DÁIL ÉIREANN

AN COISTE UM CHUNTAIS PHOIBLÍ

COMMITTEE OF PUBLIC ACCOUNTS

Dé Céadaoin, 23 Bealtaine 2018

Wednesday, 23 May 2018

The Committee met at 5 p.m.

MEMBERS PRESENT:

Deputy Bobby Aylward,	Deputy David Cullinane,
Deputy Shane Cassells,	Deputy Alan Farrell,
Deputy Catherine Connolly,	Deputy Alan Kelly.

DEPUTY SEAN FLEMING IN THE CHAIR.

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

2017 Financial Statements of the Local Government Fund

2017 Financial Statements of the National Training Fund

2017 Financial Statements of the Economic and Social Research Institute

2017 Financial Statements of the Abbey Theatre

Mr. John McCarthy *(Secretary General, Department of Housing, Planning and Local Government)*, **Mr. Seán Ó Foghlú** *(Secretary General, Department of Education and Skills)*, **Mr. Alan Barrett** *(Director, Economic and Social Research Institute)* and **Mr. Neil Murray** *(Director, Abbey Theatre)* called and examined.

Chairman: We are joined by the Comptroller and Auditor General, Mr. Seamus McCarthy, and the deputy director of audit, Ms Patricia Sheehan. No apologies have been received and we will deal with the business to be transacted by the committee tomorrow in the normal manner.

The topic on the agenda for this meeting is matters related to the submission to the Office of the Comptroller and Auditor General of financial statements for 2017. This is an issue we have been watching closely since the last general election. It came to light on a couple of occasions when people were before to discuss accounts that, in some cases, were three years out of date. We found that to be an unacceptable practice, but it does not apply to any of the organisations represented today. We took a detailed look at the time organisations were taking to submit their accounts for audit. The Comptroller and Auditor General has produced a couple of reports in the past couple of years on the timeliness of organisations in submitting their financial statements for audit and there has been an improvement. Last year's report highlighted the education sector as being the worst in the public sector in the submission of accounts and some time ago we decided to meet the organisations concerned. It was noted that of the 16 or 17 education and training boards, only one had submitted its financial statements for audit by the end of March of the following year. That was unsatisfactory and we invited four boards to come before us, including the one which had met the deadline to show that it could be done. We asked for the position to improve across the public service and were pleased to note at the last meeting that every single education and training board had its financial statements for 2017 in before the end of March this year. That is a fantastic improvement.

As the year progressed, I sent a letter to all of the organisations the accounts of which are audited by the Comptroller and Auditor General to remind them of the importance of getting accounts in on time, saying we would follow up in the new year. We waited until the end of April, when the Comptroller and Auditor General informed the committee that there were 37 organisations which had not submitted their accounts for audit before the end of March. The committee decided to invite four organisations to explain why. We picked the four that are represented today based on the fact that they were substantial organisations with a major turnover. They are the Local Government Fund, the National Training Fund, the Economic and Social Research Institute and the Abbey Theatre. We are grateful to their representatives for coming. We wrote separately to the other 33 organisations to ask for a written explanation as to why their accounts had not been submitted on time.

We believe the submission of annual financial statements is an essential element of good corporate governance which in any organisation starts from the top. When an organisation does not submit its accounts in a timely manner, it raises a number of questions about it, which is why we are here. We are joined by the Secretary General of the Department of Education and Skills in respect of the National Training Fund, the Secretary General of the Department of Housing, Planning and Local Government in respect of the Local Government Fund and the directors of the ESRI and the Abbey Theatre. I do not expect this to be a long meeting, but I am grateful to the witnesses for coming. Part of the purpose is to demonstrate that the Committee of Public Accounts is taking a proactive role in improving corporate governance in the submission of accounts and financial information because we cannot do our work if we do not have accounts to examine. We are joined by Mr. John McCarthy, Secretary General, Department of Housing, Planning and Local Government, who is accompanied by Mr. Maurice Coughlan, principal officer; Mr. Seán Ó Foghlú, Secretary General, Department of Education and Skills, who is accompanied by Mr. Keith Moynes, principal officer; Professor Alan Barrett, director of the ESRI, who is accompanied by Mr. Charles O'Regan, company secretary and head of finance; and Mr. Neil Murray, director and chief executive officer, the Abbey Theatre, who is accompanied by Mr. Denis Reeves, interim director of finance and administration.

