

# **Comprehensive Expenditure Review**

**Department of Agriculture, Fisheries and Food**

**September 2011**

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**Comprehensive Expenditure Review 2011**

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## **Section 1      Identification of key options**

# **Comprehensive Expenditure Review 2011**

## **Summary**

The Comprehensive Expenditure Review requested by Government has been completed by the Department of Agriculture, Fisheries and Food and is set out in this report.

The report sets out the 10 key areas that will serve to reduce expenditure by introducing reforms and improving the effectiveness and efficiency of service delivery.

The proposals represent a package of unprecedented severity that will impact negatively across the agriculture, food, forestry and fishery sectors.

The expenditure ceilings in the National Recovery Plan of €1,136m in respect of current expenditure and €150m for capital represent reductions of €242m and €19m respectively from the 2011 Vote allocations. The Minister has identified a range of new options, while taking account of the effect of decisions already made to achieve the required cuts in current expenditure. Having carefully examined the capital programme, the Minister is adamant that it will not be possible to reduce capital expenditure to the level of the expenditure and is seeking additional funding of €50m to ensure that adequate funding is available to meet commitments on the capital side

Even taking account of an increase in capital funding over and above the existing ceiling, the package of cuts which are proposed will be extremely unpopular, contentious and politically controversial. The Minister's objective is to ensure, as far as possible, that the current buoyancy and impetus in the sector are maintained, that the prospects for future growth and expansion are not undermined and, at the same time, supporting those who wish to remain in farming and protecting the most vulnerable farm families.

## **Department's Mission Statement**

The Department of Agriculture, Fisheries and Food is a large complex organisation, geographically dispersed in offices and other locations throughout the country, with a broad remit which covers policy, regulatory and developmental roles in relation to the primary production and processing sectors of the agriculture, food, forestry and fishery industry. The Department's Mission Statement is as follows:

*“ To lead the sustainable development of a competitive, innovative, consumer focussed agriculture, food, fishery and forestry sector and contribute to a vibrant rural and coastal economy and society”.*

## **Economic contribution of the sector**

Agri-food and fisheries is Ireland's largest indigenous industry, is dispersed throughout rural areas and has the potential and actual capacity to lead economic recovery. Annual turnover is over €24 billion and the sector has a strong export focus. Its overall contribution to the economy is illustrated by the fact that, in 2010, the industry accounted for 7% of gross value-added, 7.5% of employment and 10% of exports. Export figures from the agri-food sector were particularly encouraging in 2010 and are estimated at almost €8bn (an increase of 11% on 2009) which is well ahead of growth in most sectors. Figures for the first five months of 2011 showed continued strong growth with a 16% increase in outputs over the same period in 2010. Net foreign earnings in agriculture, forestry and fishing, as well as the industries processing their products, namely the food, beverage and tobacco industries, contributes approximately 30% of the total net earnings from primary and manufacturing industries. Investment in the sector also has a disproportionately positive impact on the economy. The latest Central Statistics Office data show that the Agriculture, Forestry & Fishing sector has a multiplier effect of 1.73. This compares, for example, with the Motor (1.41) Recreation (1.39) or Chemical (1.11) industries. The sector directly employs up to 150,000 people with a significant weighting of activity in rural and coastal communities, often in areas where few other employment opportunities currently exist.

The Food Harvest 2020 strategy, which was published in July 2010, sets out a strategic blueprint for the development of the sector over the next decade and contains a series of ambitious growth targets to be achieved by 2020, namely, to

- increase the value of primary output of the agriculture, fisheries and forestry sector by €1.5 billion – a 33% increase compared to the 2007-2009 average;
- improve the value-added in the sector by €3 billion;
- achieve an export target of €12 billion for the sector – a 42% increase compared to the 2007-2009 average;
- increase milk production by 50%, and
- add 20 % to the value of the beef sector; the industry view is that the potential for growth may be as high as 40%.

The agriculture, food, forestry and fishery sector operates in a rapidly changing and challenging environment. The main emphasis of policy is on making operators at all levels more competitive, increasing the focus on consumer demand and needs, encouraging an innovation culture that will enable the sector to adapt quickly, fostering the development of new products and more efficient production methods and ensuring the sectors operate in a way which is economically and environmentally sustainable. The overall strategy as set out in Food Harvest 2020 is fully endorsed by the Government for National Recovery, 2011-2016, programme which also contains a number of specific objectives, including, in particular, a commitment to afforestation. In seeking to fulfil its mandate and achieve its objectives, the Department engages in a wide variety of activities including:

- the development of an appropriate policy framework for the sectors, taking account of EU and national and international developments and representing Ireland at negotiations on such matters;
- fostering innovation through the implementation of competitive research measures directed both at processing and primary producer level;
- safeguarding public health and ensuring consumer confidence in Irish product, protecting existing markets - domestic, in other Member States and 3<sup>rd</sup> Countries - and facilitating access to new markets, through its monitoring and controlling aspects of food safety at food processing plants and elsewhere;

- administering a range of capital investment and rural development schemes designed to develop infrastructure, improve competitiveness, enhance the environment and restructure the sector to make it more sustainable;
- administering and controlling EU funded schemes designed to support incomes ;
- promoting high standards of compliance with food safety, environmental and animal health and welfare.

**Background: recent policy changes and expenditure cuts**

The Department has undergone an on-going systematic review of all aspects of expenditure in recent years. This is reflected in the reduction, since 2008, in the Vote on the one hand and on staff numbers on the other -

Year	2008	2009	2010	2011	2012
Vote €m	2,104	1,938	1,764	1,647	1286
Staff numbers at year end	4,245	3,881	3,632	3,606 (end May)	3,539 (ECF)

*ECF: Employment control framework.*

In order to implement a reduction in expenditure on this scale and in this timescale, the Department has employed all possible options and remedies, including: -

- major policy change, including scheme termination and reductions in funding to critical levels in other schemes and areas of service delivery,
- reform of the Department’s structure, organisation and operations; a continuous on-going review of the Department’s performance and service delivery is supported by a dedicated Management Services Unit,
- Value for Money reviews of programme activity undertaken by the Department’s Economic and Planning Division.

In addition, an Efficiency Review Group, which is chaired by the Secretary General, has been established to implement the programme of reform and to seek further improvements in efficiency. The on-going process is reflected in the Department’s achievements to date and ambitious targets under the Croke Park Agreement.

In practical terms, the following is a summary of the scale and scope of the changes and reforms implemented since 2008: -

- closure of **Early Retirement** and **Young Farmer Installation Schemes**
- withdrawal of 17% increase in **REPS 4**,
- cut in **Suckler Cow Welfare Scheme** premium from €80 to €40 per animal together with delayed payments,
- 14% cut in **Disadvantaged Areas Scheme** payments,
- 8% cut in **forestry** premia,
- halving of funding for **Fallen Animals Scheme** and scheme revision,
- deferral of **Farm Waste Management Scheme Grants** (40/40/20% payable in 2009/10/11),
- closure of **Farm Improvement Scheme**,
- reduced allocations for **Research and Development** (reduction in new calls for proposals),
- reduced allocations for **marketing and processing grants scheme**
- substantial cuts in Grants-in-aid to **State bodies**,
- closure of **REPS 4** to new applicants in July 2009,
- reduced allocations of funding to virtually all other schemes and activities,
- substantial reductions in Administrative budget costs including reductions in staff numbers, reduced overtime and travel allocations and the rationalisation of the local office network.
- applications under the Targeted Agricultural Modernisation Schemes were temporarily suspended pending the outcome of the Comprehensive Expenditure Review and, in particular, decisions on the allocation of capital funding to the Department in 2012

Taken together, the scale and pace of policy change and reform that has been implemented in recent years represents a dramatic overhaul of the Department's operations and its interaction with the various sectors. Schemes aimed at promoting restructuring, on-farm investment and agri-environment measures have been closed, suspended temporarily or scaled back, premia and other payments have been reduced across the board while funding for the support services has also been substantially reduced.

## **EU Co-funding**

An important element of the Department's operations is the management of EU funding and co-funding. The management and oversight of EU funded and co-funded activities places onerous and resource intensive demands on the Department. The implementation of the various measures is the subject of increasingly rigorous and intensive scrutiny by the Court of Auditors and Commission which carry out regular audits to ensure strict adherence with very detailed regulatory requirements. In addition to prescribing detailed administrative checking procedures, minimum requirements are set down in relation to the number of field inspections visits must be carried out. Failure to meet these obligations would leave the Department open to the risk of substantial disallowances of EU funding in the annual Clearance of Accounts process which is becoming an ever-present feature of CAP transfers throughout all Member States.

EU direct payments and market support operations are fully funded by the EU and the Department manages and accounts for a range of measures, including payment of the Single Payment Scheme, amounting to about €1.3b per annum. This expenditure is off-Vote and is outside of the terms of the Comprehensive Expenditure Review although the Department's administration is, of course, subject to the review process.

In addition, under Ireland's Rural Development Programme, 2007-2013, the Department administers and manages the implementation of a wide range of measures under three development axes. Minimum funding levels, which are rigidly applied by the Commission, are prescribed for the different axes and these constraints have the effect of narrowing considerably the Department's discretion to manage the funds in response to changing circumstances. The three axes provide for:-

- Axis 1 (minimum of 10% of EU funding); improving the competitiveness of the agriculture sector (e.g. restructuring and schemes for on-farm investment),
- Axis 2 (max 80% of EU funding); improving the environment and countryside by support for land management (Disadvantaged Areas and Agri-environment schemes),

- Axis 3 (min 10% EU funding); improving the quality of life in rural areas and encouraging diversification of economic activity (LEADER programme which is implemented by the Department of the Environment, Community and Local Government).

The total public funding provided for under the Rural Development Programme over the period 2007 to 2013 is €4.313 billion, €2.348 billion of which is EU co-funding. The schemes are co-funded by the EU at rates of between 50/55% and up to 75% in a limited number of cases. EU co-funding is subject to significant constraints and accounting arrangements. For example, in addition to the axes constraints outlined above, the recoupment of EU funding is normally a year in arrears following gross expenditure by the Department. Any amendment or curtailment of co-funded schemes also requires the agreement and approval of the Commission.

However, the EU co-funding provides the opportunity for very substantial investment in rural areas at generous co-financing rates and the Department's priority has been, and remains, to maximise EU drawdown while implementing measures aimed at achieving Government and other worthwhile policy objectives.

Failure to provide the national matching funding for the various schemes would result in failure to draw down, potentially substantial, EU funds. However, because of the pattern of EU drawdown which includes advance payments, a reduction in national funding at this stage could also result in the repayment to the Commission of funds already drawn down. Such a situation would very seriously worsen the Department's net budgetary situation.

For these reasons, EU co-funding is an important determining factor in decisions on the allocation of future funding by the Department and also a major constraint in the options available under the Comprehensive Expenditure Review.

The options identified have been carefully considered to maximise the drawdown of EU funds and, in particular, to ensure that funds already drawn down by way of advances and the co-funding of actual expenditure, do not have to be repaid to the Commission. The TAMS (Target Agricultural Measures) were suspended pending the outcome of the Comprehensive Expenditure Review and it is now clear that the

drawdown of EU funding under the schemes is critical to ensuring that the axes balance required under the Rural Development Programme is met and that the drawdown of EU funding is maximised. However, while this dictates that the TAMS should be re-opened and further funds committed and spent under the schemes, the situation requires that adequate funding is provided for TAMS under the Department's capital envelope.

The issue of an adequate capital allocation for the Department in 2012 to facilitate expenditure under various schemes, particularly TAMS, is critical therefore to the overall strategy in relation to EU funding.

### **Recent Commission Proposal on co-funding rates**

The current EU co-financing rates under Ireland's Rural Development Programme are 50% under axis 1, 55% under axis 2 and 55% for Leader projects under axis 3 /4.

In a recent proposal, the Commission proposed an amendment to the Rural Development Council Regulation 1698/05 which would allow the EU co-funding rate to be increased up to a maximum of 85% in respect of all expenditure under the Rural Development Programme during the period while Ireland is receiving financial assistance under the European Financial Stabilisation Mechanism (EFSM).

The Commission initiative was taken in light of the increasing pressure on national financial resources and the fact that Member States are reducing their national budgets. The increase in the EU co-funding rate is intended by the Commission to help Member States to continue the implementation of their programmes. The proposal is budget neutral as far as the EU is concerned as the total allocation of rural development funding for the lifetime of the Programmes will not change. The proposed amendment is at draft stage and will be subject to the co decision legislative process. It is expected to be approved by the beginning of 2012.

Following adoption of the Commission's proposal, it would be necessary to submit a revised Rural Development programme and Financial Plan for Commission approval should Ireland decide to take up the option of the proposed increased rates of co-financing. Clarification on the detail and implications of the Commission's proposal and an assessment of the process and timescale for its introduction are being sought.

If the proposal as it is currently understood were to be implemented and taken up by Ireland, it would significantly reduce the scale of the Rural Development Programme.

The overall level of EU co-funding would not change but the co-financing rate would reduce to 15% from 50/45%. As a result, less national funding would be required to draw down the EU funding allocated to the Programme and the overall level of expenditure would reduce. For example, €703m EU funding is available for 2012 and 2013. If the EU co financing rate applicable to this amount is 85% the gross amount to be spent is €827m while an EU co-financing rate of 55% requires spending of €1.2bn. The 85% EU co financing rate would save or reduce national spending by €450m. but would entail a massive reduction in the overall level of expenditure.

The implications of the proposal, including any impact on the axis balance and the existing level of commitments requires detailed examination and further information and clarification from the Commission. However, it would appear that the overall effect would be a substantial reduction in the level of expenditure over and above the level already envisaged in the Comprehensive Expenditure Review. The reduction in expenditure on the scale which is likely to emerge from the proposal, would result in scheme closures or substantial reductions in rates of payment which, in addition to the cuts already contemplated, would be controversial and very damaging to the development of the sector. The Commission proposal is not, therefore, taken into account in the options identified been in the review process.

### **Comprehensive Expenditure Review**

In line with the Government's decision, the Department has embarked on a further comprehensive and systematic review of all elements of its expenditure. While the priority is to ensure compliance with expenditure ceilings in the NRP, the objectives of the review are to ensure that: -

- that reforms are introduced and resources are targeted effectively to obtain optimum benefit from all available resources,
- the alignment of expenditure with the priorities of the programme for Government.

While the over-riding objectives are to implement Government policy and achieve the objectives outlined in Food Harvest 2020 and the Government for National Recovery Programme, the Minister is concerned to proceed in a manner which will ensure a future for farm families who wish to remain on the land and protect the most vulnerable farm families.

### **Methodology for the Review**

The Department has undertaken the Comprehensive Expenditure Review on the basis of:-

- intense consultation with MAC members to establish the base line in terms of a) current funding, commitments and activity levels, b) the scale of the challenge and also to ensure full commitment to review process,
- identifying opportunities for improvements in efficiency and options for further analysis,
- availing of external advice and expertise through consultants working on a pro bono basis,
- preparing a provisional estimate of aggregate funding requirements in 2012 and identifying a strategy and proposals to secure the required savings or reductions in expenditure in 2012 having regard to the Department's own analysis but also taking into account the recommendations of the McCarthy/Special Group report, Value for Money Reports, Management Services Division reports, etc..

The Minister has made it clear from the outset that every aspect of the Department's activities, without exception, should be subject to critical review regardless of the legal, policy political or administrative justification. At the same time, the process has, of necessity, to take a realistic approach in taking due account of the distinction which exists in the Department's case between discretionary and non-discretionary activity in the context, for example, of the EU and national food safety, on-farm inspection, regulatory and other mandatory requirements, that must be met.

