurers not to do it rather than to do it. It recommends feedback but does not say it has to be given. It tinkered around the edges. Certainly, we welcome the turnover and insurance changes, which have been significant of themselves. Certainly, it is something we welcome.

Deputy Robert Dowds: Is the circular being referred to from the Department of Education and Skills?

Ms Patricia Callan: No, it is from the Department of Public Expenditure and Reform.

Chairman: I am referring to the annual report from Mr. Watt's office. Are the witnesses saying that Circular 10/14 was worthwhile, but nothing has been achieved on foot of it?

Ms Patricia Callan: Something has. Certainly, the threshold changes have meant that other companies are able to tender. In terms of how it is implemented, many tenders which have come out since have been in breach of it. They had the wrong insurance and turnover thresholds. When we raised that, tenders were changed and reissued in the main. It is up to us to enforce it where we see a breach rather than it having to be followed by people.

Mr. A.J. Noonan: It is aspirational.

Chairman: On page 26 of the report, it is stated that the OGP continues to engage with the Department of Jobs, Enterprise and Innovation, IntertradeIreland, local government and Enterprise Ireland to support SME engagement in public procurement and to progress the supporting actions in the Action Plan for Jobs. Has the OGP been in contact with the witnesses on the supports they require?

Mr. A.J. Noonan: We are not mentioned there.

Ms Patricia Callan: I can give a good example. What is being referred to there are things like the Taking Care of Business events which the OGP runs that bring all of these agencies together. Mr. Noonan was fortunate enough to chair a session in Galway.

Mr. A.J. Noonan: To say I was fortunate is one way of putting it. There was a very good lady in attendance from the Office of Government Procurement. Deputy Perry and I soldiered

together that day. It was fractious, if he recalls. It was small businesses in that region being put out of business, in their eyes, by the Office of Government Procurement, but, by the same token, it is Government policy on the savings. It is the whole remit. Deputy Connaughton has got the nub of it that the remit is too narrow. There was €63.5 million, if that is what they are claiming, in savings. How many companies have been put out of business? How many communities have been destroyed by their actions and by them interpreting their remit very narrowly? That is important.

Ms Fleming has articulated very well what we believe would be a superb remit for everybody in which business, Government, the taxpayer - everybody - wins. If we have left the committee with anything today, that is what we would like to have left the committee.

Chairman: Is it Mr. Noonan's view that it does not function?

Mr. A.J. Noonan: That is correct.

Chairman: Let me give Mr. Noonan the priority of the OGP for 2015. It is to take on all sourcing activity in scope from Departments and agencies valued above €25,000 for spend falling in eight categories, one of which is marketing and stationery. If what it is doing is not modified in some way to suit microbusinesses in this country, it will continue to have the catastrophic effects that it is currently having on small businesses.

Mr. A.J. Noonan: The Chairman has it in one.

Chairman: Therefore, what Mr. Noonan is telling us this morning is that all of this is of absolute urgency and that it needs to be addressed, not with the flowery language that one finds in these releases but with some real action from the Minister and the OGP.

Mr. A.J. Noonan: A number of companies that are here addressing the committee today will not be here this time next year.

Chairman: Did Deputy McDonald want to ask a question?

Deputy Mary Lou McDonald: That is fairly stark, when Mr. Noonan puts it in those terms. Given the volume of State spend and given that one has the latitude under the EU directives, which tie all of this together, to take account of the best overall economic value, it is an inexcusable fault at this stage. It is not as if the system does not know about this. They are well aware of it.

I wanted to get back to the issue of data and measurement and analysis. It is claimed the quantum of savings is €63.5 million. As against that, I do not believe that takes into account any offsetting consequences. I refer to the point Ms Callan made earlier in terms of job losses and their cost and burden on the Exchequer.

Ms Breda Gibson: And High Court decisions. When somebody challenged it, it went out of that spend.

Deputy Mary Lou McDonald: Absolutely. More interestingly, they have gathered some data. There is a recent report of €3.791 billion spent, with €2.74 billion being tracked across 35,000 suppliers involving 3.8 million payment transactions from 64 public service bodies, for instance, in health. All of that sounds impressive, but one has to drill into all of this to see what it means. What we can know is that it is a partial analysis. The entire spend has not been captured.

Is there scope or a role for the Comptroller and Auditor General to analyse this area or how we go about doing what these witnesses sensibly suggest? I am certain that they speak for SMEs and microbusinesses everywhere. I know that because I have heard it everywhere that I have gone. They are credible in their position and their ask of us is reasonable. We need to figure out how we do it. Is there a role for the Comptroller and Auditor General to cast a fairly forensic eye across a piece of work such as this?

Mr. Seamus McCarthy: Yes, there is. We have reported previously on the mechanisms used by the precursor of the OGP, which was based at that time in the Office of Public Works, on how it calculated savings. We found that the savings estimates presented at that stage, in 2012, were not reliable. It is a very tricky process to calculate savings. What one can be calculating is reductions in expenditure and in some cases, they were being called savings. The point that was made on the importance of taking the life cycle of an expenditure into account would be an aspect that would need to be examined.

We are always concerned that procurement guidelines are followed. It is important that any system of guidelines would not have perverse effects because of the way it is structured. One wants to achieve efficiency and economy, but not at the expense of detrimental effects elsewhere.

A point has been made in a couple of contributions about who is going to come up with the data. There is an obligation on every public body to demonstrate that it is achieving value for money. They should be doing that as a routine. It should not require my office to do the work for them. They should be reporting on where they have achieved savings and how they have achieved value. If that was a routine presentation by Departments in their annual reports and so on, it would be amenable to my office examining it.

It is a vast scope of expenditure. It is interesting that, in a relatively new circular, the feeling from the supply side was that it was not working or, at least, it was not working yet. There is a concern that if it does not work soon, there will not be anything left to save. It is probably a fairly urgent matter.

It is also interesting, from what I have heard this morning, the extent to which they do things differently in other jurisdictions and there may be lessons to learn there. It is probably something the committee can reasonably take up with the OGP, that is, what it has done to look at what happens in other jurisdictions and its reaction to what happens elsewhere that may be helpful. That is a line of questioning.

I have no difficulty with the suggestion that I would do a piece of work but the urgency that has been expressed this morning and the time it will take to commence a piece of work and to report to the committee may not fit.

Deputy Mary Lou McDonald: I thank the Comptroller and Auditor General. I am conscious of that as well but, following today's hearing, I am doubly convinced that one issue is the model upon which the OGP bases its work, that is, price only, versus the most economically advantageous, but another that is important is how the OGP analyses its own target and performance. If we do not get a piece of work done fairly urgently, this new office, which will not always be new, will take root and establish a rhythm of working, an outlook and a set of precedents to which, unfortunately, it will wed itself and be loyal, and it will be like trying to turn, dare I say it, *RMS Titanic* if we leave it too late. I do not know whether we can do it here but we need to figure out what we are doing and what is the tightest timeframe.

Chairman: We will not do it in this session of the meeting-----

Deputy Mary Lou McDonald: That is fine.

Chairman: -----but we will do it after we hear from the Department in our next session, which starts at 12 o'clock. I am conscious of time and I want to conclude this section of the meeting.

Deputy John Perry: On the special work that the Comptroller and Auditor General can carry out, it is important that we achieve balance. While there are anomalies with the procurement facilities, would the Comptroller and Auditor General, in his audits with the Accounting Officers of all the different Departments, carry out a report on the processes of procurement in every Department? Would that be the case?

Mr. Seamus McCarthy: Yes, it would. We are looking at compliance, particularly with competitive processes. That is the fundamental issue. There needs to be competition. To go beyond that to look in detail at conditions set or mechanisms used for evaluation is quite a different process and would be very time-consuming.

Deputy John Perry: Many insinuations are being made today. One has to be careful to strike the correct balance in what one says.

Mr. Seamus McCarthy: Absolutely.

Deputy John Perry: I would not like to prejudge the entire national procurement office.

Mr. Seamus McCarthy: I do not want to do that.

Deputy John Perry: I fully agree that the schools can deal with Accounting Officers on the supply of products. Equally, there is nothing to stop a school or Accounting Officer from dealing with the supplier coming in. Issues arise in regard to value for money, however. Can Mr. McCarthy's office help us to put this issue to bed once and for all by preparing a value for money report on the national procurement office? We can all make allegations but it is important that we are balanced.

Chairman: It is important but, as I noted earlier, we have only heard from one side.

Deputy John Perry: I fought tirelessly on this issue when I was Minister of State at the Department of Jobs, Enterprise and Innovation.

Chairman: I know the Deputy did.

Deputy John Perry: I got a letter issued to allow the schools deal directly with their supplier of choice, subject to the Accounting Officer for the school signing off as being happy with the value offered. Other insinuations have been made today about the national procurement office which need to be clarified. I will be asking the Comptroller and Auditor General to prepare a special report if such insinuations continue to be asserted.

Mr. Seamus McCarthy: I made no insinuation about the Office of Government Procurement or how it operates. The material we have this morning only arrived yesterday and I have not yet had the opportunity to examine it. I am not prejudging anything.

Deputy John Perry: This has been circulating for quite some time. It is very easy for people to make statements with regard to various contracts or value for money but we have to

allow the staff of that office to do their job and to use their purchasing powers. They deal with business worth €9 billion in contracts and suppliers. It is not a simple job by any means. We have to be careful in striking the right balance.

Chairman: We are going to be careful.

Deputy John Perry: We want to have balance.

Chairman: Part of being careful is hearing two sides of an argument. We have heard one side of the argument this morning, which greatly impressed me. I am fully supportive of the SME sector and the micro-enterprise sector. We will hear the other part of the argument when the officials come before us in the next few minutes.

Deputy John Perry: The point-----

Chairman: Sorry, I am not finished. After that, the members of the committee can engage with the Comptroller and Auditor General in a discussion in order that we do not simply leave today's contributions from both sides in this room. Arising from these discussions, I intend to ensure action is taken to assist the sector we heard from this morning. We will revisit the overall issue after we deal with the Department and the Office of Government Procurement. That is our intention.

Deputy John Perry: The point I was raising was about the collation of figures and the role of the Accounting Officer, who audits the 15 Departments on their procurement sections and how they purchase goods. I assume the relevant figures are collated by the national procurement office.

Chairman: We will return to that.

Deputy John Perry: I am asking the Comptroller and Auditor General for his views.

Mr. Seamus McCarthy: I cannot speak to the matter because I only received the report yesterday evening.

Deputy John Perry: His office carries an audit of every Department on procurement procedures and how goods are purchased. Does that not include an audit of value for money of purchases?

Mr. Seamus McCarthy: No.

Deputy John Perry: Why is that not the case?

Mr. Seamus McCarthy: The annual audits establish the amount that was spent. They are not an examination of value for money.

Deputy John Perry: Is that not a huge anomaly if the office is not carrying out value for money audits on goods supplied or preparing national value for money reports on the procurement office?

Mr. Seamus McCarthy: I cannot carry out a value for money examination of procurement in every organisation every year.

Deputy John Perry: It could be done in respect of the procurement office.

Chairman: Deputy Perry is missing the point.

Deputy John Perry: I am not missing the point. I am very clear.

Chairman: Sorry, I am going to rule on this. We have learned a lot from the group that is before us. We will shortly commence our next session with the Department. I am bringing this part of the meeting to a conclusion. After our next session we will consider what would be required to ensure these small firms are protected and included in any procurement process.

Deputy John Perry: They are protected at the moment.

Chairman: Sorry, Deputy-----

Deputy John Perry: It is important.

Chairman: The Deputy has made his point. I am adjourning the meeting for ten minutes and then we will have the officials.

Deputy John Perry: You made a point about-----

Chairman: The Deputy can put his points to the officials. He is not going to deal with it now.

Sitting suspended at 11.55 a.m. and resumed at 12.05 p.m.

2013 Annual Report of the Comptroller and Auditor General Appropriation Accounts

Vote 11 - Office of the Minister for Public Expenditure and Reform

Vote 12 - Superannuation and Retired Allowances

Vote 18 - Shared Services

Special Report No. 87 - Effectiveness of Audit Committees in State Bodies

Issues with Public Procurement

Mr. Robert Watt (*Secretary General, Department of Public Expenditure and Reform*) called and examined.

Chairman: We will deal now with Vote No. 11- Office of the Minister for Public Expenditure and Reform, Vote 12 - Superannuation and Retired Allowances; Vote - 18 Share Services

and the Comptroller and Auditor General's special report 87 - Effectiveness of Audit Committees in State Bodies and issues with Procurement.