By virtue of section 17(2)(*l*) of the Defamation Act 2009, witnesses are protected by absolute privilege in respect of their evidence to the committee. However, if they are directed by it to cease giving evidence on a particular matter and continue to do so, they are entitled thereafter only to 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 any person, persons or entity by name or in such a way as to make him, her or it identifiable.

Members are reminded of the provisions of Standing Order 186 indicating that the committee shall 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. While we expect witnesses to answer questions put by the committee members clearly and with candour, witnesses can and should expect to be treated fairly and with respect and consideration at all times in accordance with the witness protocol that has been circulated.

I thank the witnesses for submitting their opening statements and the progress in respect of the matter at hand. I understand the Department of Education and Skills has submitted the accounts for the National Training Fund for audit on 15 May 2018. The Department of Housing, Planning and Local Government submitted the accounts of the Local Government Fund for audit on 17 May 2018. The ESRI has submitted the accounts for audit on 10 May 2018. The Abbey Theatre submitted its accounts on 4 May 2018. From the public accounts point of view, mission accomplished.

We, as the Committee of Public Accounts want to send a signal to all public bodies that we expect accounts to be prepared not for the sake of producing financial statements but as an indication of the level of corporate governance, because as the Secretaries General all know, it is a function of the Secretary General or Accounting Officer or the board of directors to submit their accounts for audit. Failure to do so in a timely manner does not reflect well on corporate governance. That is what we are clear about.

We will take the four opening statements in the following sequence. We will start with Mr. McCarthy from the Department of Housing, Planning and Local Government, to be followed by Mr. Ó Foghlú from the Department of Education and Skills; Professor Barrett from the ESRI and Mr. Murray from the Abbey Theatre.

Mr. John McCarthy: I thank the Chairman for the invitation to appear before the committee. The committee is considering the timeliness of submission of annual accounts for audit. I know this is an issue that is of keen interest to the committee and to the Chairman. At the outset let me place on record that compliance with our obligations in this regard is also a key priority for my Department and for me as Accounting Officer for the reasons of good governance, as pointed out by the Chairman.

The issue which I wish to address specifically relates to the Local Government Fund, LGF. The LGF, as the fund is known, was established in 1999 under legislative provisions introduced through the Local Government Act 1998. In terms of the preparation of the annual accounts of the fund, the relevant provision of the Act is section 3(5), which provides as follows:

> As soon as may be after the end of each financial year, the Minister shall submit the accounts of the Fund to the Comptroller and Auditor General for audit and the Minister shall cause a copy of an abstract of the accounts as so audited together with a copy of the report of the Comptroller and Auditor General thereon to be laid before each House of the Oireachtas.

There is therefore no statutory deadline for the preparation and presentation of the draft annual accounts of the LGF to the Comptroller and Auditor General, a position which also applies in relation to a number of other funds, as recognised in last year's special report on financial reporting by the Comptroller and Auditor General. However, there is a very clear statutory requirement to produce the accounts as soon as may be after the end of the year. That is a duty that we take very seriously along with all of our other statutory requirements in relation to the preparation of accounts.

In that context, it is important to note that there is a statutory financial reporting requirement to submit the Appropriation Account for the Department's Vote by 31 March each year. The production of the Appropriation Account and the engagement with the Comptroller and Auditor General on the Vote audit have to take priority for the Accounting Officer in the early part of the year. This has been a longstanding practice and to my knowledge has never been identified as an issue of concern by the Office of the Comptroller and Auditor General. In addition to the Appropriation Account having to take priority, given the statutory deadline that attaches to it, it should also be noted that the LGF is a very detailed and complex account to prepare as the Department has to receive and reconcile annual returns from 26 local authority motor tax offices as part of the process and the turnover involved for 2017 for the fund is in excess of €1.8 billion.