## **Policy context**

The process of identifying the options for cuts in expenditure and, ultimately issues for submission to Government, is also taking place having regard to policy, regulatory and operational issues and principles, including:-

- the Minister's political and socio-economic priorities as already outlined and as set out in the Government for National Recovery Programme and the Food Harvest 2020 strategy; the issues arising relate to regional/rural development, the need for a sectoral balance within the competing sectors, the impact on farm incomes, primary production, on-farm investment, processing sector, exports, R+D, etc.,
- the role and contribution of State bodies
- the impact of proposals on drawdown of EU co-funding, and
- policy implications in relation to the current negotiation on CAP reform.

## **Outcome**

The Expenditure review process has been rigorous and exhaustive, has been fully embraced at official and political level. In addition to the intensive internal review process to examine all areas of the Department's activity from the point of view of relevance, effectiveness and efficiency, the Minister has availed of the expertise of consultants (Accenture, Deloitte and KPMG), working on a pro bono basis, to advise and recommend on particular aspects of the Department's activities. Details of the reviews undertaken and the current situation are outlined in Section 4.

Where the options identified involve adjustments or amendments to EU funded or co-funded schemes, the Department is already engaged in exploratory discussions with the Commission on possibilities for amending the schemes concerned and on the options for applying flexibility in redirecting funds under the Rural Development Programme.

## **Scale of the Challenge**

The following are the expenditure ceilings for the Department under the National Recovery Plan

NRP allocations* €m	2011	2012	2013	2014
Current	1,378	1,136	1,057	1,029
Capital	269	150	140	140
<b>Total</b>	<b>1,647</b>	<b>1,286</b>	<b>1,197</b>	<b>1,169</b>

\*at November 2010

In addition to Voted Exchequer funds, as already indicated, the Department is responsible for administering EU funds (100% EU funded) of approximately €1.3 billion. The Single Farm Payment accounts for €1.2 billion and market supports (intervention, export refunds etc) accounts for the balance.

The reduction in the Department's NRP expenditure ceilings between 2011 and 2012 is €361m, €242m on the current side and €119m on capital. This represents a reduction in funding from one year to the next of 22% while the decline on the Vote in 2012 by comparison with 2008 is 38%. Some savings will occur naturally through lower budget requirements for certain areas in 2012 compared to 2011. Nevertheless, despite this, there will be a significant gap that will fall to be met by lower budget provisions for 2012.

Because of the massive scale of cut-backs and policy change since 2008, the scope for readily identifiable and relatively painless cuts has been eliminated. Any further cuts will seriously undermine efforts to implement Government policy and will impact negatively on the development potential of the sectors, on farm incomes, rural communities and EU drawdown. The scope for cuts is also constrained by the need to provide for certain unavoidable costs in the form of existing statutory functions, funding liabilities, particularly on the capital side. Due to the Department's wide range of complex statutory and other responsibilities, the reality is that the structure of the Vote is not amenable to major budgetary change in the short term without the risk of creating operational and consequential legal and/or trade risks at national and international level.

Nevertheless, the Minister fully accepts the need to implement expenditure cuts and is satisfied that although with drastic action, the NRP expenditure ceilings on the current side can be implemented.

However, the Minister is extremely concerned at the situation, which is outlined below, in relation to capital expenditure.

### **Current Expenditure**

The Department's current expenditure covers a broad range of schemes and service delivery through: -

- the Administrative Budget
- demand led schemes, especially Disadvantaged Areas, agri-environment schemes,
- food safety and animal health,
- R+D, training,
- Grants-in-Aid to State bodies
- EU market operation costs.

The Admin Budget covers the staff and related costs of delivering a wide range of Exchequer and EU funded services as well as regulatory, food safety, animal welfare and international trade obligations.

Current expenditure also includes expenditure on a range of schemes, the effective implementation of which is vital in supporting farm incomes. Payments under two schemes, the Disadvantaged Areas and Agri-Environment Schemes, together account in 2011 for €557m of current expenditure. Because of the scale of the cuts implemented in recent years, it will not now be possible to remain within the NRP expenditure ceilings without substantial cuts in these schemes. The Minister is, however, prepared to implement the necessary cuts while aiming to continue support for active farmers and vulnerable, small scale producers.

## **Capital expenditure**

The Department's annual programme of capital expenditure differs fundamentally from the Public Capital Programme of other Departments as it mainly covers grant schemes and aids aimed at individual farmers as opposed to being project based expenditure.

The single biggest item of the Department's capital envelope is forestry premia payments which already account for commitments of €77m of the €150m available in 2012. These are the annual payments which are paid over a period of up to 20 years to encourage new forest plantings. Their origin and justification is to provide an income stream for the beneficiaries who commit long-term to forestry and, in reality, the payments constitute committed current expenditure rather than capital investment projects in the normal sense. The inclusion of forestry premia as capital expenditure in the Vote severely curtails the Department's ability to manage its capital envelope from one year to the next.

Apart from forestry premia payments, the main elements of the Department's capital expenditure are as follows

- On-farm investments,
- Investment in the food processing industry,
- Establishment grants for afforestation and bio-energy crops,
- the horticulture and organic sectors,
- Investment in the fishing sector in the processing industry, aquaculture and fishery harbours,
- Capital investments by State bodies, in particular BIM (developmental), Sea Fisheries Protection Authority (supports statutory functions) and the Marine Institute (regulatory / developmental),
- Other, including accommodation, office equipment, IT, laboratories, etc..

The potential of these activities to contribute to economic recovery and growth in terms of job creation and employment maintenance cannot be realised without significant investment and, in some cases, Government expenditure to incentivise private investment. A more detailed statement on the employment maintenance and

creation effect of capital expenditure is attached in section 5. The Department's capital expenditure is based on multi-annual commitments which are made in advance. Apart from forest premia payments, the other main elements of capital expenditure are grant aid payments to the marketing and processing industry, on-farm investment, fishery harbours and the expenditure of State bodies. In many cases, expenditure takes place, often years after grant have been approved, as projects are completed and claims are submitted.

The capital envelope for the Department in 2011 is €269m. Under the terms of the National Recovery Plan, the allocations for the period 2012, 2013 and 2014 are €150m, €140m and €140m respectively. The Minister is concerned that this capital allocation is totally inadequate to meet existing commitments or to make any contribution to encouraging and facilitating development across a broad range of activities.

The funding available in 2012 is virtually fully committed and unless a significant additional allocation of capital funding is received, it will not be possible for the Department to meet its liabilities or to issue any further grant approvals or to enter into any further commitments. This situation will seriously undermine any prospect of further investment in new afforestation, in particular, as well as on-farm investment, horticulture, livestock breeding, the fishing sector and investments by State bodies. It also means that it will not be possible to implement key aspects of the Programme for Government, in particular the commitments to Food Harvest 2020 and, in particular, the Government's commitment to afforestation. The Department estimates that a total allocation of about €200m is required to enable vital schemes which support job creation and maintenance to continue. A similar level of funding is required in 2013 and 2014.

Under the Comprehensive Expenditure Review, Departments were requested to indicate the implications of a 30% cut in the capital allocation for 2012. In the Department's case, the situation is absolutely clear in that the Department could not honour actual existing contractual commitments, i.e. meet mature liabilities as required by Government Accounting Procedures.

The constraint on the capital side is reflected in the fact that in June, the Minister announced the temporary suspension of the Targeted Agricultural Modernisation Schemes (TAMS) for on-farm investment pending the outcome of the expenditure review process because of concerns that funding would not be available in 2012 to honour commitments made in 2011. The termination of support measures will have negative consequences for investment within the sector and could seriously undermine the potential for growth in the years ahead. The suspension of TAMS also narrows considerably the Department's developmental role and focus and effectively closes all existing schemes for capital investment.

### **Overall strategy**

Having questioned the rationale and value of each programme as outlined, the Department has identified 10 areas of reform, each incorporating severe cuts in funding, which will be required to achieve the targets set out in the NRP expenditure ceilings.

With significant amount of pain, the Minister believes that it will be possible to remain within the expenditure ceilings on the current side and so implement the cut in expenditure of €242 million on the 2011 allocation.

As already indicated, the Minister does not believe that it is possible to reduce capital expenditure to meet the capital expenditure ceiling target of €150m in the NRP.

As already outlined, the Minister's intention is to target expenditure cuts to ensure that the most vulnerable farm families continue to receive support while attempting to focus the remaining available resources in favour of the investment priorities within Food Harvest 2020 and the Government Programme for Recovery.

The 10 **Key Levers of Reform** which are proposed, are as follows: -

#### **1. Disadvantaged Area Schemes:**

**The Department's Vote provides €220 million per annum in this area which represents an important contribution to the income of 102,000 farm family beneficiaries. In 2008, cuts of 14% were implemented by a reduction in**

eligible areas, thereby protecting payment to the smallest beneficiaries. The Department is proposing further substantial reforms in this area that will be based, firstly, on reform of the qualifying criteria and tightening of the scheme eligibility criteria. However, in order to achieve overall savings of the order required on the 2012 Vote, it will also be necessary to implement an even more stringent reduction in scheme payments. The proposal is to achieve the necessary cuts by either targeting spend towards smaller farmers and ensuring that those who need it most will continue to receive supports, by varying payment rates in the different categories of disadvantaged area or a combination of both. The Department is proposing that substantial savings will be realised from this reform. Depending on the outcome of deliberations on the other elements of the overall package, the cuts in Disadvantaged Areas Scheme payments could be of the order of up to €50m. The proposals, which are subject to approval by the Commission, will be hugely unpopular, contentious and politically controversial.

## 2. Meat Inspection:

€19.2 million per annum is provided in the Vote in this area. The Department has completed a review of service delivery **REDACTED TEXT** While the savings in 2012 will be small, beyond 2012, the ambition is to achieve very substantial savings in this area. **REDACTED TEXT**

## 3. Forestry:

Annual expenditure is about €115 million per annum in this area. While most this expenditure is classified as capital, in reality, it does not differ significantly from committed long-term current expenditure. The Exchequer commitment for the annual on-going afforestation premia and second planting grant instalment commitments is currently €89 million and involves varying commitments for periods of up to 20 years. Immediate cancellation in full of the premia is not an option for a variety of reasons including contractual commitments, adverse impact on employment and economic activity at nursery, planting and downstream manufacturing sectors. Given

that the Department is currently legally contracted to premia payments, the potential for an expenditure cut is limited and the Department is currently looking options to reform the way that premiums are paid while trying to protect the rate of new planting. Given the constraints on capital funding, the Minister's aim is to seek to maintain the existing level of new planting (7/8,000 hectares p.a.) rather than commit to any progress in reaching the commitment to invest in a 14,700 ha p.a. afforestation programme as set out in the Government for National Recovery plan. Maintaining planting close to current levels would require an increase in the Departments capital expenditure ceiling as outlined already.

**4. Beef Sector:**

Expenditure on the Suckler Cow Welfare Scheme amounts, on average, to €32 million per annum. The Minister is convinced of the merit of the scheme which he believes can make a valuable contribution to development of the national beef herd. While committed to the future of the scheme, the Department is currently evaluating the potential to divert funding from the Single Farm Payment under Article 68 of EU Regulation 73/2009 to continue this investment in the suckler cow herd. The proposal, which will require Commission approval, involves an across the board cut in the Single Payment Scheme payments to about 135,000 farmers and will be unpopular and controversial.

**5. Non Commercial State Sponsored Bodies (NCSSBs):**

Total Grants-in-Aid to the five non-commercial State bodies, Teagasc, Bord Bia, BIM, the Marine Institute and the Sea Fisheries Protection Authority amount to about €200m in 2011, a reduction from €247m. in 2008.

Having reviewed the role of each State body and evaluated the contributions to the industry, the Department is not recommending fundamental change in the existing structures. However, alternative funding models are being examined, in the case of Bord Bia, for example, mechanisms through which

**the industry would pay more for its operations. The objective is to raise additional funding beginning in 2012. The Department is also examining all possible options of further reducing Grants-in-Aid and will, in any event, be implementing cuts in current non-pay allocations.**

**The funding of other State bodies under the Department's control is also being examined and in the case of Horse Racing Ireland and Bord na gCon, besides imposing a cut in the 2011 allocations, the Department is recommending that an on-line betting tax be introduced as part of the package of funding for these bodies.**

**6. Commercial State bodies:**

**The Department has already submitted a report on the commercial State bodies and in the case of Coillte, has been proactive in relation to 'early wins', having secured agreement with Coillte to pay the State a dividend of €10 million this year. Deloittes have advised on options for the future of Coillte which the Minister has submitted separately for decision by Government.**

**7. REPs:**

**Commitments under REPS 4 amount to €184 million per annum. In addition to environmental benefits accruing, REPS also makes an important contribution to the incomes of the 30,000 participants and any reduction in payments will have a direct negative impact farm incomes. Furthermore, when combined with other proposed cuts in schemes and services, a cut in REPS payments will have particularly serious consequences for many farm families. The Department is considering the option, which requires Commission approval, of reducing payments in this area.**

**8. Administrative Budget:**

A total of €247 million is allocated to the Admin Budget in 2011. The Department rigorously reviews every area of expenditure and is committed to further staffing reductions and reductions in costs.

Staff numbers at end May 2011 were 3,606 which compares to 4,800 at the end of 2004. Under the Employment Control Framework, the Department is further committed to a further reduction to 3,539 by the end of 2012. There is on-going review of work practices and the assignment of staff and, for example, the ICT area of activities is under currently systematic review and a report is due in September and a Procurement Review Group is well advanced in its work to establish procurement arrangements to streamline existing practices.

The Department has sought external help from consultants, working on a pro bono basis. Accenture is also advising on procurement and shared services while KPMG is reviewing the operation of the implementation of the Single Payment Scheme in Portlaoise. (Further details on these reports can be found in Section 4.) As a starting point, the Department is looking to achieve savings of up to €14 million in the Admin Budget in 2012.

#### 9. Other areas:

All areas of activity and expenditure have been examined in detail and reductions in expenditure are planned in virtually every aspect of the Department's Vote. Details on the options involving policy change, reform and improvements in efficiency are outlined in Section 3.

The Department is examining the option of increasing fees and levies. Of the total 2011 estimated non EU income (€47m.), approximately €29 million relates to activities and services for which fees and levies currently apply. Subject to a more detailed assessment on the feasibility of increasing individual charges, the level of increased receipts, in the short term, is unlikely to be dramatically higher than at present. Collection of the pension levy accounts for approximately €17 million of the balance of non EU related receipts.

## 10. AEOS:

**The Minister accepts that the Department's budgetary constraints will continue and that further cuts will be required in 2013 and 2014 in order to remain within the appropriate expenditure ceilings. As a further step in the on-going process, the Minister accepts that it is difficult to envisage funding being made available in 2012 for the opening of the Agri-Environment Options Scheme (AEOS) which was launched in 2010 as a replacement for REPS and opened to accept new entrants in 2011. A decision not to provide for an AEOS scheme in 2012 would mean that about 24,000 farmers who exit REPS 3 during 2011 will not have access to a new scheme and will suffer drastic reductions in family incomes next year. This would be another major political challenge for the Government.**

The foregoing proposals represent options for a package of measures to achieve the necessary expenditure cuts in order to remain within the NRP expenditure ceilings. They are under active consideration and subject to further consideration depending on the outcome of on-going analysis, e.g., by consultants, and consultations with the Commission.

The proposals represent a package of cutbacks of unprecedented severity. They will impact adversely on all sectors of the industry and will have a particularly negative impact on farm incomes. The challenge, which will be extremely difficult, will be to implement the cuts without totally undermining the current buoyancy and confidence in the industry and damaging the prospects for its development in the future.