Before we begin, I remind members, witnesses and those in the Visitors Gallery to please turn off their mobile telephones as they interfere with the sound quality of the transmission of the meeting. Witnesses are protected by absolute privilege in respect of their evidence to the committee. However, if they are directed by the committee to cease giving evidence on a particular matter and they continue to so do, they are entitled thereafter only to a qualified privilege in respect of their evidence. They are directed that only evidence connected with the subject matter of these proceedings is to be given and they are asked to respect the parliamentary practice to the effect that, where possible, they should not criticise or make charges against a Member of either House, a person outside the House or an official either by name or in such a way as to make him or her identifiable.

Members are reminded of the provision within Standing Order 163 that the committee should also refrain from inquiring into the merits of a policy or policies of the Government or a Minister of the Government, or the merits of the objectives of such policies. I welcome Mr. Robert Watt, Secretary General, of the Department of Public Expenditure and Reform and invite him to introduce his officials.

Mr. Robert Watt: I accompanied today by Mr. Paul Quinn, Ms Helen Codd, Ms Oonagh Buckley, Ms Joan Curry, Ms Judith Brady and Mr. Frank Griffin.

Chairman: Thank you. I now invite Mr. McCarthy to make his opening statement.

Mr. Seamus McCarthy: The 2014 Appropriation Account for the Vote for the Office of the Minister for Public Expenditure and Reform records gross expenditure totalling €38.5 million, divided about evenly across two programme areas dealing respectively with activities relating to public service management and reform and management of the system of public expenditure. At the end of the year, the Department had underspent by €3.6 million relative to its budget and that amount was accordingly liable for surrender back to the Exchequer. Overall expenditure on the Vote for 2013 was down approximately 10% compared to the 2012 outturn. A significant factor in the reduced level of spending was the transfer of functions from the Department to the human resources shared services centre, with effect from 1 January 2013. For 2013, those functions are accounted for under Vote 18.

The committee may wish to note the inclusion in note 7 of an account of the non-statutory contingency fund, which is under the control of the Accounting Officer. The fund, which totals €1.2 million, is available for use when it would be impractical to seek immediate approval from Dáil Éireann to meet urgent or unforeseen expenditure not covered by ordinary votes. Previously, this was published as a separate account. The amount held in the fund is reviewed every five years.

Vote 12 presents the expenditure in respect of Civil Service and prison officer pensions. Pension payments for other public servants are charged to other Votes, including those for education, the HSE, Garda Síochána and Army pensions. The total spend on the Vote in 2013 amounted to €428 million. This compares to expenditure of approximately €520 million in 2012. Appropriations-in-aid in 2013 amounted to €89 million, with little change year on year. These mainly comprise employee pension contributions. The Department of Finance administers the pension payments charged to Vote 12 but the associated administration costs are borne on Vote 7 - Office of the Minister for Finance. Costs of policy formulation in relation to civil

and public servants are borne on Vote 11 - Office of the Minister for Public Expenditure and Reform. As a result, no administration costs are reflected in the appropriation account for Vote 12.

Vote 18 for shared services is a new voted service that was established on 1 January 2013. The human resources shared services centre, now referred to as PeoplePoint, has taken on certain human resources management functions transferred from the Department of Public Expenditure and Reform with effect from that date. The 2013 appropriation account for the Vote for shared services records gross expenditure of €15.7 million. This comprises €11.8 million spent on activities related to PeoplePoint, and €3.8 million spent on other shared services projects. Most of this was spent on payroll shared services. Expenditure in the year on “other” services was significantly less than provided for in the Estimate, mainly because delays in progressing the financial management and banking shared services centre resulted in an underspend of €3.4 million. Overall, there was a net underspend of €5.6 million relative to the Estimate, and that amount was accordingly liable for surrender back to the Exchequer.

Along with the internal and external audit functions, an effective audit committee is one of the pillars of good corporate governance. A key contribution of audit committees is to provide management and governing boards with independent and objective assurance on a range of matters including internal controls, risk management, whistle-blowing procedures and financial reporting. The role of audit committees in the public service is essentially one of oversight, since management is ultimately responsible for matters such as internal controls and financial statements. As the external auditor of most non-commercial State bodies, staff of my office engage with the relevant audit committees as required, bringing matters of concern to their attention, and following up with them to see that appropriate action is taken.

The Department of Public Expenditure and Reform is responsible for the development and dissemination of guidance for State bodies in the area of corporate governance. The current corporate governance requirements, including those for audit committees, are set out in the Department’s Code of Practice for the Governance of State Bodies, which was last updated in 2009. In a number of sectors, including third level education, customised codes of governance have been developed, but the broad structure of requirements is the same. Apart from the codes of practice, there are numerous sources to which public bodies and their audit committees can refer for good practice principles and guidance. As part of the examination, we compared the Department’s 2009 code with those good practice sources. We found the code contained only basic requirements relating to the structure and operation of audit committees and recommended that it be updated. I understand that review process is under way.

Our examination of the operation of audit committees in a sample of six non-commercial State bodies found that, with one minor exception, there was full compliance with the code of practice requirements relating to audit committees. It is encouraging to note that the bodies we examined had progressed beyond the code requirements and had incorporated many features of good practice in respect of how their audit committees operate. However, the report also identified a number of areas where good practice is generally not being followed. Those areas related to the selection and appointment of new audit committee members, recording of conflicts of interest, performance appraisal for committee members and measuring the effectiveness of the committee as a whole.

The report concludes that the requirements for audit committees in State bodies should be updated to reflect current good practice. It recommends that, in developing updated guidance, the Department should pay particular attention to the areas noted where good practice is not currently being followed, as they offer the greatest potential for improving the effectiveness of

audit committees. The report also recommends that the Department should develop and issue a self-assessment checklist for use by audit committees in State bodies to determine their own level of compliance with good practice principles. We have included our good practice checklist in the report as an aid for State bodies to use in the interim.

Following on from this special report, my office will be conducting a half-day briefing session for chairs and members of audit committees in May this year on the theme of increasing the effectiveness of public sector audit committees. The briefing session will be facilitated by the Institute of Public Administration and I am happy to note that it will include presentations by staff of the Department as well as from my own office. An invitation is being issued to all non-commercial State bodies within my remit to send representatives to that seminar.

Mr. Robert Watt: Before addressing the items on the agenda, I would like to set out some of the main areas of our work programme during 2014. More details of what we have doing are set out in our annual progress report, which is available on our website.

One of the key roles of the Department is the management of public expenditure. In 2014, gross voted expenditure amounted to €54 billion, a reduction of over €9 billion from the peak that was reached in 2009. Current spending was reduced by 9.4% and capital spending was reduced by 52.7%. This reduction was done at a time of increased demands on public services due to both demographic changes as well as pressures related to the economic downturn. During this period, reductions have sought to prioritise key services. For example, social protection spending has been reduced by 3.4%; health by 8%; and education by 3.5%. These account for 85% of gross voted current expenditure. Meanwhile, expenditure across all other areas has been reduced by 25.4%.

Since the establishment of the Department in 2011, public spending has been managed close to profile each year. The net outturn was 1.3% below profile in 2011 while, in 2012, it was 1% above profile and it was again below profile in 2013 by 0.9%. The Comptroller and Auditor General's report notes that net expenditure was above profile in four Votes and was below profile in 36 Votes for 2013. This management of public spending contributed to a closing of the fiscal deficit and our successful exit from the troika programme. The benefits of this can be seen, especially in respect of ten year government bonds, which now yield below 1% having peaked at well over 10%.

In 2014, net expenditure was 2.4% over profile. This increase should be seen in the context of the consolidation of previous years. While maintaining the focus on efficiency and value for money, the improvement in Ireland's fiscal outlook meant that the Government was able to increase investment in a number of important infrastructure and capital areas. An additional €162 million was invested in important public transport related capital projects and moneys were allocated to meet the cost of repairing the damage caused by the severe storms in 2014. Additional funding was also provided last year to relieve some of the pressure on essential public services. For example, the Supplementary Estimate requirement of €680 million was provided for additional spending on our health services. An additional €177 million was required in the agriculture sector, related to the delayed receipt of an EU payment relating to the European Agriculture Fund for Rural Development. This payment will be received this year, 2015.

In the Department we are focused on the need to reform our approach to budgeting and execution of budget. The committee will be aware of the series of reforms to the budgetary and expenditure processes in recent years. These reforms were aimed at improving decision making and value for money, as well as increasing fiscal transparency.

I will just mention some of the initiatives. Initiatives relate to public spending code and value for money policy reviews which are now well established. The introduction of performance budgeting links expenditure more explicitly to departmental strategy and outputs, and involves greater levels of public information and Oireachtas scrutiny over spending. The establishment of the Irish Government Economic and Evaluation Service also continues to enhance the capacity of Departments to conduct value-for-money reviews and assess policy impacts of policy.

The committee will be aware of the second comprehensive review of spending, which was undertaken last year by our Department and published in October. This process allows for the prioritisation of public money into areas where it is most needed and seeks to develop a more strategic approach to the allocation of public funds.

In the area of fiscal transparency and accountability, a number of other important reforms have been introduced. The most obvious of these is the earlier publication of the budgetary documentation. The annual budget is published now in October and the Revised Estimates are now in December. This ensures the Oireachtas has time to debate and approve the budget in advance of the new financial year and to examine the Estimates much earlier than was previously the case. There have also been important improvements in how Ireland reports fiscal data, in particular extending the focus beyond the Exchequer to include all subsectors of the general Government.

Sustainable and far-reaching reform of the public service was identified as a priority for the Department on its establishment in 2011. The Government published its first public service reform plan in 2011 and its second reform plan in January last year, covering the period 2014 to 2016.

Yesterday, the Minister, Deputy Howlin, published a progress report on reform in the public service. This report sets out the main areas of progress made so far, as well as reflecting on some of the reform priorities and objectives for 2015. Copies of this report have been sent, I understand, to all Members of the Oireachtas. The public service is now smaller and a good deal less expensive than it was in 2009, and its work in continuing to deliver essential services as budgets and staff numbers were reduced deserves to be acknowledged.

I will briefly touch on some of the changes, but I will not go through all of them. The pay bill is now down by over 20% and as part of that staffing levels have been reduced by 10% over the period, from 320,400 in 2008 to 289,600. We have implemented a variety of initiatives in looking at new service delivery approaches, including JobPath, a new call centre for assisting in the collection of the property tax and initiatives to improve how we manage State property. Leadership has been enhanced across the services through the implementation of the senior public service leadership development strategy. We have also reduced the number of public bodies by 181 - the so-called “quango cull”. That programme has now been successfully completed.

We believe that the need to improve productivity and efficiency in the administration and delivery of services will continue to be an important objective for the public service in the coming years, even as the public finances improve. This is particularly the case given the demographic challenges that we face. Our population has increased by 500,000 since 2005. We have the highest percentage of people aged under 15. Life expectancy has risen and almost 13% of our population are now aged over 65 years old. These trends will continue to place increased pressure on public services for the foreseeable future. In view of this the public service must become more innovative and efficient in its administration and in how it designs and delivers

services. In this context, we are looking at alternative models of service delivery and more strategic use of technology to meet both current and future challenges.

I would like to highlight, if I may, some of these initiatives in more detail. At the beginning of this year, the Office of the Government Chief Information Officer published a new ICT strategy for the public service. This has five key objectives: build to share, creating ICT shared services to support integration and efficiency across the public service; digital first, the digitisation of key transactional services to improve service delivery; improve governance, to ensure that the ICT strategy is aligned across public bodies; and increase capability, to ensure the necessary skills and resources are available to meet current and future ICT needs. A big challenge that we have within the system is our ability to attract people with certain skills which are in very high demand now across the economy, particularly skills in relation to ICT and digitalisation. Data as an enabler, the final element of the strategy, is to facilitate increased data sharing and innovative use of data across all public bodies.

With regard to the issue of open data and the possibilities for us, the strategy reflects the need for public bodies to change and fully exploit the potential of an increasingly digital world. The continuing increase in the use of ICT by public bodies has resulted in the production of huge volumes of data. This volume is valuable and the technology is now being used to transform the way services are planned, delivered and managed. As public bodies have progressed in areas like e-Government and data analytics, the potential of data to help deliver economic, social and other benefits has become clearer. We must do this, of course, while respecting fully data protection rights.

The Department is leading the implementation of the open data initiative in collaboration with other public bodies. The public bodies working group is working on a technical framework for open data, to underpin the ongoing development of the open data portal and through consultation with stakeholders we wish to see how other ideas and expertise can contribute to this overall process. As part of it, last month the Minister, Deputy Howlin, launched a public consultation on open data licences, and I hope that citizens, businesses and other public servants will engage in this process.