Notwithstanding all of that, the Department is committed to an expeditious and timely submission of the annual accounts. This is demonstrated by the fact that a preliminary draft excluding the related notes of the 2017 LGF account was submitted to the Office of the Comptroller and Auditor General on 18 April 2018, barely two weeks after the Appropriation Accounts have been completed. While this did not include all of the notes associated with the account, I understand it did allow significant progress on the audit to be made by the Comptroller's audit team. As the Chairman mentioned, the final draft of the 2017 account with the associated notes has also now been completed and was submitted to the Comptroller and Auditor General on 17 May.

Taking account of the range of financial reporting requirements to be met, I am satisfied that we have discharged our responsibility to submit the accounts of the LGF as soon as may be after the end of the year in question with the period of time involved decreasing significantly in the past ten years.

Notwithstanding the absence of a specific statutory deadline, we continue to strive to shorten the period for the preparation of the annual accounts of the fund. In that context with the fund undergoing significant restructuring this year, with motor tax now being remitted directly to the Exchequer rather than to the fund and a number of payments that were previously made from the LGF now being made from voted moneys, we will be looking to again shorten the time period for the preparation of the 2018 accounts for the fund. Specifically, we will be aiming to have the draft 2018 accounts completed by the end of March 2019, subject, of course, to prioritising the work on the 2018 Appropriation Account and also just to mention it, it needs to take account of any potential implications that may arise from the fact that the Department will be likely to be moving to a new financial management shared service centre in 2019

I thank the committee for the opportunity to address an issue which I know is of keen interest to the Chairman and members and one which is also taken very seriously by me and by the Department.

Chairman: I thank Mr. McCarthy. We will now take the opening statement from Mr. Ó Foghlú in respect of the National Training Fund.

Mr. Seán Ó Foghlú: I thank the Chairman and committee members. I am attending today at the request of the committee to discuss timing in respect to the presentation of the National Training Fund, NTF, accounts.

The NTF was established by the National Training Fund Act 2000 as a dedicated fund to support the training of those in employment and those seeking employment and to provide for the funding of research to provide information on existing and likely future skills requirements of the economy. It has been the responsibility of the Department of Education and Skills since May 2010.

I want to highlight at the outset that the Department is acutely conscious of the importance of meeting statutory and other deadlines for presentation of accounts. The Comptroller and Auditor General has raised concerns in this regard in his special reports on financial reporting in the public sector, and I know, as the Chairman has indicated, that this is an issue on which the committee has put considerable emphasis.

Informed by the views of the committee and Comptroller and Auditor General during the past year the Department has prioritised this issue, and has worked with bodies across the education sector to strengthen compliance, particularly where statutory deadlines are in place. Considerable progress has been made across the Department's aegis bodies and in the ETB and higher education sectors. I appreciate that this progress has been acknowledged by the committee.

In this context, it is important to say that the Department did not regard the NTF accounts as being comprehended by the committee's correspondence of 20 December 2017 which concerned “the failure of public bodies to meet obligations, statutory or otherwise, in relation to the timely presentation of annual financial statements”. We did not take the view that we were failing to meet any defined obligations in respect of the NTF.

As acknowledged in the Comptroller and Auditor General’s special report number 95 on Financial Reporting in the Public Sector, no specific deadlines are in place in respect of certain departmental funds. This includes the National Training Fund, NTF.

The NTF accounts are prepared in line with the terms of the National Training Fund Act 2000, and specifically section 2(14) which states, among other things, that “Accounts of the Fund shall be prepared on an annual basis, in such form and in such manner as the Minister for Finance may direct”. Neither the National Training Fund Act, nor any other legislation, provides for a statutory deadline for production, signature or certification of the NTF accounts. As regards non-statutory obligations, there are no circulars, codes of practice or other guidance which set out a specific deadline for production of the NTF accounts.

In practice, given the imperative of meeting the statutory deadline for production of the Appropriation Accounts by 31 March, it has been the longstanding position that production of the Department’s Appropriation Accounts and engagement with the Comptroller and Auditor General audit of the Vote are given priority in the first part of the year. Since the establishment of the National Training Fund in 2000, finalisation of its accounts has, without exception, always taken place subsequent to the submission of the Appropriation Accounts. Most recently, I signed the 2017 accounts on 15 May and they were conveyed to the Office of the Comptroller and Auditor General on the same day. This long-standing position has not been flagged as an issue of concern by the Office of the Comptroller and Auditor General in NTF management letters of recent years, nor has it been listed as a discussion item in recent post-audit engagements between the Department and the auditors. Therefore, I am satisfied that the Department has met its obligations to date in respect of the fund. However, I can also appreciate that, from the committee’s perspective in looking across the entire public sector, it is desirable to have a greater level of consistency in meeting deadlines for the submission of accounts. To that end, I have set a specific deadline for the submission of the NTF accounts to the Office of the Comptroller and Auditor General of 31 March following the year of account.