### **2013, 2014 Expenditure Ceilings**

The emphasis in the review process is in identifying options in relation to achieving the National Recovery Plan expenditure ceilings in 2012. The decisions taken in relation to the options identified to reduce expenditure in 2012 will have an impact in 2012 but also in subsequent years. The Minister is committed to ensuring that further cuts in expenditure will be addressed and that further options will be explored and identified in good time in the light of developments in relation to the Administrative

Budget and to scheme and programme expenditure to further reduce expenditure in 2013 and 2014. While the Minister is confident that the expenditure ceilings on the current side can be achieved, he wishes to point out that the difficulties in relation to capital expenditure in 2012 which are outlined in the review, are also likely to re-occur in future years.

### **Summary**

In summary, the Department can meet the expenditure constraints on the current side although with severe difficulty involving adverse political impact and serious consequences for farm incomes. The required cut in capital expenditure cannot be achieved without reneging on existing commitments and abruptly terminating all incentives for investment in the sector with negative consequences for development, export growth potential, employment retention and creation. In specific political terms, for example, such a decision would mean that the Government commitment to an annual afforestation programme of 14,700 ha p.a. would have to be abandoned.

## **Section 2 Description of the Department's Vote**

## DAFF Vote overview

The Voted Gross Exchequer Estimate for 2011 is **€1.647 billion**. A breakdown of the 2011 Vote is set out in the table below.

### 2011 Vote - Main Headings

Nature of Expenditure	€m (rounded)	% Share of Vote	Measures
Admin Budget	247	15% (or 8% of combined Vote/EU)	Salaries, Accommodation, Travel & subs, Lab Equipment, IT etc.
Demand Led Schemes	713	43%	REPs, Early Retirement. Disadvantaged Areas, Farm Waste Management, FIS, etc.
Food Safety,/Animal Health	179	11%	Bovine TB/ Brucellosis Schemes, BSE etc. and Suckler Cow Scheme, meat inspection etc
Research & Training	36	2%	Food Institutional Research, Stimulus fund Teagasc Training, etc. (excluding Teagasc Grant in Aid)
Grants to State Bodies	200	12%	Teagasc , Bord Bia, Marine Institute, BIM, Sea Fisheries Protection Authority.
Fisheries	€9	1%	Harbours, Fish Processing, Aquaculture etc.
Forestry & Bio Fuels	€20	7%	Afforestation (€104m), forest research (€3.2), biofuels (€2.1m).
Food Aid	€0	<1%	Part of Irelands overall ODA funding
Horse & Greyhound Fund	€7	3%	Annual grants to Horse Racing Ireland (€46) and Bord nag Con (€1)
EU related technical costs	€7	2%	Technical costs of market intervention, EU related borrowings, clearance of EU accounts etc
Other	€9	2%	Covers legal costs(8m), food promotion and quality assurance (7m)., international co operation (2.8m)., miscellaneous pensions (2.4m), new beef efficiency programme(5m), misc headings (4.2m).
<b>Total</b>	<b>€1,647</b>	<b>100%</b>	

In addition to Voted Exchequer funds, the Department is responsible for administering EU funds (100% EU funded) of approximately **€1.3 billion**, of which the Single Farm Payment accounts for €1.2 billion as well as market supports (intervention, export refunds etc). As this latter expenditure takes place outside the Department's Vote, it is not part of the expenditure review.

## **Administrative Budget**

Budget provisions for the Administrative Budget are determined in a separate and parallel estimates process each year by the Department of Finance having regard to current Government policy on salaries, employment control frameworks and the need to secure other administrative related economies and efficiencies (including the rationalisation of the Department's local office network). The Administrative Budget covers staff and the related costs of delivering a wide range of national and EU funded services as well as regulatory, food safety, animal health and welfare and international trade obligations.

Due to a combination of staff reductions, pay cuts, operational efficiencies including the rationalisation of the Department's local office network etc., the total cost of administering the Department has been reduced from €304 million in 2008 to €247 million in 2011.

The Departments Administrative Budget is equivalent to 8% of the total combined Voted and Non Voted Expenditure for 2011. The following is a comparison of costs since 2008: -

	<b><u>2008</u></b>	<b><u>2011</u></b>
	<b>€m.</b>	<b>€m.</b>
Voted	2,063	1,647
Non Voted EU funds Administered		
by DAFF	1,459	1,283
<b>Total DAFF Expenditure</b>	<b>3,522</b>	<b>2,930 (-17% since 2008)</b>
Total Administrative Budget	304*	247 (-19% since 2008)
(AB as % of total spend	9%	8%

AB pay	234	188 (-20% since 2008)
AB non pay	70	59 (-16% since 2008)
Total staff numbers in DAFF	4,245	3,606 (at end May 2011)
		(3,539 projected at end 2012).

- includes full year cost of over 140 fisheries staff transferred to DAFF in 2007.

### **Current Expenditure**

Apart from the Administrative Budget, as already indicated, the Department's current expenditure covers a broad range of schemes and service delivery through:-

- demand led schemes, especially the Disadvantaged Areas, agri-environment schemes
- food safety and animal health,
- R&D, training,
- Grants-in-Aid to State bodies

Current expenditure by the Department underpins: -

- a) The implementation of standards of food safety, consumer protection, animal welfare and animal and plant health
- b) Support measures for farm incomes through the operation of various schemes, and
- c) Measures to promote and develop the industry

### **Capital Expenditure**

The Department's annual programme of capital expenditure comprises mainly schemes of grant aid for on-farm investment, projects in the food industry and schemes to promote forestry. Specifically the main elements of the programme are: -

- On-farm investments,

- Investment in the food processing industry
- Establishment grants for afforestation and bio-energy crops,
- The horticulture sector,
- Investment in the fishing sector in the processing industry, aquaculture and fishery harbours,
- Capital investments in State bodies in particular BIM (developmental), Sea Fisheries Protection Authority (supports statutory functions) and the Marine Institute (regulatory/developmental)

## **4 Year National Recovery Plan (NRP) and the budgetary challenge facing the Department.**

### **4 Year National Recovery Plan (NRP) expenditure ceilings**

The NRP, as submitted to the EU, ECB and IMF (Nov. 2010), sets out the overall expenditure ceilings for all Departments for each of the years 2011 to 2014.

#### **DAFF “pre Budget Estimate” expenditure ceilings as per NRP\*: -**

	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>
	€m.	€m.	€m.	€m.
<b>Total</b>	<b>1,647</b>	<b>1,286</b>	<b>1,197</b>	<b>1,169</b>
<i>Current</i>	<i>1,378</i>	<i>1,136</i>	<i>1,057</i>	<i>1,029</i>
<i>Capital</i>	<i>269</i>	<i>150</i>	<i>140</i>	<i>140</i>

### **Budgetary challenge facing the Department.**

In the period to the end of 2014, the cumulative reduction in current and capital expenditure amounts to €478 or 29% of the current allocation on the Vote.

- 2011 budget: €1.647 billion
- 2012 NRP expenditure ceiling: €1.286 billion \*

- 2013 NRP expenditure ceiling: €1.197 billion (cut €89m.)
- 2014 NRP expenditure ceiling: €1.169 billion (cut €28m.).

\*(cut €361m., €242m. current and €119m. capital),

When the nature and complexity of the Department's functions are taken into account and, in particular

- the statutory, regulatory and other obligations in relation to food safety etc,
- the level of non-discretionary expenditure due to existing contractual commitments,

And taking into account also the levels of cuts already applied in recent years, the reality is that the scope for achieving further significant reductions in expenditure is very severely curtailed. Schemes involving large scale expenditure are: -

a) ***Disadvantaged Area Payments***

In terms of budget size, the immediate closure of DAS payments (annual budget €220 million) would appear to offer a single monetary solution but that would entail a number of issues including immediate negative impact on farm incomes, and disastrous consequences for EU co funding under the 2007 – 2013 Rural Development Programme.

b) ***Agri-environment Schemes (REPS, AEOS)***

In addition to the fact that many of the beneficiaries have 5 year contracts with the Department substantial reductions in the payments would have serious consequences for the drawdown of EU funding.

c) ***Forestry***

The Exchequer commitment for the annual ongoing afforestation premia and second planting grant instalment commitments is currently €89 million and involves varying commitments for periods of up to 20 years. Immediate cancellation of the premia is not an option for a variety of reasons including contractual commitments, adverse impact on employment and economic activity at nursery, planting and downstream manufacturing sectors.

Having regard to the foregoing, it follows that the task of applying substantial budgetary adjustments to the Vote must be looked at in terms of all budget lines on the Vote. This is the approach that has been adopted in conducting the Comprehensive Expenditure Review. A key constraint is that, as discussed, the structure of the Vote

is not amenable to major budgetary change in the short term without creating operational and consequential legal and / or trade risks for the country both at national and international level as well as attracting adverse reaction from the farming sector. There are also financial, legal, timing and structural constraints impacting in the consideration of any radical proposals e.g. closure of any of the non commercial State Sponsored Bodies (NCSSBs) or even the merger of any of the bodies.

The Department has identified scope for a series of actions (lower budget provisions, policy decisions etc) that will yield efficiencies and economies for the benefit to the Exchequer for 2012 and later years. In addition to the “10 key levers of reform” mentioned at the beginning of the review, the Department has considered a range of other actions to secure the necessary budgetary adjustments required for 2012.

These comprise consideration of all or a combination of the following possibilities: -

- (i) Alteration of demand led scheme criteria
- (ii) Adjustments in scheme payment rates
- (iii) Cuts in non pay current and capital allocations for all organisations, including State bodies under aegis of Department
- (iv) Possible scheme closures
- (v) Suspension of new calls for eligible projects under research and development measures
- (vi) Defer consideration of any new expenditure proposals

### **Restructuring of the Department’s Vote (pilot project)**

The Department’s 2011 Vote is one of a small number of Votes that was restructured on a Strategic Programme basis, (2011 pilot scheme) consistent with the presentation of the respective Annual Output Statements and Statements of Strategy. The Finance Group of Votes was also involved in the 2011 pilot project.

The new Vote format comprises 4 large spending subheads (A, B, C and D) and Receipts subhead E (latter contains 24 receipts sub subheads). The 4 programme expenditure subheads, A to D, correspond with the 4 high level strategic goals as set out in the Department’s Statement of Strategy.

The new 2011 Revised Estimates (published February 2011) also shows the 10 Administration budget lines separately. However, the costs of administration have been apportioned on a pro rata basis across each of the 4 programmes.

The approach in the Comprehensive Expenditure Review has been to examine, in detail, all expenditure in Programmes A, B, C & D and the options are set out in detail in the following section.

### **Section 3 Detailed review of Vote expenditure**

## **Detailed review of Vote Expenditure**

**a. Administrative Budget**

**b. Programme A**

**c. Programme B**

**d. Programme C**

**e. Programme D**

**f. Appropriations in Aid**

## **Summary assessment of the four (4) Expenditure Programmes; -**

Potential for savings and long term options

Having regard to the to the overall level of savings required to meet the 2012 expenditure ceiling, it is obvious that examination and adjustment of the large budget items on the Vote offers immediate scope to secure significant saving towards this goal. However, the review also examined all other budget lines on the Vote with a view to securing further savings in so far as possible without undermining the Department's capabilities of discharging its statutory responsibilities, meeting unavoidable costs and liabilities and being able to adhere to meet and support international and trade requirements. The scope for identifying significant savings under many of the non discretionary budget lines is considered to be limited.

There are a number of budget lines within Vote under which the Department needs to continue to provide budget on an ongoing basis. Examples of these would be

- statutory responsibilities (public health and animal health testing, inspection and certification , cereals and seed potato certification, seed genetics),
- other obligations / unavoidable costs (e.g. administrative costs associated with the operation of EU measures; obligatory international contributions; legal costs and liabilities; miscellaneous pension commitments),
- existing Exchequer grant liabilities under almost all of the Department's grant schemes. Allied to this is the need for the Department to avoid, for the time being, , creating new Exchequer liabilities by refraining from issuing new project approvals (at least until the expenditure review and estimates process has been completed),
- ongoing provision of funds to the five non commercial State sponsored bodies under the aegis of the Department as well as other bodies that are largely dependent on Exchequer funding (ICBF, Horse Sport Ireland , Horse Racing Ireland, Bord na gCon). All of these bodies either have statutory responsibilities and /or development roles in assisting in the maintenance of

existing economic and market activities, opening new economic opportunities or in the development of new potential opportunities for future economic activity and job creation.

While the need to make budgetary provisions for the type of activities outlined above in 2012 (and thereafter) cannot be avoided, there may be some, but limited, scope to secure savings of varying degrees on the individual budget lines (see individual budget line assessments in section 3) for 2012.

In theory, there is long term scope for savings when the existing grant liabilities (e.g. grants for on farm investment grants, research, food sector etc) have been washed through the system and no new project approvals are issued. This is unlikely to materialise before end 2013 (or perhaps even by 2014). However, any future policy decisions not to operate such grant schemes may be undesirable in the long term from both political and / or national development perspectives.

There are a number of budget lines which provide scope for budget reductions or termination in 2012. These would also include some (relatively minor in budgetary terms) grant schemes which are currently “technically” open to new applicants but whose future depends on available budget.

## **Section 3a      Administrative Budget**

### Summary Assessment of the Administrative Budget medium term savings

In total, the Department's administrative budget has already reduced by over €56 million, or almost 20%, from the actual spend in 2008 to the allocation for 2011.

Under the Department's Action Plan under the Public Service (or 'Croke Park') Agreement the Department is committed to –

- 10% reduction in the overtime allocation in each year from 2012 to 2014.
- 5% reduction in the Administrative Budget's non-payroll allocation in each year from 2012 to 2014.

### Assessment of Administrative Budget lines

#### Subhead (i) Salaries, Wages and Allowances

2010 Outturn	2011 Allocation
€194.887m	€188.675m

Savings can be attributed to the reductions in salary rates and the staffing complement.

There has been a reduction of almost 1,200 WTE staff in the Department between end 2005 and end-2010. The Department has been engaged in a process of re-organisation and improvement of its business processes, which is facilitating the reduction and redeployment of staff resources, while maintaining operational capacity to the greatest degree and savings in the overtime budget. Under the terms of the Employment Control Framework (ECF) this Department will achieve the ECF level of 3,608 by end of 2011. The Department's staffing level must be at 3,414 by 2014. The overtime allocation will be reduced by 10% in each year from 2012 to 2014. Further savings are dependent on staff numbers and salary rates.

### **Subhead (ii) Travel & Subsistence**

2010 Outturn	2011 Allocation
€3.306m	€3.994m

The Department's travel expenditure is decreasing year on year (2008 travel outturn was €15.231m). DAFF is reviewing operations in order to develop a more efficient and cost effective service delivery model which in turn will reduce travel expenditure. Scope for travel savings in excess of the 5% are very likely for 2012 but expenditure may increase in 2013 due to Ireland holding the Presidency of the EU. A 5% saving each year will generate a saving of approximately €0.4m a year.

### **Subhead (iii) Training & Development, and Incidental Expenses**

2010 Outturn	2011 Allocation
€5.770m	€9.086m

This subhead provides for miscellaneous expenses such as equipment for the meat inspection service in meat export plants, dairy science laboratories, staff training, expenses arising from certain court cases, advertising and publicity and the cost of running committees. The 2011 allocation was increased due to a D/Finance sanctioned carryover of savings.

Scope for savings of the order of 5% are possible for 2012 but additional funding will be required in 2013 to cover meeting costs associated with the EU Presidency.

### **Subhead (iv) Postal & Telecommunications Services**

2010 Outturn	2011 Allocation
€5.088m	€6.142m

Telecommunications services continue to deliver high quality service to the Department's client base. The availability, currency and resilience of the Department's telecommunications services are therefore important components that

underpin the delivery of services both to the external and internal customer. The use of both Central Government and the Department's own Framework agreements continue to drive costs down.

A 5% saving will be achieved in each year from 2012 to 2014 generating a saving of approximately €0.3m per annum.