A public consultation process was also undertaken to inform the drafting of a new data sharing and governance Bill, which we are developing. The objective of this Bill is to provide a legal basis for information sharing across public service bodies, with associated transparency and governance obligations. We are also, within our Department, driving the development of shared services to improve information management and integration, as well as delivering administrative functions more efficiently. The national shared services office is leading on the strategic direction of shared services policies and the implementation of shared services projects in the Civil Service. I will mention some very briefly. PeoplePoint, the HR and pensions administration shared service, has been in operation since March 2013 and already provides services for more than 26,000 employees across 21 organisations. We have also put in place a single payroll shared service centre for the Civil Service, which now services 22 clients and currently issues over 70,000 payments per month to over 21,000 employees.

Work is progressing on the financial management shared services project. We hope to issue a tender document in relation to this shortly. This will have significant implications for Government accounting, how accounts are presented and the quality of financial information we are able to produce. We might get a future opportunity to present separately to the committee on this project and what it means, if members felt that would be useful. The potential benefits of this shared service will include greater capability to respond to IMF and EU requirements; more

time for organisations to focus on strategic financial issues; improved financial information to support better decision making around budgets and expenditure; and reduced costs, improved performance and increased financial control.

Turning to Government procurement, the programme to achieve greater efficiency in public procurement is being implemented by the Office of Government Procurement. Mr. Paul Quinn, who heads up the office, is with us today. This office is taking responsibility for the procurement of common goods and services across the public sector. The OGP also provides the national procurement policy function, customer support services and systems for all the sourcing organisations. While budget responsibility remains with the public service bodies, the contractual arrangements put in place help these bodies to remain compliant and to deliver value for money. The procurement functions have forecast a savings delivery of €63.5 million for 2014.

On Tuesday of this week, the Minister, Deputy Howlin, and the Minister of State, Deputy Harris, published the OGP's report on public spend and tendering analysis. I have copies we can circulate to members. I understand it was published early on so members may have had a chance to see it. This is a major step forward. Prior to the establishment of the OGP we had no mechanism for collecting, analysing and reporting on spend data across the public service.

Some of the results from the work are interesting. The report indicated that 93% of Government expenditure is with firms within the State and that 66% of expenditure is with the SME sector. One of the objectives of this programme is to promote competition in markets and to fully support and encourage smaller suppliers in competing for Government business. In doing so, the OGP works with Government agencies and industry representative bodies in developing and implementing initiatives, and in driving supplier education and awareness for small and medium enterprises.

The Civil Service renewal plan was published in October 2014. This sets out a vision for the service and a three year action plan. It outlines 25 practical actions that will create a more unified, professional, responsive, open and accountable Civil Service. The plan responds to many of the criticisms that have been highlighted in many reports and in many discussions with the committee in the past. Since the publication of the plan, significant progress has been made. The Government has approved the terms of reference for the establishment of an accountability board for the first time, to strengthen accountability and performance across the service. A Civil Service management board has been established to provide collective leadership and management to the service for the first time. The board comprises all Secretaries General and heads of major offices and we are responsible for driving the implementation of the plan. Priority actions for completion by mid-2015 include the first performance review process for Secretaries General; identifying options to strengthen the disciplinary code and to address under-performance; extending open recruitment in key areas to fill skills gaps; and carrying out the first Civil Service wide employee engagement. Two weeks ago, we advertised, for the first time, a principal officer competition for middle managers across the service. We have opened up recruitment at that level and we are looking for candidates both within the service and externally.

As part of the Civil Service renewal programme, our Department is also implementing HR reform across the Civil Service to better support managers and to enhance performance. One of our major reforms in this area was the reduction in paid sick leave, introduced last year. The new scheme effectively halves the access to paid sick leave for public servants while still providing support for them when they are ill. I expect a downward trend in absenteeism following the introduction of the scheme last year. However, there remains a significant leadership and management challenge in tackling absenteeism across the public service. Today, we publish

the public service sick leave statistics for 2013. The headline figures show that an average of 9.5 working days were taken per full-time employee. In effect, 4.3% of working days were lost to sick leave in the public service in 2013. While these figures do not reflect the impact of last year's sick leave reforms, it is clear that this level of absenteeism is not acceptable.

We also have been implementing a programme of political and legislative reforms to increase accountability, and to improve the quality of decision making and transparency in public administration. I will not go through all the reforms as members will be aware of them but they include the Houses of the Oireachtas (Inquiries, Privileges and Procedures) Act 2013, Freedom of Information Act 2014, Protected Disclosures Act 2014 and Regulation of Lobbying Bill 2014. We are developing new legislation in respect of public sector standards Bill and the Department has initiated a new approach to appointments to State boards through which all appointments must be advertised openly on the State boards portal. The statute law revision (secondary instruments) Bill will be also published shortly. I have set out in an annex to my statement the legislation we have delivered since 2011. We have been responsible for preparing 23 Bills, which have been enacted.

I would like to turn to specific items on the agenda today. The first item is the 2013 appropriation accounts for the Department. The Estimate for 2013 was set at €36.4 million, a reduction on 2012 levels, reflecting the fact that a new Vote was established to separately identify costs associated with the transactional shared services projects. The surplus to be surrendered in 2013 was approximately €3.6 million, which arose mainly as follows: savings on administrative budget pay of almost €1 million arising from resignations, vacancies arising from outward secondments and slower than anticipated recruitment of replacements; lower than anticipated funding demands on PEACE and INTERREG projects; savings on the reform agenda fund due to reduced external support costs and the completion of work in-house where possible; and the timing of recoupments from the EU in relation to appropriations-in-aid.

The second item relates to Vote 12 – superannuation and retired allowances. The 2013 appropriation accounts for this Vote show a net outturn of €338.5 million compared to an estimate of €384.6 million, giving a surplus of €46.1 million for surrender to the Exchequer. The 2013 gross estimate was based on existing pensions in payment on 31 December 2012; provision for cessation of pensions in 2013; an estimate of retirements and deaths in 2013; and an estimate in respect of lump sum payments to established civil servants. It transpired that the number of retirements in 2013 was significantly less than anticipated, primarily because of the extension of the “grace period” and this led to lower retirements and, as a consequence, lower spending on the Vote than had been anticipated.

The 2013 Estimate for the shared services Vote was set at just over €21 million. The outturn for 2013 was €15.4 million leaving a surplus to be surrendered of €5.6 million. This surplus arose due to a delay in the transition of staff from originating Departments to programmes and the later than anticipated take-on of staff in PeoplePoint.

The Office of the Comptroller and Auditor General reviewed the operation of audit committees in a sample of six non-commercial State bodies and assessed their compliance with the requirements of the code of practice. With one minor exception, the review found full compliance among the bodies with the code of practice requirements for audit committees. The recommendations of the report are also being addressed by the Department in the context of the updated Code of Practice for the Governance of State Bodies, which will be circulated to Departments for consultation in the coming weeks. We will seek observations from both the parent Departments and the State bodies under their aegis.

ISSUES WITH PUBLIC PROCUREMENT

The Department is almost four years in existence. Over this period, we have played a substantial role in addressing the economic and fiscal crisis that faced the State. We have also taken a lead role in driving the reform agenda, delivering much needed reform and renewal of our State institutions and our public services. Effective management of public spending goes hand in hand with the reform agenda. Reform supports the sustainability of public expenditure by delivering services in a more efficient, cost effective manner. In turn, a strong and stable public expenditure framework allows us to take a more strategic and planned approach to optimise outcomes for taxpayers and public service users.

I would like to acknowledge the hard work and contribution of the staff of the Department. The visible progress made would not have been possible without their commitment.

Chairman: I thank Mr. Watt. Can we publish his statement?

Mr. Robert Watt: Absolutely.

Deputy Mary Lou McDonald: Ba mhaith liom fáilte a chur romhaibh go léir. Mr. Watt said in respect of the audit committees in State bodies that the Department will circulate an updated code of practice in coming weeks. When does he expect it to be in place?

Mr. Robert Watt: We will allow a period of consultation.

Deputy Mary Lou McDonald: How long will that be?

Mr. Robert Watt: We normally give a month or two. We have been debating with colleagues the types of issues that should be covered in the updated code, reflecting concerns that have arisen since the code was prepared. We have been taking account of learning and what colleagues are saying. They are reflected as best we can in the code and then we will circulate it. I presume at that stage we can make it publicly available in order that we can have as much consultation as possible.

Deputy Mary Lou McDonald: I thank Mr. Watt. Presumably, the report of the Comptroller and Auditor General is the basis on which the code will be drafted. I appreciate the need for consultation but the outside audit was done by his office.

Mr. Robert Watt: Absolutely. We are happy to take on board all the recommendations.

Deputy Mary Lou McDonald: I hope it will incorporate all of them. What about the recommendation for a self-assessment checklist? Will the Department adopt that?

Mr. Robert Watt: We are happy to do that.

Deputy Mary Lou McDonald: It seems to be sensible. Will that be done in conjunction with the drafting of the new code?

Mr. Robert Watt: It is in the draft code. We will welcome comments from the Comptroller and Auditor General on that to see if the checklist reflects what we think is the best approach.

Deputy Mary Lou McDonald: Value for money reviews and so on are now a standard part of the vocabulary and I will come to procurement issues shortly, which is where the focus of my questioning will be.

I have a separate question, however, which may be more appropriate to the Minister. We debated in committee the Comprehensive Expenditure Report 2015-2017. It struck me in parts

as a work of fiction. For instance, the forecast for health spending is entirely unrealistic. The Minister has announced an open forum - a consultative process one presumes - to explore in an inclusive and all-hearing manner issues relating to taxation reform, spending and so on. How does that sit side-by-side with the expenditure plans that have been already hammered out?

Mr. Robert Watt: In the past we used to prepare budgets on an annual basis and then we moved to a multiannual approach. As part of setting out three-year envelopes we decided it was appropriate to have a spending review, which stands back periodically and looks at the challenges facing the State, to look at progress, and to look at what is happening to key indicators like unemployment, the number of social welfare recipients, demands in the health system, the demographics in education and so on. So it is to stand back and set out, and to have a process then of engaging across the system both at a technical level and obviously at a political level in terms of what the demands are and what the allocations would be over a period ahead. The whole purpose of the review is for us to stand back from the annual hurly burly of Estimates, budgets and all that, and have much more of a strategic approach.

Deputy Mary Lou McDonald: I understand the thinking, which I think is really smart.

Mr. Robert Watt: We are aware that in a number of areas, particularly within the health area, it is extremely difficult to forecast demands and it is extremely difficult to forecast spending. I think that is something we have debated here previously. The Comptroller and Auditor General has set out in the reports that for some time now we have had very difficult issues in terms of budget execution and keeping close to profile for health. So clearly within the spending review allocations for health there is a much greater challenge to keep the outturns close to the profile and I think the Minister has been upfront about that.

It is interesting to look at the review we did in 2011. If the Deputy looks at the allocations for Departments for 2012, 2013 and 2014 compared with the outturns, most Departments actually stayed fairly close over the three-year period. In the last year of the period, which was 2014, there was slightly more slippage, but generally the majority of Departments were able to plan with much more certainty both in terms of the cash-----

Deputy Mary Lou McDonald: That is interesting but it was not my question.

Mr. Robert Watt: I am leading up to it.

Deputy Mary Lou McDonald: Mr. Watt is becoming a politician.

Mr. Robert Watt: I am getting there; it was a preamble.

In terms of the dialogue - of course this is based on commentary in the media and I do not think the Government has decided what that will take - I understand from the various comments from Ministers that they want to have a more inclusive discussion about the challenges the country faces and within that no doubt it is very difficult to have discussions about challenges we face without discussing budget issues and budget challenges, and what they mean.

We have set the review for three years and the Departments are working on those allocations. I have no doubt that if there is a process that some Ministers have been debating - a formal process of dialogue - issues around resource allocation will have to be considered.

Deputy Mary Lou McDonald: Am I to take it that this review will feed into a process as envisaged? I do not have the detail.

Mr. Robert Watt: I do not know. That is obviously for-----

Deputy Mary Lou McDonald: I presume Department of Public Expenditure and Reform officials do all this work.

Mr. Robert Watt: Ourselves and our officials. Colleagues from the Department of Finance would be very much involved.