Chairman: I thank Mr. Ó Foghlú. I call Professor Barrett from the Economic and Social Research Institute to make his opening statement.

Professor Alan Barrett: I am the director of the Economic and Social Research Institute and joined by Mr. Charles O’Regan, head of finance and company secretary. We have been asked to appear before the committee to explain why our draft 2017 accounts had not been presented to the Office of the Comptroller and Auditor General by 31 March. We are happy to have the opportunity to provide the explanation.

By way of context, I will provide a brief outline of how the ESRI is funded. It is a company established in the private sector. However, almost all of its funding comes from public sources. It receives an annual grant-in-aid from the Department of Public Expenditure and Reform. In 2018 the grant is €2.8 million. The institute receives additional funding from a range of other Departments and State agencies, for which it agrees to conduct research projects of particular interest to them. In total, it has an annual income of approximately €10 million. Given the public funds provided for it, the institute is committed to maintaining the highest standards of governance and financial management. We have worked closely during the years with our parent Department, originally the Department of Finance and now the Department of Public

Expenditure and Reform, to ensure frameworks and processes whereby the funds provided for the institute are managed to the highest standards. One element of the overall framework has been the presence of a senior official from the Department of Finance and then the Department of Public Expenditure and Reform on the board of the institute. We operate under an oversight agreement with the Department of Public Expenditure and Reform which was provided for us in March 2017. We also liaise closely with the Office of the Comptroller and Auditor General. To my knowledge, we have always provided information for the Office of the Comptroller and Auditor General in a timely manner when requested by it.

I turn to the specific issue of the timing of the submission of our 2017 accounts. As the committee knows, in January we received the letter from the Chairman sent to all bodies audited by the Comptroller and Auditor General on the general requirement to produce annual accounts for audit within three months of the end of the financial year. Based on our interpretation of our ongoing interactions with the Office of the Comptroller and Auditor General, at the start of the year we expected the timing of the accounts process to run as in previous years. We planned to submit our accounts to our audit committee for review at its May meeting and subsequently send them to the Office of the Comptroller and Auditor General. At the time we received the Chairman's letter, our accounts department was under some pressure owing to staff absences related to sick leave. This meant that bringing forward the accounts would be challenging. Arising from this, we emailed the Office of the Comptroller and Auditor General on 2 February to seek clarity on the three-month requirement. The Office of the Comptroller and Auditor General in its response to our email did not specify that the ESRI was required to meet the three-month deadline. As the email went on to discuss the arrangements for the audit of the 2017 accounts without reference to the three-month deadline, we took this to mean that the deadline did not apply. On that basis, we continued with the previous schedule. The draft accounts were reviewed by the audit committee at its meeting on 8 May and sent to the Office of the Comptroller and Auditor General on 10 May.

On reflection, I regret that I did not seek further clarification from the Office of the Comptroller and Auditor General around the time of our correspondence related to the Chairman's letter. I took the absence of a positive statement on our question as implying that the institute was not being asked to comply with the three-month deadline, but that was a mistake on my part. Looking ahead, the ESRI will, of course, meet the three-month deadline in the future.

Chairman: I thank Professor Barrett. I call Mr. Murray from the Abbey Theatre to make his opening statement.

Mr. Neil Murray: I have been invited to appear before the committee to explain why the draft 2017 financial statements of the Abbey Theatre were not presented to the Office of the Comptroller and Auditor General as required by 31 March 2018. The Abbey Theatre acknowledges receipt of the correspondence, dated 12 January 2018, from the Chairman on the requirement for the prompt reporting of annual financial results. I regret that this letter was not acknowledged, as requested, and that the issues raised in the letter were not the subject of follow-up discussions with representatives of the committee or the Comptroller and Auditor General. It was, unfortunately, the case that Chairman's letter arrived in the week when the theatre's long-standing director of finance and administration left on 19 January. Our interim director of finance and administration, Mr. Reeves, took up his post on 28 January. I express my sincere apologies.