**Subhead (v) Office Equipment and IT External Services**

2010 Outturn	2011 Allocation
€6.528m Current	€9.052m Current
€0.942m Capital	€1.161m Capital

This subhead provides for the purchase, rental and maintenance of computer equipment, office stationery services, etc. and IT External Service Provision.

IMT continues to provide a robust and resilient ICT infrastructure to customers, staff, agents and partners including shared service offerings to state agencies and other Government Departments. It also supports a wide range of modern and efficient ICT systems that underpin the Department's critical business processes. Savings have been achieved by leveraging maximum value from existing investments, negotiating reductions on contracts and software licences, and careful management of external resources for software development.

A 5% saving will be achieved in each year from 2012 to 2014 in the current allocation will generate a saving of approx €0.9m a year.

**Subhead (vi) Office Premises Expenses**

2010 Outturn	2011 Allocation
€6.306m	€7.300m

This subhead provides for the purchase of furniture and fittings and expenditure on maintenance and energy for all the Department's offices. The Department has been engaged in a very successful programme to rationalise the number of local offices, thus delivering reduced expenditure in this subhead.

A 5% saving will be achieved in each year from 2012 to 2014 and will generate an approximate annual saving of €0.3m.

**Subhead (vii) Consultancy Services & VFM and Policy Reviews**

2010 Outturn	2011 Allocation
€0.019m	€0.136m

Subhead (vii) provides for fees and expenses for consultancy work carried out internally and commissioned by the Department to outside bodies. Expenditure on the engagement of consultants has declined over the last few years.

The annual allocation will continue to be set at around €100,000 over the next three years and given the small allocation there is not great scope for large savings.

**Subhead (viii) Supplementary Measures to protect the financial interests of the EU**

2010 Outturn	2011 Allocation
€0.569m	€0.658m

This subhead covers the cost of Audit and certification of the annual European Agricultural Guarantee Fund (EAGF) and the European Agricultural Fund for Rural Development (EAFRD) accounts, expenses of the Audit Committee and computer audit services.

The funding required is relatively small and is required to ensure the Department retains its status as an EU payment agency in the case of (viii). The annual allocation will continue to be set at around €600,000 over the next three years and given the small allocation there is not great scope for large savings.

**Subhead (ix) Laboratory Equipment**

2010 Outturn	2011 Allocation
€4.322m Current	€4.000m Current
€1.104m Capital	€2.230m Capital

The Subhead provides funding (current and capital) for the provision of services at Backweston Laboratory Campus, Regional Veterinary Laboratories and Longtown Farm. Costs have been reduced following negotiations with the facility management company and energy suppliers.

A 5% saving will be achieved on the current allocation in each year from 2012 to 2014 which on average will generate a saving of €0.2m a year.

## Section 3b

# Programme A

**Programme A Goal:** *To progress in collaboration with State bodies the further development of the agri-food sector including Food Harvest 2020 targets.*

**This Programme comprises 11 main spending subheads including Administration**

<b>Programme A</b>	<b>2010 Actual (€000)</b>	<b>2011 Estimate (€000)</b>
<b>Total Programme A</b>	<b>350,260</b>	<b>383,642</b>
A.1 Administration – pay	15,568	15,085
A.2 Administration - non pay	3,447	4,325
A.3 to A.11 Programmes	331,215	364,232

### **Programme A - expenditure details (A.3 to A.11)**

	<b>2010 Actual (€000)</b>	<b>2011 Estimate (€000)</b>
<b>Programme A (excluding Administration)</b>		
<b>A.3 Research and Training</b>	35,455	35,695
<b>A.4 Development of Agriculture and Food</b>	25,846	44,500
<b>A.5 Teagasc Grant-in-Aid</b>	114,165	120,156
<b>A.6 Bord Bia Grant-in-Aid</b>	28,491	28,392
<b>A.7 Marine Institute Grant-in-Aid</b>	24,227	24,200
<b>A.8 Bord Iascaigh Mhara Grant-in-Aid</b>	17,425	16,738
<b>A.9 Food Aid Donations - World Food Programme</b>	9,960	9,960
<b>A.10 Other (Beef Efficiency)</b>	16,382	27,301
<b>A.11 Horse and Greyhound Racing Fund</b>	59,264	57,290
<b>Programme A (excluding Administration) Total</b>	<b>331,215</b>	<b>364,232</b>

## Programme A

Excluding administration, programme A comprises 9 major sub programmes which further breakdown into 28 budget lines, details are set out below.

Each of the budget lines within Programme A has been analysed and is discussed below by reference to the justification for continued funding post 2011 as well as identifying potential savings in the context of securing:-

*(a) immediate savings to comply with DAFFs 2012 allocation as per the 4 Year National Recovery Plan (NRP)*

*and,*

*(b) mid to long term reduction of overall public expenditure.*

**Note:**

Any budget cuts proposed and approved for 2012 will have to be further reviewed in order to ensure that expenditure is reduced further to meet the 2013 and 2014 NRP expenditure ceilings.

**A.3. Research & Training**

**A.3.1 & A.3.2: FIRM and Stimulus**

	2010 Outturn	2011 Estimate
FIRM	€13.445m.	€14.250m.
Stimulus	€7.375m.	€6.665m.

The 2011 budget for these two schemes, while providing for R&D in the food industry and agriculture sectors, relates primarily to project approvals issued in previous years. A budget provision needs to be provided in 2012 to cover funding needs.

Immediate savings are not possible due to the level of current commitments. Further Exchequer commitments can be avoided through the suspension of both schemes by the Department, with immediate effect by not issuing calls for new projects for assistance under the schemes.

Any proposal to defer payments of outstanding liabilities to 2012 and / or beyond will raise issues in relation to the deferral of maturing liabilities and increasing budget commitments in subsequent years when further cuts are required under the NRP expenditure ceilings.

Scope for budget savings in the short term is limited until such time as outstanding liabilities have been discharged while ensuring that no new grant liabilities have been created. It is a matter for approved project promoters to complete their respective projects and draw down funds. However, the varying rates at which individual projects are completed can have an adverse impact on the Department's budgetary planning process.

### **A.3.3 International Equine Institute**

2010 Outturn	2011 Estimate
€0.293m.	€0.270m.

This funding covers the development of third level non-degree courses in Equine Science (hosted at, but not funded, by University of Limerick). Courses are undertaken through distance learners (circa 563 students at various levels of course participation for 2011), who attend regional seminars and practical workshops. The Exchequer grant funds 66% of total course costs; the balance is derived from student fees.

#### Scope for saving

In the short term, a % cut on the 2011 budget will yield only minor savings. Withdrawal of all funding will give a saving of €0.270m., but may result in immediate closure of course(s) and impact on the course participants who are already enrolled and are participating at various stages of their respective courses.

### **A.3.4 Teagasc Training grant (extension of grant in aid)**

2010 Outturn	2011 Estimate
€12.000m.	€12.000m.

This budget line (€12m. in 2011) is in addition to the annual Teagasc grant in aid. (Its inclusion in this collection of budget lines is more for traditional reasons).

Considering that the provision of agricultural training is one of the core functions of Teagasc, the scope for savings on this budget line (which would be additional to any

other savings secured on the Teagasc grant in aid) would be more in the line of a general budget cut as opposed to other action (e.g. termination of programme).

Any budgetary cuts should be in line with whatever level of cuts are applied to the NCSSBs.

#### **A.3.5 & A.3.6 Cereal testing / seed potatoes**

	2010 Outturn	2011 Estimate
Cereal testing	€0.777m.	€0.850m.
Seed potatoes	€0.225m.	€0.350m.

The 2011 budget lines are required primarily for the discharge of statutory certification and testing obligations.

Savings of €0.099m. on the initial 2012 estimate bids (cereal testing) have emerged in the recent internal consultation process. However, when the 2012 bids are examined against the 2011 budget allocations, the likely savings for 2012 are €0.050m.

#### **A.3.7 Improvement of Livestock**

	2010 Outturn	2011 Estimate
	€0.033m.	€0.030m.

The purpose of this scheme (grant per animal) is to encourage the maintenance of a number of separate herds of Kerry Cattle in Ireland and the creation and maintenance of a sufficient reserve of purebred Kerry Cattle breeding stock.

Scope for savings: possible terminate the scheme yielding an annual saving €0.030m.

#### **A.3.8 Irish Cattle Breeding Authority (ICBF General Grant)**

	2010 Outturn	2011 Estimate
	€1.000m.	€0.930m.

Exchequer funding (€0.930m.in 2011) accounts for 40% of ICBF income. While not a State body, ICBF undertakes a number of activities which were previously the direct responsibility of the Department.

The ICBF grant was increased from €0.888m., (in 2008) to €1.080m., (in 2009) to take account of the transfer of responsibility for sheep breeding schemes from the Department. The 2011 ICBF general grant (cattle and sheep breeding activities) is €0.930m., (i.e. for general non project specific administration expenses) and reflects budgetary cutbacks..

Any budgetary cuts should be in line with whatever level of cuts are applied to the NCSSBs. A cut of, say 5%, would yield a Vote saving of €46,500.

#### **A.3.9 Plant Breeder Rights**

	2010 Outturn	2011 Estimate
comprising: -		
<b>Seed genetics</b>	€0.159m.	€0.162m.
<b>Grant to Irish Seed Savers Association</b>	€0.149m.	€0.188m.

Seed genetics budget covers conservation work carried out by Ireland in line with the FAO's Genetic Resources Treaty.

Savings of €40,000 on the 2012 estimate bid (& 2011 budget) have been identified in the recent internal consultation process.

#### **Grant to Irish Seed Savers Association**

Recent consultation process yielded savings of €60,000. However, this translates into a saving of €58,000 when viewed against the 2011 budget.

#### **A.4 Development of Agriculture**

This programme comprises Marketing & Processing (capital / non capital budgets) and capital grants for livestock and equine sectors: -

##### **A.4.1 Marketing & Processing capital grants: -**

2010 Outturn	2011 Estimate
€1.647m.	€35.000m.

The marketing and processing capital investment grant scheme is currently closed to new applications. Under the scheme, Exchequer grant aid totalling €150m., was awarded to approved projects in dairy, beef & sheep processing sectors. In theory, the scheme for other niche capital projects is still open but the lack of resources precludes any new approvals from being issued for the foreseeable future.

It is expected that budget provisions will be required over 2012 and 2013 (and possibly 2014) to cover drawdown of outstanding grant commitments. It is difficult to predict the rate of discharge of outstanding liabilities as the drawdown of grants is determined when projects are completed and documentation is submitted by the approved beneficiaries. For example, the budget 2010 was €35m., which compared to actual expenditure of €1.647m. Budgets not fully drawn in one year mean outstanding commitments fall due for payment and must be met in later years. Consequently, there is little scope of securing savings in the short term.

Any proposal to defer payments to later years raises issues of the deferral of mature liabilities as well as adding to budgetary difficulties post 2012 when even lower NRP expenditure ceilings are in place.

##### **A.4.1 Marketing & Processing – current expenditure (grants to industry for improved competitiveness/ lean manufacturing).**

2010 Outturn	2011 Estimate
€1.589m.	€7.000m.

There is scope for budgetary savings via reduced allocation for 2012 – 2014.

**A.4.2 & A.4.3 Capital grants to livestock and equine sectors.**

	2010 Outturn	2011 Estimate
Livestock	€1.500m.	€1.500m.
Equines	€1.110m.	€1.000m..

The granting of new approvals under these measures tends to be on a yearly basis and therefore the possible lengthy drawdown of outstanding approved grants is much less an issue when compared to other capital grant schemes.

There are economic and scientific benefits to be leveraged by these schemes. While there is scope for some annual savings, termination of both schemes would seriously undermine the efforts of ICBF and Horse Sport Ireland to promote and develop the sectors concerned. Some minor budget provision may be required in 2012 to deal with any outstanding approvals. The level of funding in future, and possible cuts in expenditure, will be determined by the capital funding available to the Department.

As well as being successful applicants for capital grant aid under the above schemes, both the Irish Cattle Breeding Federation (ICBF) and Horse Sport Ireland (HSI) are also in receipt of significant annual Exchequer funding towards their respective general administrative budgets -see budget lines A.3 (€0.93m.) and A.9(€1.285m. respectively).

**Non Commercial State Sponsored Bodies (NCSSBs)**

	<i>2010 Outturn</i>	<i>2011 Estimate</i>
A.5 (Teagasc)	€14.165m.	€20.156m.
A.6 (Bord Bia)	€28.491m.	€28.392m.
A.7 (Marine Institute)	€4.227m.	€4.200m.
A.8 (Bord Iascaigh Mhara)	€7.425m.	€6.738m.
(also Sea Fisheries Protection Authority under programme C.8)	€1.324m.	€0.895m.

The first four (4) NCSSBs above are covered under programme A whereas the Sea Fisheries Protection Authority (SFPA) is covered for under Programme C, reference C.8) but is included in this commentary.

**NCSSB (5) overview:**

For the purpose of the this review the following figures reflect all 5 Exchequer funded NCSSBs under DAFF

Between 2008 and 2011, the total budgets for the five (5) NCSSBs has been reduced by over €47m.(or 19%). A breakdown of the budgets for this period is as follows: -

	<b>2008</b>	<b>2011</b>	
	€m	€m	(all figs rounded)
Total	247	200	(down 19%)
- Pay*	93.8	83.4	(down 11%)
- Pensions**	27.0	41.0	(up 52%)
- Non pay current	78.8	60.3	(down 23%)
- Capital***	47.3	15.5	(down 67%)

*\* Exchequer funding for pay for the 5 NCSSBs is shown. The above pay figure does not reflect total pay bill of the 4 bodies particularly in the case of Teagasc. In the latter case. the Exchequer grant in aid for Teagasc pay is equivalent to approx. 66% of the total Teagasc pay requirement, the balance being met from Teagasc own resources.*

*\*\*increased pension provision in 2011 reflects the cost of expected Teagasc retirements.*

*\*\*\* high capital spend in 2008 reflects BIM capital spend of circa €20m on fleet decommissioning scheme (now closed). 2008 was the last year in which Teagasc received an Exchequer capital grant. Since then, the Department of Finance gave approval for Teagasc to retain land sale proceeds (€27m.) to fund certain capital works (food research centres of excellence) in lieu of Exchequer capital grant in aid.*

## **Staff numbers: Non Commercial State Sponsored Bodies (NCSSBs)**

All public sector bodies are required to reduce staff numbers to meet Department of Finance predetermined targets under the employment control framework process (ECFs).

*2010 2011 2012 2013 2014*

*5x NCSSBs\**

*Staff numbers: 1,882 1,621 1,564 1,492 1,461*

- *Includes staff of Sea Fisheries Protection Authority (SFPA) (programme C.8 refers)*

While the overall need to secure public sector expenditure reductions is acknowledged, an important consideration is the impact of resource reductions on the capabilities of the NCSSBs to continue to function effectively in undertaking their respective statutory functions and service delivery.

### **Comments on NCSSBs ( Pay / Pensions (& VERs)/ Non Pay, capital, potential for merger /termination, other options):**

#### **Pay**

Considering that a high proportion of the combined Exchequer grants in aid relates to pay and pensions, there is limited scope of securing significant pay savings in the short term. All public sector staff have already had their pay levels cut through a combination of salary cuts and the application of unprecedented pension levies. NCSSB pay bills will decline as more staff retire in conjunction with the employment control frameworks (ECF's). However, for the reason discussed under pensions below, the benefit of pay savings will not be immediate.

## **Pensions / early retirements**

The payment of retirement lump sums and annual pensions for NCSSB staff are a charge on the Vote and are funded through each body's annual grant in aid. Similar payments for civil servants are, however, treated differently and funded centrally from a separate superannuation Vote.