Deputy Mary Lou McDonald: I do not think figures within it are credible. Nonetheless-----

Mr. Robert Watt: Obviously there are issues in relation to health. We all know the challenges in health. Based on the experience for the view in 2011 for most Departments, I think we have written to the committee on questions from Deputy Fleming previously. We have set out that. In fact for most Departments and most Votes we came fairly close over the three-year period to the allocation in 2011. Of course, as the fiscal situation evolves and changes, it is up to the Government of the day to propose changes to Vote allocations and for the Oireachtas to vote on those. There is nothing in this that cuts across Deputies' prerogative to vote for additional spending in areas if that is what they so wish.

Deputy Mary Lou McDonald: Absolutely. Hopefully we might have the numbers at some stage to get some changes in that.

Does Mr. Watt have the full list of State bodies?

Mr. Robert Watt: We do, yes. There are 181 fewer of them.

Deputy Mary Lou McDonald: I will submit a question to Mr. Watt again on State bodies and boards. To my astonishment a number of years ago I discovered that the Department did not have a full list, but Mr. Watt has the full list now.

Mr. Robert Watt: Yes. Also as part of the reform in relation to State boards appointments, we are hoping that during this year for each board we will have an outline on the *stateboards.ie* portal of the membership of each board, vacancies, vacancies that are coming up, recent appointments and so on so that people will be able to see in an even more open and transparent way what is happening to the operation of these State boards.

Deputy Mary Lou McDonald: I come to the issue of procurement. We have had testimony today from the Small Firms Association and the Irish Schools Art Supply Federation in respect of the operation of the Office of Government Procurement and the procurement regime in play at the moment. I know that Mr. Watt and Mr. Quinn are familiar with some of the dilemmas that face small and medium-sized enterprises with a particular emphasis on small and micro businesses. This is not the first time we have heard this story that is very critical and quite alarming in respect of how we are going about our business at the moment. I wish to put to Mr. Watt and Mr. Quinn a number of the issues and at the end we might come to some kind of discussion on how we resolve them, because they must be resolved.

I know - other members have had the same experience - that the stories today's witnesses tell tally exactly with the story I am hearing from small and micro businesses from every county. It certainly rang true.

Aggregate contracts essentially lock out small players. The notion of smaller players coming together to develop consortia is the stuff of fairy-tales. We are advised by those on the

front line that it is not practical. It is a theoretical construct rather than being deliverable in real time and in real space. The failure to unbundle down to an appropriate level and to regionalise tenders is devastating. We were told earlier this morning that if this part of the puzzle does not change it will result in very significant job losses. That is what we have heard.

On the manner of deciding on the successful tender there is a focus on price only rather than looking at the most economically advantageous bid that would capture issues such as regional balance, social objectives, environmental objectives, taking people off the live register, creating new work, all of those sorts of things. The Welsh model has been cited as a successful operating model in that regard.

There is the issue of the Department's gathering and analysis of data. In his opening remarks Mr. Watt conceded the point when he talked about the efforts that had been made and said that this was actually a great step forward because previously there were no data or analysis. I draw his attention to the outworking of that statement. No analysis and no data up to a couple of years ago mean that we established this new office, Mr. Quinn came into the position and a regime was put in place in the absence of overall data and analysis. That is just a statement of fact unfortunately. I recognise that Mr. Watt seems to have taken steps to remedy that position and I know it is a huge job of work.

It is a very problematic, however, for those of us who are legislators and policy makers, and more problematical again for people on the front line that we still have what seems largely to be a vacuum. Even the data that have been pulled together are partial. It is not the full picture of the €9 billion spend. I am not sure what one can glean from the data. I have not read the document from cover to cover, so I am not familiar with the methodology the witnesses have employed. I would like them to address those issues in the spirit of understanding that we do not have to go through the whole palaver around the need for efficiencies to save money for the Exchequer, which I acknowledge we need to do. The issue here is the means of assessing what matters, what is valued, the quality and the social objectives, all of which are allowed within the EU framework, as the witnesses know. We are told that the manner of assessment is heavily weighted in respect of price, to the degree of 35% of more, which is counterproductive. Crucially, the issue of aggregating the contracts locks people out. It was said earlier, and Deputy Connaughton may have said it most clearly, that we have here, as it seems to some of us at least, a problem in the remit and orientation of the office in respect of what it has set out to do. It has a crude approach in regard to moneys saved and expenditure avoided, and it misses the real bang for the buck, and the €9 billion of them that could be achieved.

Mr. Robert Watt: We welcome the discussion. When we set out on this programme of reform, we never suggested that we had all the answers or that we had a monopoly on wisdom. When one starts off on a programme like this one, there are unintended consequences and we are very happy to learn from what has gone on. We did not have the advantage of listening to the contributions of two groups the committee had in this morning but I had the advantage of reading their submissions last night and, to an extent, I and Mr. Paul Quinn can reflect on some of those.

We are very much conscious all the time of the need for us to balance the need to save money and the need to support a very important sector in the economy, the small and medium enterprise, SME, sector, which employs many people. The president of the Small Firms Association, SFA, set that out this morning in terms of the contribution that the sector makes to the economy, the number of people employed in it and so on. Our mandate is not around purely accrued value for money. If it comes across like that, I and Mr. Paul Quinn will have to reflect

on that, but that is not our agenda. Our mandate, which we were given by the Government, is to drive reform, professionalise this function, save money, provide supports to the SME sector in accessing contracts and to do everything we can to ensure there is a level playing field in terms of the assessing of contracts. For example, we have tried to reduce the administrative burden tenderers face. I was on the other side of the table for eight years in my career responding to public tenders and I am very much aware of the demands, as is Mr. Paul Quinn, and we have put in place steps to try to reduce the burden. There are some crazy onerous requirements on companies to have turnover that is multiples of the value of the contracts, various indemnity insurance requirements and so on. We have set guidance on this now. I accept that issuing guidance and ensuring its implementation takes time. Some public bodies may take longer than we would like for them to fully understand the impact of some of the measures we are proposing.

The office does not purely focus on achieving value for money, rather it is about procuring in a sensible and professional way, which drives economies and efficiencies and provides access to as many players as possible. However, we accept there are occasions when that does not happen in practice and we are happy to learn and happy and to figure out better ways of proceeding.

Deputy Mary Lou McDonald: What does that mean?

Mr. Robert Watt: Let me go through the Deputy's three points.

Deputy Mary Lou McDonald: Willingness to learn is relevant here because it is a new office. Rather than the Secretary General coming into a committee meeting and responding to questions, does that mean that he is willing to have a deeper engagement on these issues?

Mr. Robert Watt: We are happy to have as much engagement as is appropriate on these issues. Mr. Paul Quinn can talk about some of the engagements that have already taken place.

Regarding a few issues the Deputy mentioned, in terms of aggregation, as a State we have an onus to get value for money for taxpayers. There are occasions when we need to aggregate, or we need framework contracts and so on. Within that we are aware of two things. First, we accept the comments about the difficulty of developing consortia and we are examining that and are happy to consider if there is a better way in which we can facilitate the development of consortia to enable smaller firms to come together to compete. I accept there is an issue there.

There is a question about lots, and Mr. Paul Quinn will answer this in more detail. We encourage the separation of contracts into lots. We can talk about what we have done in one of the cases. Part of the policy response to these concerns is that we have much more engagement with entities procuring to ensure that we are dividing up in a way that makes sense and that enables SMEs to access contracts.

The second point around this is that when we decide on contracts it is not purely on the basis of price or cost, rather it is on the most economically advantageous tender. In some cases the weightings might be too much in one direction and we do not take account of other factors, and Mr. Paul Quinn can talk about that. Overall, it is not based purely on price, it is based on quality and service as well.

Third, in terms of data gathering, we have undertaken an exercise, and it involved a very detailed report, and I know the members have not had a chance to read through it. It is important that the policy here is guided by evidence. I am not saying that what the members heard from the SFA this morning is wrong because I need to note what has been said. However, we

need to reflect upon the evidence, given the new information we have, and then reach a sensible view. We have undertaken a review of the practices of 64 public bodies, involving 35,600 suppliers with a spend of €3.5 billion. This is not a small but an enormous sample which, we believe, is representative of the procurement spend right across the system, and I would imagine the standard of error in this sample is quite low. That would be my assessment. This is quite comprehensive. The results of this are very different from the numbers the SFA provided this morning. I am not saying that we are right and it is wrong but we need to reflect and have a shared understanding. Our data show that 93% of the spending we sample goes to firms within the State while the SFA's figures suggest it is 72%. There is an enormous difference between the two. We need to understand the data and the evidence and that can better inform our policy.

Before Mr. Paul Quinn responds, I advise the committee that we are very happy to consider any form of engagement that we think is appropriate with the committee, the SFA or other groups to see if we can move this forward. We are very open to considering how we can improve the way we function to achieve the objectives that, I believe, everybody shares. I will ask Mr. Paul Quinn to respond now.

Mr. Paul Quinn: I thank the Deputy for her questions. To add to what the Secretary General said, the committee will be aware that after our meeting last year in April 2014, the Minister, Deputy Howlin, and the then Minister of State, Deputy Brian Hayes, issued a new guidance circular to the public sector around covering quite a degree of policy guidance for people on the issues we are discussing. In particular, it requests people to do their market analysis, to understand the impact of their actions on those individual markets in order to make sure that whatever we take we sustain competition in the various markets. Not all markets are equal. Markets in the cleaning sector are very much locally delivered while, on the other end of the scale, markets in the energy sector are nationally delivered. The actions and the strategies procurers have to take are fundamentally different. Breaking contracts down into lots is very much a core element of that. We have also reminded public procurers that value for money is not simply around price, it must balance the quality, overall life-cycle costs and the terms and conditions. Providers who are prepared to stand behind their offerings and underwrite risk for the State is also a key part of determining value for money.

The Deputy referred to the report. As she recognised, a great deal of work was involved in bringing that report to the table. It has taken 16 months of gathering data from various public sector bodies. She was right in saying it is not a 100% sample. I can be clear in saying it will never be a 100% sample because some of the State bodies from which we have to collect data are literally one-room schools dotted around the country from which we will never be able to get that information. We may be able to sample. Our intention is to reach a sample size of 80% to 85% of overall public expenditure. In the report we have been able to produce in the past week is 63% of the estimated public expenditure of €6 billion on goods and services for 2013. It is a very large sample, and we believe it is representative because it looks not only at large organisations such as hospitals but also covers smaller organisations in education and local government. It also covers organisations which are regionally based.

We spoke about regionalisation, and procurement can be broken down into lots. Where appropriate, regional lots will be offered in the market. It is down to the procurers to decide what is the appropriate strategy to deliver value for money for the taxpayer. A prime example might be that every post office in the country would like if public bodies were to buy stamps there, but this would not be an efficient way for the State to buy its postal services. We aggregate up the relationship we have with An Post, and the cost of delivering postal services for large

Departments is done at national level and not by going to the local post office to buy a book of stamps which would be inefficient from a State perspective. We must be very mindful of value for money.

Some of the push back we sense in certain sectors is driven simply by a lack of procurement in the first place. It is not about aggregation in all cases. The committee has come across in its deliberations quite a number of public bodies with an absence of procurement activities, let alone good procurement. It is not surprising in one sense that as we look into certain markets long-standing relationships which have existed between suppliers and State agencies are being put to the test. Ultimately this is at the need of the taxpayer, because simple direct relationships with suppliers without any competition do not deliver value for money for the taxpayer.

Deputy Mary Lou McDonald: It is not the taxpayers' interest either that jobs are lost in small firms and micro-enterprises, perhaps in rural areas. As the Department calculates what is in the best interests of the State and the taxpayer, which is entirely legitimate, there must be a calculation also of potential offsetting measures such as the loss of jobs, which is costly. Having additional people on the live register is extreme costly.

This is an enormous amount of data, and I am not gainsaying this. This is not a simple matter. The Department is balancing using moneys smartly in every dimension and I understand this, but it is very troubling that there is such consistent criticism from the small and micro enterprises the Department purports to support, protect and facilitate. They state it is not working, particularly the aggregation of contracts. They tell us it is not that they do not know how to go about creating a consortium, it is just it is not a realistic ask or doable in business terms, not least because to bid in this manner one needs one entity to be the lead entity and take on all of the risk.

Mr. Paul Quinn: We enable bodies to come together under any individual structure. We do not require any one party to meet all of the requirements. They can collectively meet all of the requirements with regard to how the consortium is put together. We do not require them to take on any individual form.