It has been the long-standing custom and practice of the Abbey Theatre to present the draft accounts to the Comptroller and Auditor General's team on its arrival at the theatre to carry out the annual audit. In previous years the team arrived in February or March. For example, the audit of the 2016 financial statements began on 27 February 2017. Subsequently, the audited financial statements were approved by the board of the theatre on 5 May and later published on its website. In 2018 the starting date of the audit was significantly later. The Comptroller and Auditor General's team arrived at the theatre on 4 May to carry out the audit of the 2017 financial statements. At the time, the team received the draft accounts, on which it is working with the theatre. In line with the later starting date of the audit this year, it has been planned to submit the financial statements to the board at its meeting scheduled on 30 July, having been reviewed by the audit and risk committee of the theatre at its meeting scheduled to take place on 16 July. The board was provided with estimates of the provisional outturn for 2017 at its meeting on 31 January. The plan corresponds approximately to the length of time required for the accounts finalisation process in 2017, albeit, regrettably on our part, with a starting time that is nine weeks later.

During the course of 2017 the Abbey Theatre was engaged in discussions with the Arts Council, the Department of Culture, Heritage and the Gaeltacht and the Comptroller and Auditor General on the 2016 code of practice for the governance of State bodies. While the theatre is not required by law to follow the code, I am pleased to advise the committee that the board has decided, in line with best practice, to implement it. Its current plans are to implement all relevant aspects of the code in the period 2017 to 2019. This process is well under way. Implementation of the code, as approved by the board, will see the theatre achieving compliance by 31 December 2019. This decision was communicated formally to the Comptroller and Auditor General by way of a response contained in the management letter, dated 16 February 2018.

I assure the Chairman that the board and the executive of the Abbey Theatre will put in place the appropriate actions to ensure that in future years the requirements set by the committee to have the annual financial statements ready for audit by 31 March of the following year will be met in full.

Chairman: I thank Mr. Murray. That completes all of the opening statements. I thank all of the witnesses for their presence. Members can put a few short questions to them. I stress that it is a one issue agenda today. Matters related to the financial affairs of any of the organisations under discussion can be dealt with when the audit has been completed in due course.

Deputy David Cullinane: I thank the Accounting Officers for coming. As I know that they are busy, we will keep it short.

I address the Comptroller and Auditor General. He put a spotlight on this issue some time ago when he reported on the timely presentation of accounts. From his experience, since he and the committee looked at and examined the issue, what progress has been made?

Mr. Seamus McCarthy: The first year we looked at the timeliness of the presentation of accounts was 2014 and there has been a significant improvement since. The Deputy will appreciate, having heard the opening statements of the Accounting Officers, that it is a complex process. There are a lot of ducks that have to be in a row to receive a signed set of financial statements and ready for presentation to the Oireachtas. We have to work collaboratively. The Deputy has heard about the level of engagement, to which there are many aspects. I am happy that significant progress has been made. There will be another special report which I expect to finish quite soon on the 2016 financial statements. As the Chairman said, I have reported even further progress on the 2017 financial statements, particularly in the education sector where I had reported a systemic problem. Good progress has been made, even in the case of funds, where priority is given to the Vote, as the two Accounting Officers said. We have progressively been able to get to the funds earlier such that the financial statements are ready for submission earlier.

Deputy David Cullinane: Would it be fair to say, if the Comptroller and Auditor is saying that it is complex, that there may be a good reason and there are occasions when an organisation simply has not submitted its accounts on time for genuine reasons?

Mr. Seamus McCarthy: Yes. The timeframe for submission is relatively tight anyway. Going back to 2015, for instance, the introduction of financial reporting standard 102 required a significant additional effort around the time of carrying out the audits. That applied, certainly, to the Abbey and to the ESRI. For the 2017 sets of financial statements, the implementation of the code of practice for the governance of State bodies is having a significant effect as well. There are different challenges in different years and there can be surprises for organisations when they come to deal with new requirements, etc.