As the Department's Vote must carry the cost of NCSSB pensions from within the annual (declining) NRP expenditure ceilings, any expected savings arising either from natural wastage or incentivised early retirement schemes will not have any positive impact on the Vote in the year of retirement. Such savings will only arise in the year(s) following retirement. This is due to the cost of the retirement lump sums plus whatever salary has been paid (to date) in the year of retirement having to be funded from the Vote in the retirement year.

The increased 2011 NCSSB pension provision (primarily for Teagasc) reflects an expectation that staff would opt to retire in 2011. However, in the event that Teagasc staff opting to defer retirements to 29 Feb 2012, (i.e. the revised end date of the incentivised retirement period), the potential pension liability for 2012 (viz. retirement lump sums) will increase and add further to budgetary pressures on the 2012 budget.

### **NCSSB Non pay budgets:**

Further cuts on these budget lines, in addition to 22% budget reductions over the previous four years, may offer limited scope for savings for 2012 e.g. by applying a flat % cut to the total non pay current figure (2011: €60.3m.). For example, a 5% cut on the NCSSB non pay current figure will yield a saving of circa €3m.

Application of a similar 5% cut to other administrative grants paid by the Department (e.g. to ICBF, HSI and the Horse & Greyhound Fund (HRI and B na gCon), would yield further savings of €2.7m.

Accordingly, a 5% cut on the non pay general administration grants for all bodies under aegis of DAFF would amount to €5.6m. The issue for consideration is one of

whether any of the organisations would, in the light of further budget cuts, be capable of discharging statutory functions and / or service delivery at existing levels.

### **NCSSB capital budgets**

Since 2008, the Exchequer capital budgets for 4 of the 5 NCSSBs has reduced from €47m in 2008 to €15m for 2011. (*Bord Bia is not in receipt of a capital budget*).

Approximately, €22m of the reduction is attributable to the closure of the BIM administered fishing fleet decommissioning scheme (in 2009) and €10m. relates to various budget cuts on Teagasc, Marine Institute, BIM and the SFPA. Teagasc last received an Exchequer capital grant (€3m) in 2008. Since then, Teagasc has funded capital works primarily by use of retained, once off asset sale proceeds (approved by D/Finance) as well as other own resources.

Considering the present level of Exchequer capital funding provided to the NCSSBs, the scope for further substantial capital budget savings is limited particularly as (i) capital budgets have already been substantially scaled back in recent years and (ii), some of the bodies have ongoing statutory responsibilities (e.g. public health and/ or other regulatory functions (e.g. Marine Institute and SFPA) and / or developmental roles (e.g. BIM, M.I). Teagasc has, in the past, had use of the retained asset proceeds for specific capital works (i.e. the establishment of the “research centres of excellence”, as part of the Governments science and technology policy).

### **Merger /termination of NCSSBs:**

The issues to be taken into consideration in relation to proposals to abolish or amalgamate the State bodies under the aegis of the Department are: -

- *Appropriateness / compatibility of two particular bodies proposed for merging*
- *If bodies were proposed for merger, would there be real or substantial savings emerging to justify the proposal*
- *Need for change in legislation,*

- *Timing*
- *Potential for redeployment of any “surplus” staff or the immediate cost of any staff severance (high in year 1 etc). Redeployment will move the liability elsewhere either on the DAFF Vote or to the Vote of another Department or agency whereas, the issue of severance will have to be dealt with by means of Government decision in the context of the “Croke Park” agreement and well as triggering “high year 1” costs with resultant salary savings accruing at a later time.*

Having examined the situation in detail, the Minister is not recommending any change in the number or structure of the existing State bodies.

#### **Other NCSSB options**

Short term gains may be feasible in the context of economies and efficiencies through the promotion of “shared services”. However, the availability of such savings (while desirable from an Exchequer perspective and should be explored), may not be immediate, nor indeed, be of any direct significance in dealing with the overall budgetary challenge facing the Department.

## **NCSSB – income sources**

The position on the five (5) NCSSB income sources is set out below:-

Body	Total Income 2010	Exchequer sources	EU	Statutory Levy	Other
	€m.	€m.	€m.	€m.	€m.
Teagasc	165.0	126.2	2.6	0	36.2
Bord Bia	44.3	34.7	0.1	5.3	4.2
Marine Inst.	35.2	25.5	0	0	9.7
BIM	17.4	17.4	0	0	0
SPFA	11.3	11.3	0	0	0

## **Disposal of assets / other income**

The disposal of assets and the possibility of generating revenue or additional income is under active consideration in the Department and in the State bodies.

## **NCSSB summary**

In the light of the foregoing analysis, the scope for substantial savings in the case of the above 5 NCSSBs is limited and will not be on sufficient a scale to contribute in a significant way towards reducing the DAFF budget to its 2012 (or later) NRP expenditure ceiling levels.

## **Pay:**

Any savings (derived from termination / abolition of a body etc), will not yield immediate savings to address the 2012 NRP expenditure ceiling but will assist the budgetary situation in later years.

**Non pay (current):**

A cut of, circa, 5%, on the combined non pay budgets will yield circa €3m..

**Capital:**

The combined 2011 capital grants in aid amount to €13m.

A % reduction will yield only minor savings. Total abolition of capital funding may not be feasible in the light of the requirement for the ongoing discharge of statutory obligations and / or the discharge of any outstanding financial liabilities.

**A.10 (Other)**

This contains 10 budget lines covering a wide variety of activities: -

**A.10.1 Miscellaneous pensions.**

2010 Outturn	2011 Estimate
€1.111m.	€2.450m.

Budget line covers pension liabilities for former staff of a number of organisations that no longer exist (e.g. Pigs & Bacon Commission, Bord na gCapall, Dublin / Cork District milk Boards). There is no scope for savings owing to pension liabilities.

**A.10.2 International Cooperation**

2010 Outturn	2011 Estimate
€2.830m.	€2.830m.

This expenditure covers Ireland's mandatory contributions to international organisations (€2.430m.) and the Young Professionals Scheme (€0.400m.). In 2010, expenditure (totalling €2.830m.) related solely to subscriptions to international organisations with no expenditure incurred under the Young Professionals Scheme. Forward estimates for post 2011, upward pressure on the level of mandatory contributions (which are paid in US\$ and subject to currency fluctuations) cannot be discounted.

There is little scope for savings.

**A.10.3 Grants to rural development bodies: -**

(ICOS, ICA, Macra, Irish Beekeepers Assoc)

2010 Outturn	2011 Estimate
€0.056m.	€0.067m.

2011 budget €0.067m., down from €0.69m. in 2008.

Potential for savings of up to €0.067m.

**A.10.4 Grant to Horse Sport Ireland (non thoroughbred horses).**

2010 Outturn	2011 Estimate
€1.380m.	€1.285m.

€m.

DAFF main grant	1.285 (breeding)*
DAFF cap grants (specific project based)	0.520 (breeding)
Irish Sports Council grant	1.368 (sport)
Other income (fees)	1.043 (breeding)
	0.510 (sport)
Total HSI income	4.726(compared to 6.7min 2008)

\*equivalent to 27% of total HSI income or 45% of their breeding programme.

Any budgetary cuts should be in line with whatever level of cuts are applied to the NCSSBs. A cut of, circa, 5%, on the DAFF main grant would yield a Vote saving of €64,000.

Termination of DAFF contributions, certainly in the short term, is unlikely to be an option considering HSI involvement in horse registration and identification and linkage with Department's animal disease monitoring and tracking responsibilities.

#### **A.10.5 Food and Horticultural Promotion**

2010 Outturn	2011 Estimate
€2.582m.	€2.650m.

Budget 2011: €2.650m. is down from €3.816m in 2008.

This budget largely covers the healthy eating promotions aimed at schools and includes an EU co funded scheme to promote healthy eating. EU co funding is circa €0.5m per annum.

Scope for savings – circa €1m. by confining the scheme to the EU co funded element.

#### **A.10.6 Trade exhibitions/ Conferences**

2010 Outturn	2011 Estimate
€0.202m.	€0.226m.

The corresponding spend in 2008 was €0.286m. (i.e. when the 2008 once off Beef Expo and the Holstein Conference cost items are excluded).

Budget line covers Departments costs in participating in trade exhibitions and similar events (e.g. National Ploughing Championships, Agricultural Shows etc.) and in providing support for agricultural shows generally.

Scope for savings is limited.

#### **A.10.7 Budgets for legal and related costs**

2010 Outturn	2011 Estimate
€3.334	€3.353m.

The budget and level of expenditure varies from year to year. The budget is assigned following notification by each Division of the estimated cost of meeting expected legal and related costs in the coming year. Expenditure is dependent on the outcome of court activity and / or recommended settlements.

The 2011 allocation contains provisions for legal and related costs on some expected and potentially expensive cases. It is not possible to say if savings will arise in 2011 though some Line Divisions are now signalling (August 2011) that savings may yet emerge.

It is not possible at this point to say what size of budget line might be required for 2012. The requirement for next year will be subject to notification by Line Divisions of any new cases emerging or existing cases being carried over from the previous year.

#### **A.10.8 Quality Assurance Scheme**

2010 Outturn	2011 Estimate
€4.400m.	€4.300m.

The scheme is operated by Bord Bia and is complimentary to core Bord Bia functions on the promotion of national and international demand as well as fostering consumer confidence in Irish beef and lamb products.

In the short term, there is potential for budget cuts (% to be decided) in line with available resources.

In the mid to long term option, the possibility of transferring responsibility to the private sector will be explored.

#### **A.10.9 Carcase classification**

2010 Outturn	2011 Estimate
€0.063m.	€0.140m.

This covers non pay costs of staff at export approved meat plants in relation to beef classification. Expenditure is primarily on equipment / supplies / reporting etc for DAFF supervisory staff. Carcase classification is an integral part of the EU price reporting mechanism

There is potential only for very minor budget cuts.

#### **A.10.10 Other – Proposed new beef efficiency programme**

Budget 2011: €5.000m.

No previous expenditure.

Saving possible if funding for the proposed scheme can be sourced off Vote measure.

#### **A.11 Exchequer Contribution to the Horse and Grey Hound Fund**

2010 Outturn	2011 Estimate
€9.264m.	€7.290m.

The purpose of the contribution is to supplement the fall off in revenues from betting tax. The Exchequer contribution has, for budgetary reasons, been reduced from €6.286m. to €7.290m., between 2008 and 2011.

Accordingly, to enable the short term goal of overall DAFF budget reductions be achieved, further Exchequer grant reductions on this budget line may be required.

Actual savings will be determined in the context of the 2012 estimates process.

A cut of, say 5%, (on current budget) will yield a saving of €2.56m. Total capital budget(2011) is €6m.

Securing higher savings is more of a long term consideration and will emerge when the issue of tax revenue from on line betting has been progressed.

## Section 3c

# Programme B

**Programme Goal:** - *Ensure the highest standards of food safety, consumer protection and animal and plant health.*

**Excluding administration, this Programme comprises 2 main spending subheads (which breakdown into 20 sub-budgets), details of which are set out below.**

<b>Programme B</b>	<b>2010 Actual (€000)</b>	<b>2011 Estimate (€000)</b>
<b>Total Programme B</b>	<b>266,809</b>	<b>317,128</b>
B.1 Administration - pay	108,698	105,231
B.2 Administration - non pay	29,702	35,983
<b>B.3 to B.4 Programmes</b>	<b>128,409</b>	<b>175,915</b>

### **Programme B - expenditure details (B.3 to B.4)**

	<b>2010 Actual (€000)</b>	<b>2011 Estimate (€000)</b>
<b>Programmes (excluding Administration)</b>		
B.3 Food Safety, Animal Health & Welfare and Plant Health	128,281	175,730
B.4 Other	128	185
<b>Programme B (excluding Administration) Total</b>	<b>128,409</b>	<b>175,915</b>

The total cost Programme B for 2011, **excluding** Administrative budget (direct and direct costs), amounts to €175.915 million and relates primarily to the non pay costs associated with the Department's various animal health and public health functions.

Each of the budget lines within Programme B has been analysed and is discussed below by reference to the justification for continued funding post 2011 as well as identifying potential savings in the context of securing:-

(a) *immediate savings to comply with DAFFs 2012 allocation as per the 4 Year National Recovery Plan (NRP)*

*and,*

(b) *mid to long term reduction of overall public expenditure.*

For the reasons outlined below, the scope for securing significant savings for the purposes of adhering to the 2012 NRP expenditure ceiling is limited.

While it will be necessary to provide budgets for funding statutory responsibilities and existing Exchequer liabilities, there is scope for budget reductions and exploring possible alternative funding sources for other activities.

### Programme B.3 sub-budgets

		<b>2010</b> <b>(€m)</b>	<b>2011</b> <b>(€m)</b>
<b>B.3.1</b>	Meat Control Laboratory	0.737	0.800
<b>B.3.2</b>	Temporary Veterinary Inspectors	20.516	21.990
<b>B.3.3</b>	Veterinary Testing & Research	4.591	5.400
<b>B.3.4</b>	T.B. and Brucellosis Eradication	40.464	50.000
<b>B.3.5</b>	National Beef Assurance Scheme	6.339	6.200
<b>B.3.6</b>	Scrapie	1.044	0.940
<b>B.3.7</b>	Other animal disease measures	1.335	3.700
<b>B.3.8</b>	Animal Welfare – Control of Horses	2.467	1.900
<b>B.3.9</b>	Animal Welfare – other	1.265	1.400
<b>B.3.10</b>	BSE Compensation & Related Costs	2.069	3.700
<b>B.3.11</b>	BSE Testing	3.808	5.700
<b>B.3.12</b>	Fallen Animals Scheme	8.397	9.500
<b>B.3.13</b>	Animal by-products miscellaneous	0.271	0.100
<b>B.3.14</b>	FMD General Costs	0	0.100
<b>B.3.15</b>	Feed Stuff Analysis	0.190	0.200
<b>B.3.16</b>	Pesticides/Plant Protection	0.980	1.100
<b>B.3.17</b>	Suckler Cow Scheme	32.989	61.500
<b>B.3.18</b>	Other	0.819	1.500
	<b>Total</b>	<b>128.281</b>	<b>175.730</b>

Further detailed information of each individual budget line under Programme B is set out below.

### **B.3 Animal Health and Welfare, Food Safety and Plant health**

#### **B.3.1 Meat Control Laboratory (VPHL)**

2010 Outturn	2011 Estimate
€0.737m.	€0.800m.

This allocation covers the operational costs of the Veterinary Public Health Regulatory Laboratory (Competent Authority / National Reference Laboratory), which provides laboratory support to the Department's Veterinary Public Health Inspectorate based at meat plants, in assuring compliance with national and international standards of food safety and hygiene.

Budget line is required to meet national and EU legislative obligations in regard to production and trade in meat and meat products.

The scope for savings is limited.

#### **B.3.2 Temporary Veterinary Inspectors**

2010 Outturn	2011 Estimate
€20.515m.	€1.990m.

This budget line covers the costs of Temporary Veterinary Inspectors (TVIs) engaged at:-

- (a) Meat Plants (meat inspection TVIs) – 2011 budget €19.249m.,
- (b) on ERAD work (Wholetime Temporary Veterinary Inspectors, WTVIs) – 2011 budget €2.6m. and,
- (c) TVIs engaged on portal inspection work (2011 budget €0.141m.).

Meat inspection TVIs are currently an integral part of the public health and meat export certification process whereas WTVIs are a dedicated team for dealing with black spots under the ERAD bovine disease eradication programmes.

TVI expenditure has declined in recent years following cuts in TVI/WTVI professional fees as well as following the introduction of revised practices viz TVI shifts etc.

In short term, reforms are being introduced which will yield minor budgetary cuts. **REDACTED TEXT** ..... the budget line is only amenable to relatively minor budget cuts for the 2012 budget year.