I will speak about engagement because it is important to reflect upon it. From an Oireachtas perspective, this is the third committee I have come before in the past three months to explain what is happening in procurement. We are certainly listening to what Deputies tell us and we are very open, as the Secretary General stated, to learning, listening and adapting our approach and processes. We also have in place a high level group on SME access through which we meet the business development entities of the State such as Enterprise Ireland, the Department of Jobs, Enterprise and Innovation and InterTradeIreland. We come up with programmes and solutions to assist SMEs compete. It cannot simply be to the exclusion of other parties that we support SMEs. We want to make SMEs fit to compete fairly and have a level playing pitch. The Deputy is well aware of the work we do with IntertradeIreland and Enterprise Ireland on supporting training and awareness programmes-----

Deputy Mary Lou McDonald: I am aware of that.

Mr. Paul Quinn: We also have an SME working group which is chaired by the Office of Government Procurement, which enables the Small Firms Association, ISME, IBEC and Chambers Ireland to come together with us, InterTradeIreland, Enterprise Ireland and the Competition and Consumer Protection Commission to discuss these matters and come up with solutions and ideas on how to support and assist SMEs. The numbers indicate 66% of our expenditure

is with SMEs directly and EU statistics indicate - we do not have statistics for Ireland - that an additional 16% flows indirectly to SMEs through subcontracting and supply arrangements. In total probably in excess of 80% of business finds its way to SMEs in the economy. It is very difficult to separate out micro-enterprises and small businesses because we do not have the data in the infrastructure of the State or privately to assist us to separate out this information. At this time we cannot reliably break expenditure information down to micro level because we do not have the data to tell whether many of the businesses are micro, large, medium or small.

Deputy Mary Lou McDonald: I am a bit bothered to hear that it is about supporting SMEs but not to the exclusion of others. I understand Mr. Quinn is making a point on competition-----

Mr. Paul Quinn: I am bound by the legislation. If we look at the directives-----

Deputy Mary Lou McDonald: I understand what Mr. Quinn is bound by and I am not arguing the toss with him on the directives or the legislation within which he must operate. It is entirely as it should be. My concern is all of us know the vast majority of employers in the State are SMEs; for all of the hype sometimes about large multinationals and as valuable as they are, this is how we tick economically. I believe Mr. Quinn that it is the Department's objective to support the model because it is what employs our people, and so far so good, but then we look at how the Department is going about things, particularly in terms of aggregating contracts. I grant that Mr. Quinn made a fair point on energy supply. We are told by the employers that aggregation locks them out of the game. In a scenario where the majority of jobs are created by smaller entities the State procurement system is heavily biased in favour of bigger players because they do not face the same challenges as the SMEs and smaller businesses. There is something incongruous in this.

Mr. Robert Watt: There is no intention to lock out any sector or SME companies from competing. We saw these reports last night which the committee is debating this morning. We would be very happy to sit down with the different groups - Mr. Quinn and I can meet them and members of the committee can engage in the conversation - and go through each of the points of contention. If there are issues of dispute, we should clarify them so we can respond. The committee has had dialogue with a group of people but we were not part of that dialogue and we are trying to respond.

Deputy Mary Lou McDonald: I accept that.

Mr. Robert Watt: I am not sure how much progress we can make. We would definitely be very happy to sit down with the groups and any members who wish to participate. There are differences with regard to the data. We have a different data source and we may disagree with some of what the members have said. When the members have a look at the data, they may or may not reconsider the position. The data suggests that 93% of the spend is within businesses in Ireland, as Mr. Quinn has mentioned. That is much more than we thought. What is happening? There are some sectors that are different. The spend is much lower in utilities and medical, surgical and pharmaceutical supplies; small and medium enterprises do not dominate those sectors. Much depends on the sector. One can do a sectoral analysis and consider some of the more recent contracts that have given rise to concern. If there is a concern, let us debate it and hear it. If it relates to scale of contract and that lots have not have been broken up enough, we would be happy to engage in any way the committee wishes to have a discussion. There are sectoral issues, so could we get to that level of detail and consider the issues?

Chairman: What is the witnesses' definition of a medium company?

Mr. Paul Quinn: There is a standard definition used across Europe.

Chairman: What is your definition?

Mr. Paul Quinn: We use the standard European definition. A medium company has between 50 and 250 employees and has a turnover of less than €50 million per annum or a balance sheet total of less than or equal to €43 million.

Chairman: What is a small company?

Mr. Paul Quinn: A small company has between ten and 50 employees, with between €10 million and €50 million in turnover or have a balance sheet of between €10 million and €43 million.

Chairman: What is a micro-company?

Mr. Paul Quinn: It has fewer than ten employees, less than €10 million in turnover or less than €10 million in balance sheet total.

Chairman: Some of those who attended this morning are still with us in the Gallery. Is Mr. Watt suggesting he can meet them next week? What kind of timeframe are we talking about?

Mr. Robert Watt: I am not around next week. I can meet them over the next few weeks or later this month.

Chairman: I understand.

Mr. Paul Quinn: The groups were in last year and I met some representatives then, although I cannot remember how many weeks it was after the meeting. My team and I met the Irish School Art Supplies Federation within weeks, although I do not have the date in front of me. I am happy to meet them again. We had quite a productive meeting. With the Small Firms Association, through the small and medium enterprise, SME, working group there is ongoing discussion and engagement. We would be very happy to meet them.

Chairman: What alarmed me about the exchange earlier this morning was that those who attended indicated that if the rules did not change almost immediately, they would not be here to talk to us next year. The other alarming statement came from Mr. Noonan; I am hope I am paraphrasing him correctly but he indicated the office was not fit for purpose. That is what he said. That concerns me. The witnesses have been before other Oireachtas committees, which demonstrates that the Oireachtas is concerned about the sector. It is extremely difficult for small companies to come together, as they are competitors, and be part of a consortium to make a bid. They are a prisoner to such a system, as the price is forced downwards.

Another area of concern is the potential for job losses in the small and micro sector. They are anchored in community and the business life of a particular town or village. This cannot be just about money and we must consider social and economic consequences for rural Ireland, which is in deep difficulty now and could not sustain further job losses. The Small Firms Association this morning suggested removing the price priority and the setting of targets for SME procurement, as may be witnessed in other jurisdictions. Scotland, Wales and, to a degree, France look after small businesses in their economy and do not pay much attention to Europe when it suits. The Small Firms Association also argued to change the provisions around subdividing a contract into lots as is currently set out in Circular 10/14, as it is easier for procurers to opt out than opt in. I asked particularly about that circular and I was told it is, by and large,

aspirational and does not really fit the bill for the sector we are discussing this morning. The argument was for the implementation of an appeals mechanism that would include mandatory feedback on lost tenders so parties can learn through mistakes and be open to changing the style of a process to suit the appropriate level of tendering and competition. At the same time, it should protect the SME infrastructure as we know it in Ireland.

I find it difficult to comprehend the witnesses' argument, which does not at all reflect what was said to us this morning by the other group. The meeting that has been suggested would be very important and a step forward. I am only surprised it was not suggested earlier.

Mr. Robert Watt: I cannot comment on what was said in meetings I did not attend. If somebody makes a statement with which I do not agree at a meeting, I can respond if I am there but I cannot respond if I am not present. I would have asked about the evidence supporting the statement. We would like to have that meeting so that if people say the office is not fit for purpose, I can explore what they mean. If there is evidence, I will listen to it, but if there is no evidence, those people will need a different description of the office the next time they come before this committee. I am happy to engage with those parties and we will do it this month.

Chairman: Okay.

Mr. Robert Watt: We will sit down with them with regard to the evidence and the specific points mentioned by the committee. We will go through each of the points, respond and debate the issues. We will be happy to write to the committee afterwards or come here to discuss how to proceed.

Deputy Paul J. Connaughton: I welcome the witnesses. Much has been said already so I will not go over all the issues again. The idea of a meeting is a very welcome step forward but my fear is that if we read the transcript of the meeting from last April and compared it with today's comments, they would be similar. A meeting was supposed to take place at that stage too and I have no doubt it happened. Nevertheless, the process is moving at a slow pace. I admit this is a relatively new departure for a very large sum of money, so there will be teething problems. We saw evidence this morning of frustration because the process is taking so long, and by the time solutions are formulated, the relevant parties may not be there to feel the benefit.

This is a major area that cannot be covered today and we are trying to save money. Has there been a conversation between the witnesses and the Minister about a potential problem with the remit, which may not be broad enough? Has there been a question of whether we should go back to the starting blocks to look at the process again?

Mr. Robert Watt: No, we have not had conversations about looking again at the remit of the office, which is very clear. We understand what it is about. Based on what we discover as we roll out this programme, Mr. Quinn and I are happy to meet the Minister, Deputy Howlin, and discuss how we are getting on and whether we need a revised or new mandate. We have not had that conversation as we are delivering, and we report to the Minister based on implementation of what we have been asked to do.

Deputy Paul J. Connaughton: Are the witnesses getting much kick-back from other groups with regard to procurement?

Mr. Paul Quinn: I am a little over two years in the role and we have had issues, largely in the education space, to be fair, and almost none in any other sector. In terms of the ones we were getting, we had some in the school arts, some on book sellers and one other to do with

photocopiers and ICT. In regard to other sectors or industries coming forward saying they have significant issues, they have not beaten a path to my door or written to me. It is not coming through in any of the individual reflections from any of the industry representative bodies either.

Mr. Robert Watt: We are happy to collate where we receive strong representations but there are sectors which are being affected by other technological changes as well as impacting on lower spend, which is independent from procurement, and also changes in procurement. There are many other factors going on here which I am sure are impacting upon what is happening in particular sectors.

Deputy Paul J. Connaughton: The overriding concern, in terms of what the Department is trying to do in saving money for the taxpayer and so on, is that it must be balanced with what these companies can and cannot afford to do. I welcome the idea of a meeting but I would not like to find out here in 12 months time that another request for a meeting has been submitted and nothing has changed. Perhaps what should happen now is that the witnesses would be upfront, which they will be, and say that this is as far as the Department can go and the business owners can say this is as far as they can go because all we are doing is having a conversation every 12 months, and many of these small businesses are under great threat.

On the PeoplePoint system, will one of the witnesses give me some general background on that? What was the logic behind it, and where is it at now?

Mr. Robert Watt: Within the Civil Service there are about 48 bodies, so we have what we call transactional HR. In terms of the recording of leave, absenteeism, the basic infrastructure, data management that underpins a HR system, which determines ultimately what people get paid, their pension and their entitlements, those transactional HR activities were undertaken by each public body in the past. Each Department, and it could be a small Department or the Revenue Commissioners, would be dealing with their own transactional HR.

There are benefits in consolidating the system in terms of reducing the costs, reducing the numbers of people involved, getting economies of scale from technology, and also getting a more standard approach to information across the system so that we get much better information in common.

PeoplePoint, in effect, is a shared service which is consolidating transactional HR into one place, which previously was devolved across the system. That is the motivation for it. The motivation is twofold: to save money over time but also to improve the quality of information.

To give one example of it, in the past it would be very difficult for us to get common information on sick leave across Departments. It would have been a major exercise for us to go to HR managers; it would take weeks. With PeoplePoint we will be able to generate a report, say, on overtime allowances, or the numbers of people in different offices. It provides us with information to enable managers to manage more effectively.

The other key benefit is Departments can focus on what we call the retained or strategic HR. Rather than engage in personnel functions the HR transactional function is to engage in strategic HR around finding out what is happening with sick leave, what is happening with underperformance, whether we are allocating staff in the right places and investing in learning and development. It is to enable the HR units to focus on what we call strategic as opposed to transactional HR. That is, in a nutshell, the essence of what we are trying to achieve.

Deputy Paul J. Connaughton: Is it correct that, so far, it has cost €6.5 million to set it up?

Mr. Robert Watt: I think it is more than that. The overall cost of set-up is closer to €15 million plus.

Deputy Paul J. Connaughton: Can Mr. Watt give me a brief breakdown of those costs?

Mr. Robert Watt: In terms of the main costs, we had a supplier contract, which I think was about €5 million or €6 million. We had project managers so we had staff involved in project management. There was a big payroll element to it, and then there is the technology solution that we had to pay. I do not have the breakdown of the numbers to hand; we can send them to the Deputy. It would be start-up supports people-----

Deputy Paul J. Connaughton: Would it be for consultancy fees and so on?

Mr. Robert Watt: Consultancy fees, yes. We would have partnered with an external provider to help us with this. This is an enormous change management project. We went from 48 public bodies doing it in a particular way to a cleaning data, and then transferring it into a centre with all the complications. It has thrown up a number of issues that are now coming to light, which are very helpful for managers.