Deputy David Cullinane: One point I take from all of the opening statements is that there seem to be logical reasons in almost all of the cases that the accounts were not submitted as quickly as maybe would have been hoped but something that jumps from all of the pages is that there is no legal obligation on them to present their accounts in an exact timeframe. Can the Comptroller and Auditor General confirm whether the code of practice is a voluntary code?

Mr. Seamus McCarthy: It is not a voluntary code but it does not specify a date by which bodies that are within the scope of code-----

Deputy David Cullinane: How can we rap anybody's knuckles?

Mr. Seamus McCarthy: It is the Department of Public Expenditure and Reform the Deputy needs to talk to.

Deputy David Cullinane: I put it to the Chairman that I appreciate we are bringing Accounting Officers in because there is not what we would consider to be a timely presentation of accounts but there is not any timeframe set out in the code. Every opening statement states the same. If we are to include this in one of our periodic reports, that may be something that should be looked at. I do not see how we can arbitrarily invent a timeframe that is not set out specifically in the code. The Comptroller and Auditor General states the code is not voluntary, but at the same time it is vague. I thank the Accounting Officers for their opening statements.

Chairman: I and the committee took the view it is a matter of good corporate governance. If there was never a statutory date, just because there is no statutory obligation to do something is not a reason for not doing it. Good corporate governance should dictate that the accounts would be submitted in a timely manner. That is all we are trying to achieve here. There might not be a statutory backup to the good corporate governance that we are trying to achieve but it is good that we should try to do that. Deputy Cullinane highlighted the point, which we will take up.

Deputy David Cullinane: I will ask one final question then. I would imagine this has come up before our time as members of the Committee of Public Accounts. Is there a good reason there was not a specific requirement in terms of a timeframe included in the code, which states, as Deputy Catherine Murphy has it, "as soon as may be", after the end of the financial year.

Mr. Seamus McCarthy: Yes, "as soon as may be".

Deputy David Cullinane: Is that for flexibility purposes?

Mr. Seamus McCarthy: It is just something that has been inherited over many years. There has always been a statutory obligation on Departments, for instance, to submit their appropriation accounts, and for some accounts there is not an obligation set in the legislation to submit the accounts for audit. It is a situation that has evolved.

Deputy David Cullinane: We could write to DPER and find out what is the logic of not having a specific timeframe.

Chairman: We will follow that up. Deputies Farrell and Connolly have indicated.

Deputy Alan Farrell: I thank our guests for their presentations. Deputy Cullinane has stolen my thunder because the two questions I was going to hone in on have been asked and answered. The opening statements are appreciated. The common theme throughout, as rightly highlighted by Deputy Cullinane, highlights what we could call a deficiency in terms of the specific data upon which accounting reports should be presented in a timely way.

To touch upon what Mr. Murray stated on the implementation of the code of practice for State bodies, in terms of the length of time it is taking, as a general point as opposed to anything adversarial, I would be of the view that two years is quite a long time. I am not an accountant but I have dabbled in accounting departments over the years in my former career. Two years seems to be quite a long time. Does Mr. Murray believe the Abbey is adequately staffed to cater for the code of practice? Is that a normal implementation period?

Mr. Neil Murray: That is the issue. What we need to do is go through it, literally, line by line, to see. We occupy a slightly strange position in that we are funded by the Arts Council rather than directly by the State. We occupy a slightly anomalous position in that way. We need to go through the whole document, literally, line by line, to work out which bits actually are relevant to our operation. Certainly, if we can accelerate that process, we will, but that is the timeline that has been agreed with the Comptroller and Auditor General.

Deputy Alan Farrell: When was that decision taken by the Abbey's board?

Mr. Neil Murray: At the end of 2017.

Deputy Alan Farrell: I note with appreciation the honesty of Mr. Murray in giving us the information asked of him in presenting to us.

Deputy Catherine Connolly: I, too, welcome the candour. I welcome the opening statements. There is no need to repeat any of it.

I note that the Abbey is the only one of the four before us that did not acknowledge our letter. It is a little worrying that even a basic letter from the Committee of Public Accounts was not acknowledged. I do not know whether the Abbey stands out. I cannot see from the other three whether the letter was acknowledged.

Mr. Neil Murray: That was a serious omission.