### **B.3.3 Veterinary Testing & Research**

2010 Outturn	2011 Estimate
€4.592m	€5.400m.

This budget relates to the non pay operational costs of:

- (i) the Backweston veterinary laboratory, the Cork Brucellosis laboratory; the Regional Veterinary laboratories  
and,
- (ii) the Veterinary Medicines surveillance/ National Residue Plan.

Both budget lines are part of the Department's national and international public and animal health statutory control and regulatory responsibilities. Continued budget provision is regarded as essential with only limited scope for relatively minor budget cuts.

### **B.3.4 T.B. and Brucellosis Eradication**

2010 Outturn	2011 Estimate
€40.464m.	€50.000m.

This allocation provides for the funding of the ERAD disease control and eradication programme for Bovine Tuberculosis and Brucellosis. This programme is required for maintaining national bovine herd health status and for intra Community and third country trade purposes. The measures are part funded by disease levies referred to in sub-head E.8 and EU co funding (Veterinary Fund) referred to in sub-head E.14.

The main expenditure items are compensation to farmers; payments to private veterinary practitioners (PVPs); supplies; Wildlife Unit (badger removal) and research. Taking farmer levies and the more recent EU co funding into account, the net Exchequer cost of the schemes (excluding staff) has gone from €56m in 2008 to €24m. in 2010.

Scope for savings: -

Costs have reduced over recent years due to falling disease incidence (as well as outsourcing the bulk of testing activities / the transfer of testing costs to producers/ lower testing fees, more favourable supply contracts and day to day operational costs.

**REDACTED TEXT**

The Department is actively examining a number of matters with a view to securing savings on this programme. These include the current system of valuation for compensation purposes, refocusing expenditure on “supplementary schemes”, possible increase in farmer levies etc.

Following recent discussions, scope for savings of €10m has been identified for 2012.

### **B.3.5 National Beef Assurance Scheme**

2010 Outturn	2011 Estimate
€6.339m.	€6.200m.

The Department is the competent Authority under EU Regulations with responsibility for animal identification, tracing and movement control. The budget covers the operation and maintenance of the Cattle Movement Monitoring System (CMMS), the Animal Health Computer system (AHCS), the Animal Identification and Movement system (AIM) as well as the cost of the birth registration and passport issue system and the movement notification system.

The programme already funds a number of outsourced activities such as calf registration, animal passport issue, movement recording etc.

Scope for cuts / savings / termination:-

Termination is not an option due to the importance of animal identification, tracing etc., for animal and public health controls.

There is limited scope for budget cuts.

Scope for imposing a levy on ear tags, reducing the cost of the issue of hard copy passport / permits is among the issues for further consideration.

### **B.3.6 Scrapie**

2010 Outturn	2011 Estimate
<i>€1.047m.</i>	<i>€0.940m.</i>

This is an animal health measure for the purposes of controlling and eliminating scrapie in the national sheep flock. The major items of expenditure under this heading are compensation (partially depopulated flocks), active surveillance programme (EU requirement), Voluntary National Genotype Programme (NGP)

Expenditure over recent years has declined due to lower disease incidence in sheep (as well as BSE in cattle), increase in age testing of animals for slaughter etc.

The new testing contract (2011) will yield further savings.

There is scope for some minor budget cuts for 2012.

### **B.3.7 Other animal disease measures**

2010 Outturn	2011 Estimate
<i>€1.335m.</i>	<i>€3.700m.</i>

This budget line includes a number of animal health protection and related measures as well as measures required for exotic animal disease contingency planning.

This is a prudent annual prudent budget provision to enable the Department deal with any unforeseen disease incidence

There is need for continued budget provision for 2012 and future years though there is scope, based on previous years' trends to secure some budget cuts for 2012.

### **B.3.8 Animal Welfare – Control of Horses**

2010 Outturn	2011 Estimate
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€2.467m.

€1.900m.

This provides for financial assistance to local authorities in their implementation of the Control of Horses Act, 1996. Savings could be secured through lower Exchequer grant funding being provided to local authorities.

### **B.3.9 Animal Welfare – Other**

2010 Outturn

2011 Estimate

€1.265m.

€1.400m.

The Department does not hold statutory responsibility for the welfare of non-farm / companion animals. However, since 1995, the Minister has made *ex-gratia* payments to circa 112 local organisations directly involved in the delivery of animal care and welfare services. Approximately €1.185m. of the 2011 allocation (€1.4m.) is for *ex-gratia* payments to animal welfare organisations.

The budget also covers expenses relating to the Farm Animal Welfare Advisory Council (FAWAC) (estb.2002) and the Sub-groups reporting to it. DAFF works in conjunction with FAWAC, the Gardai, IFA, ISPCA operating an early warning system to identify potential farm and other animal welfare problems and deal with them at an early stage before they become critical or overwhelming.

The Budget also provides for payment of emergency care (veterinary medicine, fodder, some equipment) where on farm welfare problems are identified.

There is scope for some budget cuts for 2012 by either: -

- terminating *ex gratia* payments to the animal welfare organisations
- or
- by offering lower levels of *ex gratia* payments than heretofore.

### **B.3.10 BSE Compensation & Related Costs**

*and*

### **B.3.11 BSE Testing**

2010 Outturn

2011 Estimate

Compensation	€2.069m.	€3.700m.
Testing	€3.808m.	€5.700m.

Expenditure on BSE comprises compensation to farmers and the cost of rapid testing of all slaughtered cattle as well as the emergency slaughtered fallen animals over 48 months of age. The cost of farmer compensation and related disposal costs are decreasing in line with reduced positive case numbers (peak of 333 cases in 2002, compared to 2 to date in 2011). Furthermore, a change from whole-herd depopulation (2006) to depopulating only the positive animals (+progeny, birth / feed cohorts) has significantly reduced overall depopulation numbers and compensating costs.

Continued budget provision is considered prudent.

However, recent consultations have yielded budget savings of €1.6m. for 2012.

### **B.3.12 Fallen Animals**

2010 Outturn	2011 Estimate
€8.396m.	€9.500m.

The Department's contribution to the Fallen Animals Scheme ceased with effect from 14th April 2009, reflecting reforms introduced in response to budgetary constraints and much lower BSE incidence in Ireland. However, financial support for the collection of certain fallen animals (bovines over 48 months) remains in place as sampling for these is still required under the ongoing national BSE surveillance programme (TSE Testing). The disposal of fallen animals through approved knackeries and rendering plants is subject to EU Regulations, notably Regulation (EC) No 1774 of 2002.

With the ending of the Fallen Animals Scheme, the cost of collection and rendering for animals not covered by the new scheme became a matter for negotiation between the individual collectors/rendering plants and farmers. Against that background the Department has made every effort to facilitate measures to maximise flexibility and enable reduction in the costs associated with the disposal of fallen animals. This includes allowing cross border trade, permitting direct delivery by farmers to authorised plants and encouraging indigenous use of MBM for energy purposes.

There is very limited scope for further budget cuts.

### **B.3.13 Animal by-products miscellaneous**

2010 Outturn	2011 Estimate
€0.271m.	€0.100m.

This is primarily a contingency budget to cover any outstanding incidental costs following the disposal of meat and bone meal stock or tallow previously held in storage. The budget line previously covered disposal/clean-up costs included in legal settlements or where the business operator was not able to meet the cost of necessary disposal.

There is limited scope for budget cuts.

### **B.3.14 FMD General Costs**

2010 Outturn	2011 Estimate
€0	€0.1m.

This is a prudent budget line covering Foot and Mouth Disease related equipment and supplies for veterinary service.

### **B.3.15 Feed Stuff Analysis**

2010 Outturn	2011 Estimate
€0.190m.	€0.200m.

This Subhead provides for the animal feeding stuffs inspection, sampling and analysis programme and is operated at all levels of the feed chain as required by legislation

There is scope for relatively minor budget cuts.

### **B.3.16 Pesticides/Plant Protection**

2010 Outturn	2011 Estimate
€0.980m.	€1.100

This budget provides for the costs associated with the Pesticides Control Laboratory, including Pesticide Control and Registration, authorisation of Plant Protection and Biocidal products and the subsequent enforcement of the associated regulatory requirements by the Pesticide Control Service (PCS) as well as expenditure associated with Plant Health controls.

There is scope for relatively minor budget cuts.

### **B.3.17 Suckler Cow Scheme**

2010 Outturn	2011 Estimate
€32.989m.	€61.500m.

The Animal Welfare, Recording and Breeding Scheme for Suckler Herds (more commonly known as the Suckler Welfare Scheme) is a 100% Exchequer funded scheme with a maximum budget of €250m. over 5 years. Initial grant per calf born was €80 but was later reduced to €40 for budgetary reasons.

There is scope for substantial savings, of the order of €17m., in 2012 if the scheme were closed at the end of 2011. This option, if introduced, would only aid calves born up to and including the end of 2011. However, as indicated earlier in the review, the Minister is convinced of the merit of the scheme and of the valuable contribution which it can make to the continued improvement of the Suckler Cow herd.

An alternative funding source, involving EU funding is being considered with a view to relieving pressure on the Vote.

### **B.3.18 Other**

2010 Outturn	2011 Estimate
€0.685m.	€1.500m.

This relates to a capital investment grant scheme (grants for sow housing under the 2000/2006 NDP) which is now closed to new applicants.

Budget for 2012 is required to cover remaining outstanding liabilities

#### **B.4 Other**

##### **B.4.1 Poultry & Eggs**

2010 Outturn	2011 Estimate
<i>€0.099m.</i>	<i>€0.150m.</i>

The 2011 budget is €0.150m for miscellaneous expenditure under the Poultry and Eggs inspection scheme (protective clothing, equipment and materials for official sampling under the National salmonella programmes and EU salmonella baseline surveys etc).

There is scope for some limited budget cuts.

##### **B.4.2 Animal Health Certs.**

2010 Outturn	2011 Estimate
<i>€0.029m.</i>	<i>€0.035m.</i>

The budget allocation covers the cost of the printing and delivery of the Animal Health Certificates (AHCs) as required under EU Hygiene Regulations (i.e. all milk yielding animals must undergo veterinary inspections at regular intervals to ensure that they are not affected by any condition that could render their milk unsafe or unsuitable for human consumption).

There is scope for some limited budget cuts.

## Section 3d

# Programme C

**Programme Goal:** - *To promote environmentally sustainable farming and fishing while supporting the rural and coastal economy*

**Excluding administration, programme C comprises 9 main spending subheads (which breakdown into 33 sub-budgets), details of which are set out below.**

<b>Programme C7</b>	<b>2010 Actual (€000)</b>	<b>2011 Estimate (€000)</b>
<b>Total Programme C</b>	<b>869,464</b>	<b>647,884</b>
C.1 Administration - pay	42,212	40,856
C.2 Administration - non pay	9,428	11,063
C.3 to C.9 Programmes	817,824	595,966

### **Programme C - expenditure details below (C.3 to C.9)**

<b>Programme (excluding Administration)</b>	<b>2010 Actual (€000)</b>	<b>2011 Estimate (€000)</b>
C.3 Rural Environment (REPs / AEOS)	323,797	337,000
C.4 Land Mobility (Early Retirement/Installation Aid)	35,155	35,960
C.5 Development of Agriculture and Food	315,063	73,340
C.6 Forestry and Bioenergy	120,612	119,820
C.7 Fisheries	10,616	17,837
C.8 Sea Fisheries Protection Authority	11,324	10,895
C.9 Other	1,257	1,114
<b>Programme C (excluding Administration) Total</b>	<b>817,824</b>	<b>595,966</b>

With the exception of expenditure on the Sea Fisheries Protection Authority and some other minor budget lines, the bulk of the measures covered under programme C relate to demand led schemes.

Many of these schemes, details outlined below, are closed to new applicants due either to having run their course or suspended for budgetary reasons. Consequently, budget provisions for 2011 and later years is to cover the discharge of previously issued expenditure approvals based on existing payment levels.

### C.3.1 REPS

2010 Outturn	2011 Estimate
€23.797m.	€303.000m

(See also C.3.2 below re. AEOS I & II schemes)

REPS is an agri-environment measure designed to encourage farmers to go beyond basic good farming practice and farm in a way that benefits the landscape, biodiversity and water quality. Member States must have an agri-environment measure but REPS is unique as it involves the whole farm and obliges the farmer to commit to eleven basic undertakings which are a comprehensive set of actions designed to maximise the environmental benefit.

At its height in 2009 there were 62,000 participants in REPS. The latest version of the scheme, REPS 4, was launched in August 2007 as one of the measures in the CAP Rural Development Programme 2007–13.

Because of the very large uptake of REPS 4, and the consequent funding commitment involved, and in the context of global economic downturn and the state of the public finances, REPS was closed to new applicants on 9 July 2009. Those farmers already in REPS 4, some 30,000, will be paid in respect of the remaining period of their five year contracts.

The possibility of reducing payments under REPS 4 is currently being examined.

### C.3.2 Agri-environmental options schemes (AEOS)

**(AEOS I and AEOS II were launched 2010 and 2011 respectively).**

2010 Outturn	2011 Estimate
0	€34m. (AEOS I only)

AEOS I was launched on 30 March, 2010. In view of the closure of REPS 4 and in order to provide an alternative scheme for farmers interested in producing environmental benefits, monies were secured from CAP modulation funds and from the European Economic Recovery Package for the new Scheme.

EU Regulations require the use of modulation funds to be linked to the achievement of specific objectives. In the case of AEOS, these objectives seek to (i) meet the challenges of conserving and promoting biodiversity, (ii) encourage water management and water quality measures and (iii) promote awareness of, and actions that, combat climate change. Under the Scheme high priority access is given to Natura i.e. those areas designated Special Areas of Conservation and Special Protected Areas and non-Natura commonage. Other farmers may nominate one environmental priority that they wish to address on their farm – i.e., Biodiversity, Water Quality or Climate Change – and must then choose from a menu of options that fit their particular circumstances and farming system.

The AEOS I scheme (2010) offered payment up to limit to €5,000 per farmer, subject to an overall limit of €50m. per annum. Over 8,000 farmers have been approved for participation in the Scheme. AEOS I is now calculated to cost approximately €34m. per annum.

AEOS 2 was launched on 6 April, 2011, at a maximum payment of €4,000 per annum per farmer, subject to an overall limit of €25m per annum. The closing date for applications was 16 May, 2011 and some 6,900 applications have been received. These applications are being processed at present. AEOS II payments are due to commence in 2012.

The Department carried out a comprehensive review of the first year of operation of the AEOS I scheme.

While the general structure of the Scheme remains the same, a significant change is that, although the contract period will be 5 years, the payment rates and terms and conditions only apply up to the end of 2013 only, i.e. end of current CAP Rural Development Programming period. At that stage, new actions, new rates and/or terms & conditions may have to be introduced. Farmers will have the option of withdrawing without penalty from the current scheme or opting to adjust their commitments in line with whatever new requirements may be introduced.

While the AEOS II scheme is only recently introduced and significant payments have not yet commenced, the rates of payment under both AEOS I and II are subject to ongoing review.

#### **C.4 Land Mobility (comprising Early Retirement and Installation Aid schemes)**

##### **C.4.1 Early Retirement Scheme**

2010 Outturn:	2011 Estimate
€32.633m	€35.000m

The aim of the scheme is to re-structure farming by encouraging older farmers to transfer holdings to younger trained farmers and so improve efficiency etc. The Budget line covers pensions to participants in the 1994-1999, 2000-2006 and the 2007-2013 Schemes. Early Retirement Pensions are reduced to take account of any national retirement pension including in cases of joint management (EU Regulations).

For budgetary reasons, the Early Retirement Scheme was suspended for new applications in October, 2008. Since then, annual expenditure is declining but it is necessary to make provision for existing commitments each year. Due to the contractual nature of commitments, there is no scope for further savings.