We will not see the benefits for a number of years. Elements of the start-up were slower than we thought. We made some mistakes along the way so it has been slower, but progress is reasonable and we believe we will get to where we want to get to after a period.

Deputy Paul J. Connaughton: What were some of the issues that arose?

Mr. Robert Watt: They were around some of the technology bugs. We had some fixes for the technology. There were issues around staff in terms of whether we had the right people with the right skills in the right places - management issues. Those were the sort of issues. We have learned a lot within the Department which we have applied to the payroll shared services, which is the second project, and also the next one, financial management, which is more significant again. We are trying to learn the lessons from PeoplePoint in terms of-----

Deputy Paul J. Connaughton: In terms of the €15 million to set it up, that is finished. There will be no additional amount.

Mr. Robert Watt: That is it.

Deputy Paul J. Connaughton: How much does Mr. Watt believe the Department will be able to save because of this change?

Mr. Robert Watt: We had an original assessment where we set out the staff setting. We will save about 250 staff, and the yearly cost saving is several million euro. I will come back to the Deputy on the numbers but it will be several million each year over the period. What we are now looking at, based on what has been happening in the past number of years, is reassessing what we call the business case to see where we are, and we can share that with the Deputy. There will be savings of €12.5 million and 149 staff, who previously would have been on transactional HR, are now involved in other functions. We are refreshing the numbers and we can come back to the Deputy with our assessment of that.

On the savings, there will be cost savings. There is always a danger that we will focus on what we can just measure. There are very significant benefits in the system from the new information we will get to enable HR managers understand what is going on, and then to drive change. We will set out some of those benefits as well. They could be of much more signifi-

cance and strategic importance to the system over time than the actual cash savings from more efficient practices and better technology.

Deputy Paul J. Connaughton: The same argument could be made for the SMEs, and procurement as well. Is the project far behind schedule? When was it expected to be up and running, and where is it now?

Mr. Robert Watt: There was slippage on the timeframe. It took us longer to do the baselining when we established the migration of the different waves. We did it in different waves, so there was some slippage compared to where we were of about 12 months.

We had a timeframe but when issues arose in the first wave of Departments we paused and tried to address those because PeoplePoint was under pressure in terms of the level of activity and the volumes they were dealing with - the outstanding cases. We slowed down the transition of the various waves to give staff more time to get on top of it.

In simplistic terms, this is meant to be a self-service portal. Rather than applying to a HR manager through paper or through the system, the person is meant to do it online and through the portal, and the manager gets notified by e-mail. Some elements of it did not work as well as we had hoped at the start, and we spent a longer time ironing out those difficulties before we increased up to where we had hoped to be. It is about a year longer than we thought to make the transition.

Deputy Paul J. Connaughton: Mr. Watt might send me those details.

Mr. Robert Watt: Yes, the Deputy can certainly have them.

Deputy Paul J. Connaughton: Thank you.

Deputy John Deasy: I hope the Chairman will give me some latitude on this. This document arrived in our pigeonholes this morning. It is the annual progress report on the public service reform plan from Mr. Watt's Department. I find the section on performance and accountability, local government, interesting because-----

Mr. Robert Watt: E-government or local government?

Deputy John Deasy: Local government, and it is slightly non-germane to what this meeting is about, but I will get to that. Considering the comments that Mr. Watt's boss, the Minister, made in recent days about the abolition of town councils being a mistake, the accountability and performance part of this document refers to the National Oversight and Audit Commission for Local Government, which undermines that to some extent. It states the national oversight and audit commission for local government will do a list of things but that it was mistake to do this in the first place. The funny thing from my perspective is that Mr. Watt might be right, but it needs to be spelled out what exactly the national oversight and audit commission for local government will do. There is a relationship with the Committee of Public Accounts because one of its roles will be to engage in financial scrutiny of revenue collection across the 31 local authorities to see how efficient it is. That is of relevance to the committee, but is there a contradiction? The Minister and the Department issue a document such as this which states, effectively, that it was a mistake to abolish town councils. I think, therefore, that Mr. Watt might be right. I had meetings with the Minister for the Environment, Community and Local Government who had drafted the Act, but what I said fell on deaf ears. I now realise that he probably had his mind made up before that debate started on town councils. I took my own town council in Dungarvan

as an example - its staff, the town clerk in particular, were outstanding - and what I knew would happen when he left when it came to local administration is happening. What exactly will the national oversight and audit commission do because already I see the cracks when it comes to services provided when town councils were in place? I am thinking, in particular, about housing and the way people are dealt with from Dungarvan to Waterford city. The consideration necessary when it comes to dealing with individuals and their families is missing.

Mr. Robert Watt: I did not get a chance to read the Minister's comments. In referring to town councils what I think he said was that he had regrets. I do not think he was making any comment about implications for the audit office or the oversight group being established. He was making a point about town councils because I am sure he supports the new-----

Deputy John Deasy: One does lead to the other.

Mr. Robert Watt: He supports the architecture put in place by the previous Minister, former Deputy Phil Hogan. He supports achieving more value for money and undertaking more assessments. I do not know whether there is a crossover from his views on town councils to the other, but he may clarify his comments. The Deputy can ask him at a future date what he had in mind. I can speculate on his motives for making the comments, but it is beyond my remit. We are still friends and I would like to keep it that way, as long as we can manage it. I do not see an issue in terms of the structures in place. The Chairman probed me on this question in the past and there were issues around the independence of the local government audit service within the Department of the Environment, Community and Local Government and whether it should be merged with the Office of the Comptroller and Auditor General in a new office and the need for greater oversight in this space. I will support whatever mechanisms are required to ensure the achievement of value for money is pursued and that things are done properly. As the Deputy knows better than I do, the biggest reform introduced concerns how the vast majority of the money spent at local level is raised. Over time, presumably, this will lead to councillors having much more oversight of what is going on within local authorities because they will be saying to ratepayers and property holders that they are paying to them; therefore, they will have to account for it.

Deputy John Deasy: I understand that; that is exactly what I am getting at. Mr. Watt knows that we have talked about rates during the years. It is devolving power to local authorities so far as revenue collection in their own areas is concerned. Mr. Watt is announcing that this is happening around the country, but will he talk about the quality of the service provided, regardless of whether there are revenue raising powers locally? What I have seen to date is a dip in the quality and level of service provided. I do not know what is within the remit when it comes to making a determination on how successful the change has been in the services provided for ratepayers and ordinary citizens, but that is an issue that needs to be looked at. How else is one going to find out if it is working? Initially I advise that we survey ratepayers and ordinary citizens who have been subject to the change and speak to Deputies and Senators because they deal with the issue every day in their offices to find out if it has worked. What the Minister said might have been a political statement to a certain extent, but we need to revisit the issue if it is found that the service has reduced.

Mr. Robert Watt: One of the roles of the oversight group is to look at benchmarking across local authorities. Unlike other parts of the public service, there are many entities which provide comparable services. I know that they are different as one cannot compare Dublin to County Leitrim or Dublin to County Waterford, but there should be a way to benchmark the cost and quality of services provided. One of the roles of the group, as I understand it, is to do this and,

to an extent, respond. If a different service is provided in Waterford with which people are dissatisfied, it might indicate where there is room for improvement. I am not exactly sure where we stand on this issue. If the Deputy wishes, I will come back to him and see what the remit is and what it is doing.

Deputy John Deasy: Yes. May we have a short passage on what thematic reviews of local authority function mean? The only point I am making, even though I might agree with the Minister, Deputy Brendan Howlin, is that there is a slight contradiction and a subtle undermining of what those on the commission might be tasked to do, while at the same time saying the abolition of town councils was a mistake. Spelling out the role of the group and how it will perform its functions and come to conclusions is important because I already see cracks since the town councils were abolished.

Deputy John Perry: I compliment Mr. Watt on his four year tenure and obtaining funds for key Government services. Following on from Deputy John Deasy's point, does Mr. Watt consider it would be better to have the new audit committee which will audit local authorities under the Comptroller and Auditor General in order that the CEOs would be more accountable to the Oireachtas?

Mr. Robert Watt: I have to be careful in suggesting the remit of another body under another Department should be changed. I would have thought that in making a change in local government funding arrangements there would be much less reliance on the centre and much more on local sourcing of money. I would have thought this would change the nature of the debate such that over time, as mentioned by Deputy John Deasy, local councillors would be called to account not only for spending but also advising on how money should be raised. Therefore, there will be a different type of accountability mechanism. The centre will be providing funding to a figure of 10% to 15%; therefore, the role of the Department of the Environment, Community and Local Government or our Department will be diminished when it comes to the provision of funding. We are in a different place. I presume the establishment of the oversight board will have implications for the local government audit committee in the Department of the Environment, Community and Local Government. I presume there will be a collapsing of one into the other.

Deputy John Perry: What percentage of the figure of €54 billion will be disbursed to the 26 local authorities?

Mr. Robert Watt: I do not have the figures, but not much - about €3 billion.

Mr. Seamus McCarthy: That would be about right in terms of the transfer from the centre.

Mr. Robert Watt: Is that on the current side or the capital side or both?

Mr. Seamus McCarthy: On the capital side mainly.

Deputy John Perry: Who is auditing it?

Mr. Seamus McCarthy: The local government audit service audits all revenue receipts and expenditure in local authorities.

Deputy John Perry: To whom is it accountable?

Mr. Seamus McCarthy: It reports to local councils.

Deputy John Perry: In light of the fact that there are many different situations of debt by local authorities at the moment, which has prevented them from taking advantage of the upturn, as many are heavily indebted at the moment. They are not in a position to engage in different developments. Is it not a huge difficulty when it comes to essential repair grants or housing development grants? Is it not a difficulty that is slowing down the growth of the economy currently?

Mr. Robert Watt: As the local government system is part of the general Government sector, there are limits on local authorities' new borrowings or the reduction in their cash balance where they do have cash balances. As they contribute to the general Government deficit, for Maastricht reporting reasons there is a limit of about €200 million on the addition to the general Government deficit that the local authority sector can engage in. That was put in place in 2009 when the financial emergency began. There is a constraint on their ability to borrow because of the financial situation they face. As the Deputy is aware, local authorities have reduced staff numbers dramatically and have reduced their costs more than the wider public sector has done. I have no doubt that their ability to raise funds is impacting on their ability to draw down-----

Deputy John Perry: I compliment the work the Department of Public Expenditure and Reform is doing, but in regard to the ability of local authorities to borrow, who is the assigned, statutorily responsible body that takes responsibility for the loan if in default?

Mr. Robert Watt: Responsibility rests with the local authority. As the local authority is part of the general Government sector, restrictions are imposed on its ability to borrow, but ultimately it is a matter for the local authority. The Comptroller and Auditor General has done a review of the land aggregation scheme, which was partly a response to the indebtedness of some local authorities who had gone into debt through buying up land for developments that were subsequently deferred or phased because of changes in the property market. The central Government stepped in to provide support to some of those local authorities and the Comptroller and Auditor General has done an assessment of that scheme.

Deputy John Perry: Mr. Watt referred to the reduction of the 180 State bodies. He might explain the overall effectiveness of that programme.

Mr. Robert Watt: There was a great deal of political support in 2011 for reductions in the number of agencies, or quangos, as they are known colloquially. Our Minister was charged by the Government with this programme. The Minister and his colleagues have delivered on 181 of the closures or mergers and the Government is committed to doing that. From central Government, there are savings of around €20 million. For local authorities there are savings of around €40 million. However, there are also changes due to the simpler landscape. There were overlaps and duplication between different agencies, which affected their ability to deliver, so merging and streamlining will bring benefits over time, in addition to the monetary benefits. That programme has come to an end. It was very time-intensive, because it required us to go back and change legislation. Many new Bills had to be enacted. There were also major challenges for the management and staff of the organisations. Although an agency might have been merged, collapsed or abolished, the functions it was carrying out continued in most cases, because people believed they were valuable, and still do. In that sense, it was a difficult programme.

Deputy John Perry: I have a question on the single licensing portal. That was for the issuing of statutory licences to the retail trade. Mr. Watt might give an update on it. That was the situation where 25 licences could be applied for on the single portal, which would cut down on

administrative costs for anybody in the retail trade. This was a far-reaching policy. How far has it advanced?

Mr. Robert Watt: I am not sure of the exact details, but I can write to the committee setting out the progress. There was concern about the number of licences and the complexity and administration involved in getting licences. There is a work programme to consolidate and move them online, so I can check where we are with that.