Deputy Catherine Connolly: That would be of concern because we end up using our energy to follow up on the timeliness as opposed to, and more important, the content of accounts. There is a particular onus on all of the organisations to show example.

A question perhaps I should not put - it is just that the ESRI raised it in its opening statement - relates to it being in the private sector. I presume all of the funding is public but Professor Barrett gave as a context that it was established in the private sector. Would he clarify that for me?

Professor Alan Barrett: This goes back to when it was established by Whitaker in 1960. It is incorporated in the private sector as a-----

Mr. Charles O'Regan: A company limited by guarantee.

Chairman: Not having a share capital, to be exact.

Deputy Catherine Connolly: Is that all Professor Barrett means by the private sector? It is 100% publicly funded.

Professor Alan Barrett: Not 100%. It is probably 98%.

Deputy Catherine Connolly: Where does the other 2% come from?

Professor Alan Barrett: I apologise if I am slightly wrong in my percentages. For example, KBC Bank, Bank of Ireland and AIB, through us, undertake what are known as sentiment indicators. The Deputy may have heard of the KBC/ESRI consumer sentiment index. We do a data collection exercise for them and then we report on the trends in consumer sentiment or whatever the other indices are. There is this small bit of funding that comes from those agencies. There may be one or two others - I do not think so. Essentially, one is talking about 96% or 97%.

The reasoning behind the establishment in the private sector goes back to some sort of a notion that the ESRI should be independent of the State in some shape or form. It was based on a British model and it has just continued ever since.

Deputy Catherine Connolly: Go raibh míle maith agat. The absence of gender representation I could not let go unremarked.

Deputy Shane Cassells: I have one quick question for Mr. John McCarthy from the Customs House. He was before the committee a short time ago in respect of the special report and the work of the Comptroller and Auditor General in respect of the Local Government Fund and the many strands of funding that come into the Department. In his final points, he made reference to the fact that the fund is undergoing significant restructuring this year with the motor tax receipts now being remitted directly to the Exchequer rather than to the fund and that will shorten the time period for the preparation of the 2018 accounts for the fund. Can he elaborate, for my benefit and the benefit of other members, and particularly many interested others? The overall fund was €1.8 billion, which is a significant amount of money. The motor tax element accounts for €1.1 billion of that, so this is a very significant amount of money. It generates a lot of public discourse and debate. I am interested in the impact of that change and how its extraction is going to be accounted for now. If it is not in the Local Government Fund how will it be reflected in terms of the return next year?

Mr. John McCarthy: Back in the mists of time, when the fund was first established under the 1998 legislation, a policy decision was taken that motor tax would go into this fund on the basis that a significant proportion of the funding coming out on the other side would fund local authorities for a whole range of functions, including for roads related functions, which were then a part of our Department. That was 20 years ago, and we have gone through four, if not five, reconfigurations in the meantime. I was before this committee in March and made the point - and I believe Deputy Connolly made the same point the year before - that the fund, through those four or five reconfigurations, had outlived its usefulness in terms of the form it took because it had become very complex in terms of money going in and out for a range of functions which are now much more widely distributed across a range of Government Departments. We put a position to Government last year on this matter and it agreed that we should simplify things. In 2018 that means that motor tax no longer goes into the Local Government Fund but goes straight to the Exchequer and so will be accounted for in the general finance accounts in the same way as other taxation streams that go straight to the Exchequer are accounted for, and that the Local Government Fund, with effect from this year, will primarily become a fund from which local property tax is taken in and paid out to local authorities. In quantum terms, the revenue position and the expenditure position of the fund in 2017 would have been about €1.8 billion, as I mentioned in my opening statement. The effect of the streamlining and the changes that are introduced this year bring that back to about €600 million. In effect the quantum of turnover is approximately one third.

Deputy Shane Cassells: The moneys will still find their way back into the local government system. Even through the moneys that are being paid are now being returned centrally to the Exchequer they will be distributed, through a different strand of funding, back to the Department of Housing, Planning and Local Government as well.

Mr. John McCarthy: The moneys will not really come to my Department. One of the complications that has arisen over the course of the years when departmental functions were being changed around was that motor tax came into the Local Government Fund. One of the payments out of the fund was to the Department of Transport, which then paid the local authorities for roads, for example. One of the streamlining and transparency-boosting features of the arrangements for 2018 is that motor tax will go into the Exchequer. The Department of Transport, Tourism and Sport will be funded through the Vote in the ordinary way for its roads programme, and it will pay the money straight on to local authorities.