##### **C.4.2 Installation Aid Scheme / YFIS**

2010 Outturn:	2011 Estimate
€2.522m.	€0.960m

Two Schemes are financed under this heading, namely, :-

- the Installation Aid Scheme (IAS)(under 2000-2006 NDP), now closed and,
- the Young Farmers' Installation Scheme (YFIS), introduced under the 2007-2013 RDP. YFIS was, however, suspended for new applications on 14 October 2008 as part of the 2009 Budget and only fully completed applications received on or before that date are being processed by the Department.

Budget provision for 2011 (projected 2012) is to discharge any outstanding commitments under both schemes.

### **Programme C.5 – Development of Agriculture (10 budget lines)**

Many of the budget lines under C.5 relate to schemes that are closed to new applicants. Consequently, budget provisions in 2011 (and to lesser extent in 2012) is for the discharge of any outstanding commitments.

#### **C.5.1 Farm Improvement Scheme**

2010 Outturn	2011 Estimate
€12.402m	€7.000m

The Farm Improvement Scheme (FIS), introduced 2007, was suspended for new applications on 31 October 2007 when 12,675 applications had been received and these applications were processed up to the level of funding made available for the Scheme under *Towards 2016*.

Budget provisions in 2011 (and to lesser extent in 2012) is for the discharge of any outstanding commitments only.

#### **C.5.2 Waste Processing Facilities Scheme**

2010 Outturn:	2011 Estimate
€0.400m	€1.600m

This is an investment aid scheme for Demonstration On-Farm Waste Processing Facilities (on-farm anaerobic digestion facilities) and was introduced in June 2006 (2000-2006 NDP).

A total of 10 grant approvals issued, of which the first was paid in 2010.

Budget provision in 2011 (and 2012) is for the discharge of any outstanding commitments only.

### **C.5.3 Dairy Hygiene**

2010 Outturn	2011 Estimate
€0.375m.	€1.300m

The Dairy Hygiene Scheme closed for applications at the end of 2006 (and was replaced in 2007 by the new Farm Improvement Scheme/FIS – C.5.1 above).

Budget provision in 2011 (and 2012) is for the discharge of any outstanding commitments only.

### **C.5.4 Alternative Enterprises**

2010 Outturn	2011 Estimate
€0.083m.	€0.200m

This Scheme also closed for new applications at the end of 2006.

Budget provision in 2011 (and 2012) is for the discharge of any outstanding commitments only.

### **C.5.5 Horticulture Industry**

2010 Outturn	2011 Estimate
€1.992m.	€4.000m

The Scheme provides Grant Aid for capital investments in specialised plant and equipment to assist producers to upgrade or develop new production facilities in commercial horticulture.

The scheme operates on a yearly basis – applications are invited, are approved projects must be completed and, by and large, payments issue within the same calendar year. The level of funding committed to the scheme in future, if any, will depend on the funding available for the Department's capital programme.

### C.5.6 Organic Sector

2010 Outturn: €1.659m. (Capital: €0.980m., Current: €0.679m.)

2011 Estimate: €2.910m. (Capital: €1.940m., Current: €0.970m.)

**Organic Sector - Capital Grants:** - covers two schemes of Grant Aid for the Development of the Organic Sector, one for on-farm investment and the other for off-farm investment. Subject to funding availability, both schemes are technically open to both producers and processors for investments in equipment and facilities for the production, preparation, grading, packing and storage of organic products.

#### **Organic Sector - Current expenditure**

This covers a number of organic sector relate expenditures for the development and expansion of the organic farming sector. For example, the Department provides assistance to five private bodies that certify and inspect organic producers and processors. Other current expenditure relates to the development of the Organic Sector, including the implementation of elements of the Organic Farming Action Plan 2008–12, attendance of Irish organic enterprises at the Biofach trade fair in Germany, National Organic Week and recommendations from Forás Orgánach.

There is scope for some limited budget cuts.

### C.5.7 Farm Waste Management (FWM)

2010 Outturn	2011 Estimate
€298.149m.	€36.010m

The FWM scheme is effectively over. The 2011 budget provision is to cover outstanding liabilities only, most which have now been discharged. There is the possibility of the need to provide a relatively small budget (€0.210m.) in 2012 to cover any remaining liabilities.

### C.5.8 On Farm Investment Schemes (pre 2000/06 NDP)

2010 Outturn	2011 Estimate
€0.003m.	€0.020m.

This provision is primarily to cover outstanding payments under the old on-farm investment schemes which operated during the 1994 –1999 Structural Funds Round.

### C.5.9 Targeted Agricultural Modernisation Schemes (TAMS) (RDP Investment Schemes)

2010 Outturn	2011 Estimate
€0	€19.300m

There are five targeted on-farm investment schemes, for which the EU granted approval by way of amendment to Ireland’s Rural Development Programme for 2007-2013. *(In addition, the revised Rural Development Programme also provided an indicative allocation of €20 million for investment in bioenergy crops (willow and miscanthus – see C.6.7 &8 below).*

In the case of the five on-farm investment schemes, the indicative amounts allocated to each Scheme were as follows:-

<b>Scheme</b>	<b>Amount (€m)</b>
Dairy Equipment	45
Poultry Welfare	16
Sow Welfare	13
Sheep Fencing/Handling	8
Rainwater Harvesting	8
Total	90

Due to the relatively short time-frames for completion of the investment works concerned, priority was given to the introduction of the Poultry and Sow Welfare

Schemes which were launched on 16 June 2010. The Sheep Fencing/Handling Scheme was introduced on 1 November 2010. The final two Schemes, the Dairy Equipment Scheme and the Rainwater Harvesting Scheme, were introduced on 4 and 8 March 2011 respectively.

However, due to the financial constraints, TAMS was temporarily suspended on 8 June 2011 for new applications with immediate effect. The Minister stated that, it would not be prudent to continue to accept new applications for TAMS before clarifying the availability of funds for next year.

Accordingly, only applications received in his Department by close of business on 8 June 2011 would be eligible for consideration under the Schemes concerned. The applications received prior to the deadline will be processed up to the level of the current tranches of funding. The Minister also stated that a final decision on the future of TAMS would be made within the context of the comprehensive expenditure review.

The level of funding, if any, committed to the schemes will depend on the overall level of capital funding available to the Department. As indicated earlier, the effect of expenditure under the scheme in determining the level of draw down of EU funding will be an important consideration in deciding whether the schemes are re opened.

#### **C.5.10 Other**

2010 Outturn	2011 Estimate
€0	€1.000m

The 2011 budget includes a provisional budget of €1m. for a proposed new pilot scheme for on-farm waste handling facilities. However, in the context of the comprehensive expenditure review and declining budgets post 2011, it is likely that the scheme may not be able to proceed at this time.

## C.6 Forestry and Bioenergy

This Subhead covers the total forestry and bio fuels programmes (8 budget lines – C.6.1 to 6 covers forestry and C.6.7 & 8 relates to bio fuels).

	2010 Outturn	2011 Estimate
	€120.612m.	€119.820m.
Forestry	€119.698m.	€117.720m.
Bio Fuels	€0.974m.	€2.100m.

### C.6.1 Afforestation

	2010 Outturn	2011 Estimate
	€107.789m.	€104.000m.

The 2011 allocation of €104m., provides for the payment of (i) new planting grants (7,500 hectares) and (ii) premiums and second instalment grants. Approx €89m., relates to annual premia paid in respect of land planted in previous years. Such premia are payable over 20 years from time of planting (15 years for non farming plantations).

The scope for securing savings through revised premia and planting grant rates is being considered.

### C.6.2 NDP Support Schemes

	2010 Outturn	2011 Estimate
	€7.831m.	€0.500m.

This covers a suite of schemes developed to support the afforestation scheme: -

- (a) Forest roads and
- (b) Reconstitution Grants and
- (c) Grants for training & promotion.

The schemes are currently open to new applicants. Budget 2011 covers funding existing commitments as well for new applications.

The budget for this scheme is being reviewed and will be determined in the light of the limited capital budget available for 2012.

### **C.6.3 Forestry Development & C.6.4 Forestry Research**

#### **Development**

2010 Outturn	2011 Estimate
€0.407m.	€0.350m.

#### **Research**

2010 Outturn	2011 Estimate
€3.159m.	€3.230m

The above budget lines cover forestry related research and development measures (work previously undertaken by COFORD).

The 2011 allocation as well as funding commitments under pre 2010 approved projects also includes provision for funding new projects funded under the 2010 Call. A budget provision needs to be provided in 2012 to cover funding needs.

There is only limited scope for significant budget cuts.

### **C.6.5 IFORIS (Forest Inventory)**

2010 Outturn	2011 Estimate
€0.007m.	€0.220m.

The first ever National Forest Inventory (NFI) was completed in December 2007 and the first repeat phase is scheduled for 2011.

The purpose of the NFI is to record and assess the current extent, state and composition of Ireland's forest resource, both public and private, in a timely and reproducible manner. The repeat phases are necessary to measure change and to calculate carbon capture.

There is only limited scope for significant budget cuts.

#### **C.6.6 Other Support Schemes**

2010 Outturn	2011 Estimate
€0.445m.	€0.420m.

€0.420m is provided for such measures as reforestation grants for non-commercial clear felled sites and technical support for Forest Inspectors.

There is only limited scope for significant budget cuts.

#### **C.6.7 Bio energy - Miscanthus and Willow**

2010 Outturn	2011 Estimate
€0.592m.	€2.000m

The allocation of €2.0 million in the budget provides establishment grants for the planting of willow and miscanthus. Both schemes which are currently open to new applicants, form part of the EU co financed revised RDP (2007/13).

There is some scope for budgetary adjustment..

#### **C.6.8 Bio energy - National Top-Up Aid Premium**

2010 Outturn	2011 Estimate
€0.382m.	€0.100m.

Payment of the premium ended in 2009 following the EU decision to end the EU Energy Crops Scheme.

The 2011 budget (€0.1m.) is to cover any outstanding liabilities. Budget provision for 2012 is unlikely to be required.

### **Programme C.7 Fisheries**

This Subhead provides funding (6 budget lines) for the following fisheries and coastal related measures:

- Foreshore Development (administration of the State's foreshore estate)
- Fishing boats licence appeals
- Fisheries Conservation and Management
- Fish processing
- Aquaculture development
- Fisheries harbour development

#### **C.7.1 Foreshore Development**

2010 Outturn	2011 Estimate:
€0.004m.	€0.300m.

The budget covers costs that might arise in relation to aquaculture related foreshore functions retained by Department following enactment of the Foreshore and Dumping at Sea (Amendment) Act 2009 (i.e. cost of foreshore valuations / removal of unauthorised aquaculture structures on the foreshore).

This is a prudent budget provision on which expenditure varies from year to year. There is no scope for significant budget cuts.

#### **C.7.2 Fishing Boats Licensing Appeals**

2010 Outturn	2011 Estimate
€0	€0.010m.

There is no scope for savings.

### **C.7.3 Fish Processing**

2010 Outturn	2011 Estimate
€0.674m.	€1.500m

Capital grants for fish processing funding is provided for under the National Seafood Development OP 2007-2013.

There is no scope for significant savings.

### **C.7.4 Aquaculture Development**

2010 Outturn	2011 Estimate
€0.522m.	€5.000m

This part Subhead covers national grant aid support for projects under National Seafood Development OP, 2007-2013.

There is limited scope for significant savings.

### **C.7.5 Fisheries Harbours**

2010 Outturn	2011 Estimate
€8.666m.	€10.277m

Expenditure under this subhead relates to maintenance and development works at the six State-owned Fishery Harbour Centres, together with the upkeep of various Navigation Aids and Cape Clear Fishery Harbour for which the Department is responsible. In addition, funding for works at Local Authority owned harbours is also provided for under the programme, subject to the availability of resources.

The 2011 budget, €10.277m., has been allocated to projects where contractual commitments were in place or where essential works are required to safeguard the

health and safety requirements at the Fishery Harbour Centres including €1m. for works at Local Authority owned harbours.

Budget cuts on this heading will mean no new or major project commitments though there will be need for some provision to cover health & safety issues arising at State owned harbours.

The level of funding in 2012 will be dependent on the overall level of capital funding available to the Department.

### **C.7.6 Environmental Compliance**

2010 Outturn	2011 Estimate
€0.750m.	€0.750m.

Budget (2011: €0.750m) covers the scientific assessment of inshore fisheries and aquaculture in areas designated for protection under the EU Habitats and Birds Directives. This is a critical programme of work to comply with ECJ judgement against Ireland, with ongoing threat of daily fines being imposed. Growth of aquaculture sector has been suspended for several years because of inability to licence sites without these assessments having taken place.

The first full appropriate assessment was recently completed on Castlemaine Harbour, County Kerry in May 2011 and due for public consultation thereafter. Further bays are expected to undergo appropriate assessment throughout 2011.

There is limited scope for significant savings.

### **C.8 Sea Fisheries Protection Authority (SFPA)(established in January 2007).**

2010 Outturn	2011 Estimate
€1.324m.	€10.895m.

The annual grant-in-aid enables the SFPA to discharge its various statutory functions:

- Promote compliance with fisheries law and seafood safety law

- Secure efficient and effective enforcement of fisheries law and food safety law
- Meet SFPA data collection and reporting obligations
- Provide advice to the Minister and national, European and international expert groups.

Any budgetary cuts should be in line with whatever level of cuts are applied to other NCSSBs. A cut of, circa 5%, on non pay current expenditure, would yield a Vote saving of €8,000.

### **C.9 Other**

This is a collection of 4 separate expenditure items for which the 2011 budget is €1.1m. Given the nature of the expenditures covered, there is little scope for significant savings.

#### **C.9.1 Life Annuities and Premia**

2010 Outturn	2011 Estimate
€0.389m.	€0.400m

This relates to the payment of pensions to farmers under the 1974 Farm Retirement Scheme (per E.C. Directive 72\160). There are currently 68 single/widowed participants and 13 married participants in receipt of this farm retirement pension. Expenditure is decreasing annually.

#### **C.9.2 Rural Development technical assistance**

2010 Outturn	2011 Estimate
€0.530m.	€0.640m

This budget line complies with an EU requirement and covers the annual costs for the on-going monitoring and evaluation process for the 2007 – 2013 Rural Development Programme (RDP), the publication of information on the ongoing activities under the RDP and expenses related to the Monitoring Committee.

There may be scope for some budgetary adjustment.

### **C.9.3 Land Commission**

2010 Outturn	2011 Estimate
€0.016m.	€0.024m

Budget covers miscellaneous expenses relating to the former Land Commission activities (e.g. purchase / storage of maps etc).

The scope for any savings is very limited.

### **C.9.4 Aquaculture Licence Miscellaneous**

2010 Outturn	2011 Estimate
€0.322m.	€0.050m

The function of the Aquaculture License Appeals Board (ALAB) is to provide an independent authority for the determination of appeals against decisions of the Minister for Agriculture, Fisheries and Food on aquaculture licence applications.

The above budget covers primarily the Board member expenses.

The ALAB administrative service has already been absorbed into the Department's Agricultural Appeals Office, (Portlaoise) resulting in the release of the ALAB sole administrative staff member for redeployment and the relinquishing of ALABs rental accommodation in Dublin.

There is limited scope for any significant savings.

## Section 3e

# Programme D

**Programme Goal:** - *To provide effective and responsive delivery of schemes and services in support of farm incomes and market supports.*

Excluding administration , programme D comprises 3 main spending subheads (which breakdown into 15 sub-budgets), details of which are set out below.