Deputy John Perry: I was reading the note about directives 06/12 and 10/14. This might defuse some of the issues about school supply. A directive was given that where the accounting officer could be deemed the principal of a school, and they felt they were getting value for money and equality of standard, if they signed a statutory declaration, as the accounting officer for the school, they could deal with the supplier of choice. Can the witnesses explain that?

Mr. Paul Quinn: The circular is 16/13, which was issued from the Department and reminded all public bodies that framework contracts offer very good value to them, but could not take away from their statutory obligations regarding providing value for money for the taxpayer and therefore, if a public body is in a position to secure better value for money, it may do so but must be in a position to stand over that and justify it. That latitude is there for all public bodies. However, I remind people that there is also an obligation on public bodies that are funded by the State to go through a procurement process. They are not relieved of that at all. If they find that by running a local procurement they can get better value for money than through a State framework, they can avail of that local framework.

Deputy John Perry: Once products are subject to centralised contracts, purchasers in schools are often afraid to purchase from any other supplier in fear of losing central funding. Is there a real risk if they sign up to 16/13? One is dealing with competent people who are in a job for 20 years and know exactly the quality of the product they are getting. If they give a statutory declaration that they are in compliance with 16/13, are they contravening any Government policy by attempting to get the best value for money?

Mr. Paul Quinn: They should not be in any difficulty, as long as they are prepared to stand over it when that knock on the door comes from whatever audit service oversees them. They just need to be in a position to attest to the value for money they are getting through the process they ran.

Deputy John Perry: In another role I have dealt with a supplying a school and I know it is very important. Mr. Quinn was very helpful about that issue with regard to clarification. While I respect small businesses, it is very hard to keep everybody happy when one is dealing with €9 billion of procurement contracts, no matter how one does it. There is an issue of supply and demand and the economy of scale with 4.5 million people. This is one of the most persistent issues at the moment. Procurement in general is a bigger issue but we are dealing here mainly with the small firms issue, while this morning we dealt with supplying schools. Would it be possible to issue a letter of clarification from the Department of Education and Skills to schools, stating that the principal officer of the school would do this without ambiguity or fear of repercussion afterwards? This is a very important point because I know of several schools at the moment that are very happy to sign 16/13 on value for money and on quality. It would defuse much of the confusion that prevails at the moment if clarification could be issued from the Department. Every national school I know of operates by a circular. They get a circular from the Department indicating that they are entitled to purchase following the 16/13 criteria and they can deal with their local suppliers. Many of them prefer to do so. The debate today

would be resolved through that.

Mr. Paul Quinn: That is not a problem.

Deputy John Perry: I would like to get clarification that this clarification could be sent by circular from the Department of Education and Skills to schools, giving them a clear undertaking that they could adhere to 6.13 without any repercussions.

Mr. Robert Watt: We will talk to our colleagues in the Department of Education and Skills and make sure that happens.

Deputy John Perry: That would be very much appreciated. I thank Mr. Watts.

Chairman: To finish on the procurement process, predatory pricing was also raised earlier. I know it was agreed to hold a meeting on this matter. Members of the Committee of Public Accounts should be notified of this meeting, so that they can attend if they want to.

Another question that has been raised with us concerns having a survey on the impact current policy has on this small group of companies. The Department collected data which we received during the week. Earlier the group focused on some of that data, particularly the fact that 28% of tenders go outside the State. These are the issues that they want to get to grips with. As part of gathering data by the Department and also its obligation, as a public body, to seek and establish value for money, is there a possibility it might embark upon sourcing that type of data from this sector that was represented here? I would like to see such an initiative form part of the Department's agenda when it deals with the group. I ask the Secretary General to include all of those issues in the meeting.

Mr. Robert Watt: We can look at the data and see the extent to which it overlaps with the sectoral group that was represented here this morning. We will look into it and see about it, in terms of data.

Chairman: I wish to raise a couple of issues about the Secretary General's correspondence received this morning and dated 4 March. It reads, "[T]he changes or developments that are necessary to enable the PAC to examine monies that went into Irish Water". We are currently doing so on the basis that the Department suggested.

Mr. Robert Watt: Okay.

Chairman: That work will be ongoing over a number of years, according to the plan that we sought when we dealt with the Department. It is something we can easily pursue.

Mr. Robert Watt: Okay.

Chairman: The local government issue is a little more difficult. The Secretary General has not been much help to us on that in his letter. On the last occasion, he suggested there might be a role for us.

Mr. Robert Watt: Yes.

Chairman: What he set out in his letter is a role that already exists. I argue with him that the way local government is developing is nonsense for the following reason. Last month, there were two days of one week where two full pages of a newspaper was taken up through listing the losses and inefficiencies of spend by local government. I presume the journalists got

their information from the audit office. Had that not happened we would have had no public consciousness about the losses. Like it or not, the Committee of Public Accounts exposes what has happened, looks at all of the issues and then makes recommendations. One does not get that with a local government audit and I do not question the ability of their audit team to do their job. I am saying it would be far more beneficial, in the context of the reform of the State, and reforms that his Department is engaged in, to adopt a management tool. The Department should say to the Minister that he should do so.

A sum of €6 billion is allocated to local government. I am not saying that the allocation is not audited. I am saying audit committees are not necessarily established in every local government area. There is also no public debate about waste in local government. I shall cite two of the examples of information that have come to us - the land aggregation information and information on the Poolbeg incinerator. There is not a defined line for debate and I am extremely disappointed that such an initiative has not materialised in policy.

Was the Secretary General at the conference last weekend?

Mr. Robert Watt: Does the Chairman mean the Labour Party conference?

Chairman: Yes. Did the Secretary General attend the conference to listen to his Minister?

Mr. Robert Watt: I saw some of the Minister's remarks on the wires, as people used to say, but I did not have the pleasure.

Chairman: The Minister replied that he would answer "in a way that might surprise you" when asked a question about local government.

Mr. Robert Watt: The Chairman must have been there himself.

Chairman: He said, "The one thing I regret the most about the last four years was that decision" which was the decision to abolish town councils. The restoration of local democracy and town councils is essential, which is what he wants to happen. I agree with him. The Minister is of the view that there is something wrong with the way we manage local government, an issue which arises here on an ongoing basis. I would like to see some way of addressing this within the remit of the Committee of Public Accounts.

Mr. Robert Watt: I responded to the matter concerning Irish Water. I think that provides an opportunity and avenue for this committee to be involved.

In terms of local government, as I mentioned in response to Deputy Deasy, the vast majority of the spend by local authorities will now be raised locally. There will be a greater role for members of councils and their governance structures to ensure the money is well spent. I have never had an issue with any proposal which would involve the Office of the Comptroller and Auditor General merging with the Department of the Environment, Community and Local Government and taking over that function. I have no problem with that initiative. If that is the way people want to go or proceed then that is fine. There is a role for this committee to look at Exchequer funds through the local government fund into local authorities. Over time it will become a good deal less significant, as we know. I do not think there is any issue why the Comptroller and Auditor General cannot perform that role.

Chairman: Mr. Watt has covered a great deal of ground this morning with his 19 pages. He is pushing forward with reforms in other areas, yet I do not see the same commitment. He has

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said it umpteen times before that he would like to see it happen. I would very much like to see it happen because it is a waste of public money to have two different audit teams in place in a country where it would be far easier merge them. The Department is bringing teams together elsewhere.

Mr. Robert Watt: Yes.

Chairman: Earlier the Secretary General said that 180 quangos will be eliminated.

Mr. Robert Watt: It is 181.

Chairman: Why have them separate? I shall keep returning to this matter and working on it because merging must be done.

In regard to procurement, and not about this morning, is the Secretary General happy with the way the HSE conducts its procurement process? Every week his Department's officials attend the weekly meeting of the Committee of Public Accounts.

Mr. Robert Watt: Yes.

Chairman: Every single week it is the same thing. Yesterday they released, by mistake or whatever knowing the games that are being played, a report which raises further questions about procurement.

I do not expect the Secretary General to know the following. This morning the clerk to this committee received an analysis of a dossier which showed that contracts were being awarded without procurement - it was just ignored - even though some of these contracts were in the region of €100,000. A contract was then awarded to check on the contract that was issued for €100,000 which cost €58,000. Then there were recommendations by staff to use a consultant who would cost €1,000 per day. I have just touched on these matters which have happened within the HSE.

Yesterday the committee went to the Department of Communications, Energy and Natural Resources to meet its counterparts from Northern Ireland. We discovered that our counterparts in the North paid out €1.3 million, not just without proper procurement procedures being acknowledged but without paperwork. They paid €1.3 million for an obsolete piece of equipment that was valued at €30,000 but was never used. The reason I say this to the Secretary General is because he oversees these Departments. Is that correct?

Mr. Robert Watt: Yes.

Chairman: I listened carefully to him this morning about the way the Department spends and seeks value for money. Not enough care is given to the spending of taxpayers' money on the other side of this issue. My evidence for saying so is that the HSE day-in and day-out wastes money. Yesterday, we saw a scandalous waste of €2.3 million by the Irish State. A total of €4.3 million was wasted between the North and South and they failed to pick up on EU funding. These are the things that we are missing. What penalties or sanctions, can the Secretary General take to deal with a spending Department that completely ignores the process, which is what has been borne out in the evidence from the HSE and other Departments?

Mr. Robert Watt: I have not had a chance to look at the report that was leaked. They do not tend to leak the reports to me, funnily enough. The Chairman seems to get them before I do. I have not read the report.

Chairman: We do not get the leaked reports. They press get them before we do.

Mr. Robert Watt: I have not read the report. In relation to inappropriate claiming for travel, as I have not seen the details I will not comment on the case, but should a person make an inappropriate claim, the expectation is that the money will be recouped and the money will be paid back to the Exchequer. We will ensure that the Department of Health together with the HSE will pursue the case in order that people who make claims which are not appropriate will repay the money which will be recouped to the taxpayer. The guidelines from the Department are crystal clear and there is no doubt whatsoever on the issue. We expect the money will be repaid to the Exchequer.

I will now respond to the question on procurement. I read the Comptroller and Auditor General's report on procurement in the HSE. Clearly the approach is not satisfactory. The level of non-compliance is not satisfactory. We absolutely agree with the recommendations of the Comptroller and Auditor General. We do not believe those practices are appropriate. Mr. Paul Quinn from our office has been engaged with the procurement side in the HSE to improve and professionalise practices. We have signed a memorandum of understanding with them on how we will help them in the procurement of common goods and services, but the non-addressable spend will remain the responsibility of the HSE. To answer the Chairman's question directly, we are not satisfied with procurement and we are working with the HSE to professionalise procurement procedures and to ensure that in cases such as contracts, where we do not have basic competitive processes, we have procedures.

The Comptroller and Auditor General reported a number of years ago on such spending in Departments. I think €140 million of the spend involved non-competitive processes. In most cases there are good reasons for that but within the HSE it is not appropriate to have that level of spend which is not subject to a competitive process. We will be following up the report. Mr. Quinn has already done some of the work in following up the case.

We also agree with the Comptroller and Auditor General's comment about sanctions on units and staff who have not complied or have not provided the basic information. Our system is governed by circular 40/02 which provides that I must sign on the occasion that we do not go through a competitive process. We go through a process in the Department where colleagues come to me with examples and we review them and we must ensure we are happy with them. The Comptroller and Auditor General has identified that this is not happening in the HSE. That is not acceptable. There were various discussions about IT systems and manual systems but I absolutely agree with the Chairman and do not disagree with anything he said at all.

The Chairman raised the issue of the Bytel project and the Department of Communications, Energy and Natural Resources. This is unusual. It involved EU funding. The project involves the Department and an equivalent Department in the North as well as the Department of Public Expenditure and Reform, which was not the lead Department. I know the Chairman has been briefed separately on that. Public money has not been spent appropriately and if there is any misappropriation, we will need to do everything we possibly can to recover that money. I am not exactly sure where we are going with this so I do not want to prejudice anything that might happen. We are very concerned that what happened should not have happened and it is a clear example of where taxpayers' money was not spent appropriately. The Chairman has probably been briefed better than I have been about this but we will follow it up.

Let me make a general point about EU projects and EU funding. We have extensive audits of this and the Comptroller and Auditor General would be aware of this. Thankfully we have

not come across many cases like this. I am not for a moment excusing it, but we are confident that more than 99% of the spending co-funded by the EU is appropriate. We have done well from this fund over the years. This is not satisfactory and given that there were two Departments involved in a North-South project, we need to learn the lessons from it.

Chairman: In the particular cases of HSE procurement we were looking at this morning, the contracts went to individuals within companies in the private sector who at one time worked for the HSE. We have seen this time and again. It is as if nobody in the Departments learns the lesson. I have never seen anybody being sanctioned. Mr. Watt referred in a speech during the week that it is hard to get rid of people when they do something wrong.