Deputy Shane Cassells: We had a very detailed discussion on the last occasion the Department was before this committee in terms of that aspect of transparency. Mr. Seamus McCarthy referred to the complicated nature of the funding mechanism over decades, in terms of the way things amassed. Does this move lead to transparency? Does it help the Comptroller and Auditor General, in terms of the complexity of this funding mechanism?

Mr. Seamus McCarthy: I do not want to prejudge it, but my expectation is that it will simplify matters.

Deputy Shane Cassells: Does the witness say that because it will now go directly to the Department of Transport, Tourism and Sport instead of having to go in to the Exchequer and then be sent back out?

Mr. John McCarthy: That is an example of how it will work for that particular function.

Deputy Shane Cassells: I do not want to see a situation where the Department of Housing, Planning and Local Government is in receipt of less money than it should be because of a switch in terms of where moneys go.

Chairman: That also applies to the local authorities.

Deputy Shane Cassells: The Chairman is correct. Local authorities particularly would be in receipt of less money by virtue of a payment being made to the Exchequer rather than into the Local Government Fund.

Mr. John McCarthy: That would certainly not be the intention. This is being done in order to recognise a longstanding anomaly arising out of changes in functions, with money coming in and money going out, going into another place and then coming out to the local authority. It is really a streamlining issue, but as is always the case, for all Departments, we have to fight our battles every year to get the funding we need for a whole range of purposes.

Deputy Shane Cassells: I will not prejudge the matter either, like the Comptroller and Auditor General.

Mr. Seamus McCarthy: One of the reasons the chapter on the central Government funding of local authorities was produced was to bring to the fore the figure that was going to local authorities. If my office or the Department can continue to aggregate the separate streams of funding and publish it as an information or memorandum account it would be useful. It would help decision makers to see how much money is being provided to local authorities. That is a legitimate concern.

Deputy Bobby Aylward: When the local authorities collect all of this money, the car tax and vehicle tax, etc, do they charge a handling fee? Are they the debt collectors at local level who then send the money on to central funding?

Mr. John McCarthy: I do not have the current figures because it is no longer something my Department deals with, but from recollection I believe we are in the low 70% nationally in terms of online motor tax collection. It is already collected centrally. The balance is collected through the motor tax offices, and is one of the issues that we faced until 2017. It is no longer a problem for us, but getting returns in from the 28 different motor tax offices and checking them was a big job. The money went into the fund and went out the other side, for a range of purposes, including funding for roads and general funding for local authorities.

Deputy Bobby Aylward: The distribution is still based on population. Leitrim and the smaller counties still get a proportion, as does Dublin. Is it divided on the basis of proportion of population, or is it based on the distance of roads in each area?

Mr. John McCarthy: There was some discussion on this issue when we were here back in March, but it mainly involved our colleagues in the Department of Transport, Tourism and Sport and concerned how they distributed the roads money.

On the local government piece, the fund for 2018 will now primarily be a fund through which the local property tax is taken in and then paid out to local authorities. There was some discussion on that issue in March. That distribution of local property tax funding to local authorities is on the basis of what we call an 80:20 model, where 80% is retained locally and 20% goes into a central fund to assist local authorities with lower property tax bases. That has been built on historical baselines, and I indicated in March that we were establishing a process to review those historical baselines of funding for local authorities. That process has just got under way and is scheduled to be completed, I believe, in August.

Chairman: We will conclude the meeting at this stage. I thank all the witnesses for being here today. We have had a good outcome to this meeting, and long may it continue. Public bodies should take note of what has been said here today. Part of good corporate governance of every public body is the submission of financial statements in a timely manner, which is the responsibility of the Accounting Officer or the board of directors. There is no other business. We will adjourn until tomorrow morning, when we will engage with the Higher Education Authority, University College Cork and Cork Institute of Technology in relation to matters concerning the 2016 financial statements of those bodies.

The witnesses withdrew.

The committee adjourned at 6 p.m. until 9.30 a.m. on Thursday, 24 May 2018.