Mr. Robert Watt: If there is a case of a clear conflict of interest, then there will be very clear sanctions. I will take on board what the Chairman says. If there is a case that a contract has been awarded without a competitive process to somebody who had a relationship and a connected relationship previously with the entity, we do not believe that is appropriate and we would expect that there would be some response and action taken. I do not want to go into the details of what that might be because it will depend on the circumstances. Clearly, if anybody who is present saw that in their organisation, he or she would immediately ask what was going on. It is not correct that it is not a competitive process. Clearly if it goes to a company that has a previous connection with the body, then immediately there will be a perception of something not being correct. I absolutely agree.

Chairman: Does an official from the Department pick up the phone and ring the HSE to see what is wrong?

Mr. Robert Watt: We would respond to the Department and the HSE on foot of the Comptroller and Auditor General's recommendations and the findings of the report.

Chairman: That is too late. Does Mr. Watt know what I mean? We know as from yesterday when the documents were leaked about the procurement in the HSE because it has been reported to us. It will be a while before a hearing and a report and recommendations are put in place. It is similar for the procurement process for the people who were before us this morning. By the time one learns about it, some of them will have closed. Let me give an example of a chemist who had the contract to supply medication to ten nursing homes where people are being cared for. I have examined the case where a chemist was told one day that he or she had lost the contract, but he or she had not been asked to tender for the contract when the HSE were renewing it. That chemist has spent 14 months arguing with the HSE about the fact that the procurement process excluded him or her. Meanwhile some other chemist is supplying the nursing homes. While he is arguing that the paperwork was not correct and that he was not asked to tender, he does not have the contract. The system has a way of trundling on and the dogs will bark and the caravan moves on. I think somebody should stop the caravan. Somebody has to stop the HSE in its tracks.

In respect of the North-South case, a whistleblower had known about it since 2006. How many more mistakes were made from 2006 to the present day in respect of procurement simply because nobody cried stop? If this happened in a private business, there would be a board meeting and somebody would get the sack. The system would be changed. I do not think we should have to wait until recommendations are made. I am saying that with due respect to Mr. Watt and his officials. I think there should be a procedure at the end of each meeting of the Committee of Public Accounts that somebody should make a phone call to the relevant person, asking what is happening in their section. It is farcical to listen to these stories every single

week. We propose to bring in the HSE next week, if we can. We will hear what has been going on. I think it is a terrible reflection on the system how correspondence from the Office of the Comptroller and Auditor General to the audit section of the HSE is dealt with. The HSE, rather than reply efficiently and well, waits until the last minute and then does what so often happens here, it leaks it to the newspapers. That is not acceptable.

Mr. Seamus McCarthy: In relation to that management letter and the response coming into the public domain, it seems as if an address was added into an internal e-mail. I think there was no deliberate leaking of that.

Chairman: Mr. McCarthy does not know that.

Mr. Seamus McCarthy: No, I do not know it, but I do not see that it was to anybody's advantage.

Chairman: When one is in politics, one tends to see a lot of things differently.

Mr. Seamus McCarthy: Yes.

Mr. Robert Watt: I will make three quick points as I know you are stuck for time, Chairman.

Chairman: No, I am not. We are doing well.

Mr. Robert Watt: Nor am I. I am happy to stay here as long as you want.

Chairman: We are doing well today.

Mr. Robert Watt: The system is enormous. A total of €54 billion has been spent and there are 290,000 people so there will be issues. One cannot extrapolate from one issue and then say that it is endemic across the system or that the issue arises, but clearly if the same types of issue come up within organisations, then obviously that is a flag and it is something that requires a response.

I have two further comments to make on the specifics. In terms of whistleblowers, the committee is aware our Department drafted legislation which has been enacted to provide protection for people who want to reveal things that are going on, and they now have protection to do that which they did not have previously. Our Minister has responded to this agenda and has now enacted very important legislation which enables people to identify wrongdoing and ensure that if they do, they will not be subjected to any adverse pressure or be treated unfairly.

We have embarked on the largest programme of public procurement reform ever. We have done that because of a series of reports produced by the Comptroller and Auditor General and a series of discussions at the Committee of Public Accounts going back over a generation which identified not an amateurish but not a sufficiently robust and professional procurement function. That is why we have a procurement office staffed with procurement people who are doing an amazing job in establishing this entity. That is what we are doing. We responded to concerns and the Department is working on them, but certainly in terms of the HSE, we would be interested in the committee's discussions next week. We will follow the debate and see what more we could do. We have a memorandum of understanding now and we are working with the HSE on common goods and services on which we will assist it to procure. We encourage the HSE to have a professional approach to procurement in line with the guidelines and to address very seriously the issues raised by the auditor.

Chairman: How is the request for one accounting system progressing?

Mr. Robert Watt: We are waiting the next iteration of the HSE's plan. There have been further discussions about it and we are waiting for the HSE to come to us with the revised business plan to support a single financial platform. We will do a peer review of it then and that will be the end of the process if we are happy that it meets the procurement requirements and the technology requirements.

Chairman: I wish to ask a few short questions. I refer to Mr. Watt's letter this morning about the Tipperary hostel, which I went to see. I keep on asking the Departments about it but nobody wants to step in to protect the millions that have already been spent on it.

Mr. Robert Watt: I have committed to getting back to you on it, Chairman. I do not know the details. I presume we have asked the Department of the Environment, Community and Local Government or whoever else for the details so we will get back to the committee about it.

Chairman: A number of agencies are involved. I think the total involved was €10 million. The money that was spent on the church was well spent. The completed job looked splendid, but now that is falling into rack and ruin. We know now that there are no prosecutions in relation to the other allegations that were made. It is now a case of trying to protect the taxpayers' money that was already spent.

Mr. Robert Watt: We will come back to you, Chairman. We will write to the committee.

Chairman: In relation to Departments that appear before us which do not have certain information at the time that say they will send it in, is there any way Mr. Watt can write to the Secretaries General to say that when they say that at the Committee of Public Accounts, they have a certain number of days to send back the information? Some Departments do not get back to us.

The second question on timely responses relates to reports the Comptroller and Auditor General submits to Ministers. Two relate to the Department of Education and Skills at the moment, one on the VEC in Cork. Such reports can remain with the Minister for up to three months. What do they do with them? I refer to a stage following which the report has been sent to various people for comment. Could Mr. Watt put an agreed reasonable protocol in place for a response from the Minister?

Mr. Robert Watt: When I was appointed in 2011, you raised the issue with us, Chairman, that a large number of ministerial minutes were outstanding. The clerk, Mr. McEnery, might know. Over a period of six months we cleared a load of them and since then we have improved the timeliness dramatically. The clerk will be able to give you the details on it, Chairman. We have improved our record dramatically compared with what happened in the past.

Chairman: Yes, the Department did, but this was in relation to final special reports that are given to Ministers where they can take up to three months to lay them before the House and therefore we cannot deal with them.

Mr. Robert Watt: Are they reports that are finalised?

Chairman: Yes, they have already been submitted to the Ministers.

Mr. Robert Watt: Have the Ministers already commented on the reports or are they drafting comments?

Mr. Seamus McCarthy: The reports are completely cleared. I have signed off on the reports. The statutory provision allows a Department up to three months. In fairness, any time we have sent a report to the Department of Public Expenditure and Reform, it has been very prompt in getting it into the Oireachtas but other Departments have a different process.

Chairman: Mr. Watt might ask the Departments to streamline their processes along the lines in operation in his Department.

Mr. Robert Watt: I understand a circular is available which we can send to remind the Departments again about the timeliness of responses.

Chairman: The final question relates to education. Again, I ask this because Mr. Watt's officials are present at the meetings. The Higher Education Authority was before us to discuss universities and institutes of technology. Mr. McCarthy's report dealt with the audit committees in various places. What we heard that day about how the Department oversees the spend in third level institutions and ITs was shocking. Nobody had an idea. The HEA does not have the staff to ensure compliance within the university and institute of technology sector. Governance issues arise in terms of Waterford IT and the Institute of Technology, Cork. Queries arise in terms of the amalgamation process between the institutes of technology in Carlow and Waterford. There is no business plan for that process as it has not been worked out yet. In Cork and Tralee the figure was in the region of €6 million and yet no one was able to set out for us how the money was to be spent, and the structures to deliver compliance, transparency and accountability were simply non-existent in some cases. Would the section in the Department of Public Expenditure and Reform that overlooks the issue have a chat with Mr. Ó Foghlú and Mr. Boland because the system is not working?

Mr. Robert Watt: I imagine that it is the responsibility of the CEOs of the universities and institute of technology presidents, namely, the leadership of the institutions, to be accountable to the boards that are established and that they would have proper procedures and audit committees to ensure public money and other moneys, because in most cases a large proportion of their funding is not from the Exchequer. In Trinity College now it is almost half and half Exchequer and non-Exchequer, and the ratio has changed for other institutions. I presume that, in the first instance, it is a question of the leadership of those institutions having proper governance structures and audit committees to ensure that money is spent appropriately and that the HEA receives proper assurances that those structures are in place. Someone on Marlborough Street cannot ensure that every pen is accounted for properly. Instead, people can ensure that there are proper structures in place to govern how moneys are spent. I can raise the matter with the Secretary General, Mr. Ó Foghlú, and ask him about the arrangements that are in place. I am not familiar with them, but there are service level agreements between the HEA and bodies. Money is dispersed to achieve various public policy objectives. I can check exactly what the position is. The Comptroller and Auditor General might know, but I presume that, at a minimum, they have audit committees. These are large institutions with large budgets.

Mr. Seamus McCarthy: The context to which the Chairman is referring is a report that we did on the National College of Art and Design, NCAD. The college's systems were not working. The issue that was raised with the HEA was why its systems of oversight of the college did not react sooner to the difficulties.

Mr. Robert Watt: That was an issue of the annual report or annual accounts being several years in preparation despite being basic projects.

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Mr. Seamus McCarthy: The nonconformity with the requirements of the code of governance was not responded to by the HEA either. We are examining the operation of the HEA in that regard and will report again.

Chairman: I will ask the clerk to send Mr. Watt copies of the-----

Mr. Robert Watt: Please do.

Chairman: One whistleblower sent three different reports. I raised this matter with Mr. Watt the last time he appeared before us. We will send him copies of the reports in order that he can see what we are dealing with in terms of the HEA.

Speaking of whistleblowers, while I appreciate that the legislation was passed, in cases where people decide to come forward - I view them as concerned citizens or employees rather than whistleblowers - to tell their stories, how the system treats them afterwards is shocking. The most recent case of whistleblowing came forward from an agency and has proven helpful in a Garda inquiry and work that we are undertaking. Since then, funding to the agency has been cut each year. I am not asking Mr. Watt for a comment on that matter, but it is not just a coincidence.

Mr. Robert Watt: That predates the new legislation and its operation. The legislation has been enacted and there are guidelines on how information should be dealt with by designated recipients and so on. We will determine how the legislation operates.

Chairman: I should say that Sergeant Maurice McCabe has already written to the Minister to complain about how he has been treated after doing the State considerable service by coming forward with his information. Some whistleblowers' descriptions of how they have been treated are revolting.

Mr. Robert Watt: That was the motivation for the legislation that the Minister introduced.

Chairman: It has not worked.

Mr. Robert Watt: It has only just been commenced. We should give it a chance to see how it works.

Chairman: What will happen in the meantime to those who have been treated in this way?

Mr. Robert Watt: That predates the-----

Chairman: No, the way they are being treated is happening now.

Mr. Robert Watt: I am not good on the details, but the legislation is in place and there are procedures and provisions for dealing with the types of example the Chairman has referenced.

Chairman: It is not working for the people whom I have met.

Mr. Robert Watt: Give it a chance to work.

Chairman: I have given it a chance. The committee has held hearings and I am dealing with issues that are happening right now in the HSE, the Garda Síochána and an agency that is delivering services on behalf of the Department of Health. It is shocking. Sometimes, bodies pay no attention to the regulations on procurement. They are not impressed by the legislation. They have cultures and so on that need to be broken. I am making my view known to Mr. Watt.

ISSUES WITH PUBLIC PROCUREMENT

Mr. Robert Watt: Yes.

Chairman: That ends our hearing for today. I thank the witnesses for attending.

Mr. Robert Watt: I thank the committee.

The witnesses withdrew.

The committee adjourned at 2.25 p.m. until 10 a.m. on Thursday, 12 March 2015.