<b>Programme D</b>	<b>2010 Actual (€000)</b>	<b>2011 Estimate (€000)</b>
<b>Total Programme D</b>	<b>277,241</b>	<b>298,851</b>
D.1 Administration - pay	28,409	27,503
D.2 Administration - non pay	6,345	7,388
D.3 to D.5 Programmes	242,488	263,959

### **Programme D - expenditure details below (D.3 to D.5)**

<b>Programme (excluding Administration)</b>	<b>2010 Actual (€000)</b>	<b>2011 Estimate (€000)</b>
D.3 Income and Market Supports	30,229	43,333
D.4 Compensatory Allowances/ Less favoured Areas	208,195	220,000
D.5 Other	4,064	626
<b>Programme D (excluding Administration) Total</b>	<b>242,488</b>	<b>263,959</b>

### **D.3 Income and Market Supports**

This is a largely a “technical” subhead primarily consisting of ten (10) budget lines dealing with Member State costs associated with the operation of various EU related activities e.g. financing for intervention operations, interest cost on the Single Payment, clearance of accounts etc. Annual expenditure is determined primarily by factors outside of Department’s control and can, depending on current issues, vary from year to year.

### **D.3.1 Technical Costs**

2010 Outturn	2011 Estimate
€2.552m.	€2.000m

The budget line Member States costs for the operation of the EU market support mechanism “intervention”. Such costs include handling, storage, transport, insurance, and other costs associated with the purchase of agricultural products into intervention (e.g. dairy, cereals, and sugar).

The European Commission sets the EU (standard) recoupment rates that are offset against these costs – EU refunds are accounted for under receipts subhead E.11.

Annual expenditure reflects market conditions and the level of intervention activity.

The scope for significant savings is limited.

### **D.3.2 Cost of Capital for Purchasing Products into Intervention**

2010 Outturn	2011 Estimate
€0.271m.	€1.000m

The budget covers cost of borrowing to fund the purchase of product into intervention (see D.3.1 above) and is arranged through the NTMA, e.g. €1m is provided in 2011 for the cost of servicing €42m of existing debt that was used to purchase butter and skimmed milk powder during 2009. Butter purchased in 2009 was sold in 2010 and existing stocks of skimmed milk powder is expected to leave intervention as Food Aid during 2012.

As market activity can be unpredictable, intervention related expenditures can vary from year to year. It is prudent to retain a provision of €1m to cover the steadily increasing interest rates on existing borrowings.

The scope for significant savings is limited.

### **D.3.3 Cost of Providing Capital for Short Term Financing of EAGF Guarantee**

2010 Outturn	2011 Estimate
€3.286m.	€5.000m

This covers the cost of financing EAGF (Guarantee) measures – mainly the Single Payment Scheme payments (circa €1.3 billion p.a.) - which are funded in arrears by the EU Commission. The payment of the full amount of the Single Farm Payment by way of an advance in October and the balance in December has led to a significant increase in the funding requirement.

There is limited scope for any significant savings.

### **D.3.4 Export Refunds Ancillary Costs**

2010 Outturn	2011 Estimate
€0.009m.	€0.010m.

This budget line covers the costs of special export refund labels used for traceability purposes for beef export refunds as required under EU regulations.

There scope for any savings is limited.

### **D.3.5 Clearance of Accounts**

2010 Outturn	2011 Estimate
€0.648m.	€23.573m.

This provision covers funding, originally received from the EU for payments under various schemes that may become repayable to the EU following audits and other checks conducted on Department accounts and systems.

Expenditure can vary significantly from year to year and is dependent on the outcome of various audits and follow up engagement with the EU Commission.

The scope for any significant savings is limited.

### **D.3.6 IACS Integrated Administration & Control System (IACS) – Land parcel identification:**

2010 Outturn	2011 Estimate
€5.596m.	€4.500m.

IACS is an essential part of the administrative controls required by the EU Commission in the administration and disbursement of EU funds (currently averaging €1.6 billion per annum).

The scope for any significant savings is very limited.

### **D.3.7 School Milk Scheme**

2010 Outturn	2011 Estimate
€0.752m.	€1.249m

The School Milk Scheme (EU co funded) is intended to boost milk consumption and to promote and encourage the consumption of milk amongst school children as well as develop healthy eating habits from an early age.

It is a discretionary EU scheme with relatively low net cost to the Vote which in 2011(net of EU co funding) is slightly less than €300,000. As the scheme is administered in conjunction with other market intervention schemes the administration costs are very low.

Expenditure has been declining over recent years (from 1.019m. in 2007 down to €0.752m. in 2010. EU co funding is accounted for under subhead E.15 (part) and amounted to €0.488m. in 2010.

### **D.3.8 Other Market Supports**

<u>2010 Outturn</u>	<u>2011 Estimate</u>
<u>€</u>	<u>€0.001m.</u>

This budget line represents a token (€1k) provision to facilitate any measure that might be required to deal with any unforeseen eventualities.

### **D.3.9 Dioxin Measures**

2010 Outturn	2011 Estimate
€16.119m.	€4.500m

The 2011 budget provision represents the estimated residual cost of the “once off” special dioxin related measures that were introduced in November 2008. There is a possibility of the need to provide for further smaller residual budget provision in 2012 but this will be determined in the course of the 2012 detailed Estimates process.

### **D.3.10 Financing of Fisheries FEOGA schemes**

2010 Outturn	2011 Estimate
€0.996m.	€1.500m.

This is an unavoidable cost associated with the EU’s (demand led) fish market support mechanism (Withdrawal and Carry Over of Fish).

There is limited scope for any significant savings.

### **D.4. Compensatory Allowances /Less favoured Areas**

2010 Outturn	2011 Estimate
€208.195m.	: €220.000m

The budget covers Compensatory Allowances (or Disadvantaged Areas Scheme / Area based payments / Less favoured Area payments etc) which replaced the old headage schemes, which had previously operated in those areas. This is a co-funded income support measure under the 2007 - 2013 Rural Development Programme. The Vote provision is currently €220 million per annum and represents an important contribution to the income of 102,000 farm family beneficiaries.

In 2008, due to budgetary constraints, cuts of 14% were implemented by way of a reduction in eligible areas, thereby protecting payment to the smallest beneficiaries. As outlined earlier, the Department is proposing further substantial reforms in this area that will be based, firstly, on reform of the qualifying criteria and tightening of the scheme eligibility criteria. However, in order to achieve overall savings of the order required on the 2012 Vote, it will also be necessary to implement an even more stringent reduction in scheme payments. The proposal is to achieve the necessary cuts by either targeting spend towards smaller farmers and ensuring that those who need it most will continue to receive supports, by varying payment rates in the different categories of disadvantaged area or a combination of both. The Department is proposing that substantial savings will be realised from this reform. Depending on the outcome of deliberations on the other elements of the overall package, the cuts in Disadvantaged Areas Scheme payments could be of the order of up to €50m. The proposals, which are subject to approval by the EU Commission, will be hugely unpopular, contentious and politically controversial.

#### **D.5 Other (4 budget lines)**

##### **D.5.1 Agrimonetary Compensation**

2010 Outturn	2011 Estimate
€0	€0.008m

Budget 2011 is to cover residual payments under the agrimonetary compensation schemes (now closed).

##### **D.5.2 Production and Marketing of Honey**

2010 Outturn	2011 Estimate
€0.102m.	€0.098m

This money is provided for Ireland's programme (50% co funded) for improving the production and marketing of honey 2005/2007, as approved by the EU Commission

(July 2004). Programme involves research by University College Limerick into controlling serious disease in bees (varroa mite).

The level of activity is expected to remain constant over coming years.

Limited scope for any significant savings.

EU co funding is accounted for under subhead E.15 (part) and amounted to €0.044m. in 2010.

### **D.5.3 Frost Damage**

2010 Estimate €10.000m

2010 Outturn: €3.962m

2011 Estimate: €0.500m

This was a temporary scheme introduced in 2010 to deal with producer losses following snow and frost damage in December 2009. Scheme is now closed.

The 2011 budget (€0.5m) is to cover any outstanding claims.

At this point, it is not expected to have to continue this budget line after 2011.

### **D.5.4 Other**

2010 Estimate €0.020m

2010 Outturn: €0

2011 Estimate: €0.020m

Budget is to covering any outstanding Special Beef Premia payments (now closed).

## Section 3f

# Appropriations–in–Aid

The Department's Voted Receipts for 2010 (actual) and 2011 (estimated) are €401.373 million and €373.892 million respectively. Approximately 87% of the annual income relates to EU co funding on a number of Voted expenditure items, mostly in relation to the Rural Development Programme.

The non EU related fees are derived primarily from charges / fees on services administered by the Department, most of which relate to food safety / animal health controls (inspections, laboratory fees etc).

	2010 Actual €m.	2011 Estimated €m.
<b>EU receipts</b>	<b>346.5</b>	<b>326.5</b>
<i>Of which:-</i>		
<i>Rural Development Programme</i>	<i>306.1</i>	<i>300.0</i>
<i>Veterinary Fund</i>	<i>14.0</i>	<i>15.9</i>
<i>Other EU ( agriculture)</i>	<i>3.7</i>	<i>4.9</i>
<i>Fisheries EFF</i>	<i>20.6</i>	<i>5.0</i>
<i>Other EU (fisheries)</i>	<i>2.1</i>	<i>0.7</i>
<b>Non EU receipts</b>	<b>54.8</b>	<b>47.3</b>
<i>Of which:-</i>		
<i>Meat inspection fees</i>	<i>15.6</i>	<i>14.7</i>
<i>Dairy Inspection fees</i>	<i>4.9</i>	<i>5.0</i>
<i>Liver animal inspections</i>	<i>2.4</i>	<i>1.2</i>
<i>Bovine disease levy</i>	<i>5.6</i>	<i>5.0</i>
<i>Charges/fees for other services (testing/ certification etc)</i>	<i>3.8</i>	<i>3.0</i>
<i>Other income (non fee)</i>	<i>2.6</i>	<i>0.8</i>
<i>Salary recoupment</i>	<i>0.9</i>	<i>0.7</i>
<i>Pension levy</i>	<i>19.0</i>	<i>16.9</i>
<b>Total Receipts</b>	<b>401.3</b>	<b>373.8</b>

EU co funding receipts are expected to be lower over the coming years due to a combination of lower national expenditure on programmes and lower EU funding provisions, particularly in the post 2013 period.

Of the total 2011 estimated non EU income (€47m.), approximately €9 million relates to activities and services for which fees and levies currently apply. Subject to a more detailed assessment on the feasibility of increasing individual charges, the level of increased receipts, in the short term, is unlikely to be dramatically higher than at present. However, the Department is obliged to, and will, examine the scope for, in so far as is possible, increasing non EU receipts.

As more staff both the Department and the non commercial State sponsored bodies under its aegis leave over the period 2012 to 2014, income derived from the pension levy and, to a lesser extent, salary recoupment can be expected to decline.

## **Section 4 Pro Bono Consultancy Reports**

## **Pro Bono Consultancy Reports**

To assist in the Comprehensive Expenditure Review, the Minister secured the services of a number of prominent consultancy companies to review key policy areas as well as major elements of the Department's operations. The following reviews were undertaken or are under way

- a) Accenture; review of procurement, shared services and meat inspection,
- b) KPMG; review of the Single Payment Scheme Unit in Portlaoise,
- c) Deloitte; review of disposal of State assets in Coillte.

### **Accenture**

Accenture examined three areas that the Department identified as part of its Action Plan under the Public Service (Croke Park) Agreement –

#### **1. Procurement**

A Procurement Review Group was established in the Department to identify mechanisms through which savings in procurement expenditure could be delivered in line with the Department's commitment under the Croke Park Action Plan to save 10% on procurement expenditure over the period 2011 - 2014. To complement the work of the Procurement Review Group, Accenture was requested to undertake the following:

- To examine and comment on the draft report of the Procurement Review Group;
- To examine Department procurement expenditure and identify mechanisms through which savings in procurement expenditure could be realised, and
- To produce an implementation plan setting out the timeframe and structures necessary for delivery of the savings.

Both Accenture and the Department's Group have produced reports following their respective examinations of the procurement function (copies of the reports are attached). Both identified weaknesses in current structures and practices, identified the inefficiencies and risks associated with them and make a number of recommendations to effect improvements.

The Department's Group report made a number of recommendations with the key recommendation being the Department should establish a Central Procurement Unit to advise, monitor, co-ordinate and where necessary enforce Department Procurement with immediate effect with a view to generating savings on procurement. While the Accenture report does not definitively recommend the Department should establish a centralised procurement function, it states that the Department should assess which models will work best for the Department (Centralised, Centres of excellence, Centred, Co-ordinated, Decentralised) and it provides an illustration of a typical high level design of a Centralised Category Management oriented Procurement organisation and outlines how this might work in the Department.

Based on the outcome of the detailed reviews of structures and procedures, the Department will establish a Central Procurement Unit within which there will be a Procurement Policy and Control Section, and a Procurement Execution and Stock Control Section. The Unit will oversee, provide expert advice and monitor all aspects of Departmental and enforce procurement policy, ensure that an up-to date register of contracts is maintained and ensure that Department obtains optimum value for money and seek to realise the significant savings committed to under the Croke Park Agreement.

## **2. Shared Services**

The Department's Management Services Division had carried out a preliminary review of the potential for shared services from the point of view of a provider of services to other Departments and State bodies and through availing of service provision by other providers. Building on this internal scoping exercise, Accenture were requested to examine the opportunities and capacity for further shared services in IT, payroll and accommodation between the Department and its non-commercial state agencies. Consultations and discussion have been on-going and the final report is expected shortly.

The Accenture report is likely to confirm the Department's findings which are that while opportunities for shared services exist and should be explored, they are unlikely to achieve substantial improvements in terms of costs reductions or improvements in efficiency.

The possibilities for reform will be considered carefully by the Department when the final report is received from Accenture.

### **3. Meat Inspection**

As already indicated, the Department has identified the meat inspection service as one of the key options to delivery savings under the Comprehensive Expenditure review. Accenture were also requested to examine the current regulatory presence in meat plants and to recommend on cost savings and delivery models. The final report is awaited.

As already indicated, a number of reforms are already being introduced to reduce expenditure and the Accenture report will be examined with a view to introducing further reforms, to which the Minister is strongly committed, in the form of cost reduction or cost recovery.

### **Deloitte**

As part of the Comprehensive Expenditure Review and as a response to the Programme for Government and the Special Group (McCarthy) report on the disposal of State assets, the Minister requested Deloitte to prepare a report on possible options for realising the maximum level of shareholder value in Coillte. The report identified a number of options including an increased dividend, partial sale of assets and more extensive long term lease process.

The report was submitted by the Minister to Government on 22 July. The Government noted the report and agreed that it would feed into the overall response to the Special Group recommendations via the minister for Public Expenditure and Reform.

### **KPMG**

The Department's Management Services Division had already undertaken a review the Department's Single Payments Scheme Unit in Portlaoise. Given the scale of the operation in the context of the Comprehensive Expenditure review, the Minister requested KPMG to carry out a review of the operation in order to provide an external

perspective. A draft report was received in early September. Further discussions and consultation with KPMG will take place and a final report is expected in the near future. The Department will consider the findings and recommendation of both reports with a view to implementing any reforms which will improve the effectiveness and efficiency of the Department's operations.

### **Summary**

While the Department was already engaged in a review of the areas concerned, the reports carried out by the consultants on a pro bono basis have provided valuable insights and external perspectives. The findings of the various reports are being implemented, as in the case of reform of the Department's procurement structure and procedures, or will be examined and considered for implementation in order to improve the effectiveness and efficiency of the Department's operations.

## **Section 5: Capital Expenditure; Impact on Employment**

## **Capital Expenditure; Impact on Employment**

### **Summary**

The Department has a capital allocation of €150 under the National Recovery Plan. As outlined in the review, the Minister is extremely concerned that this level of funding is totally inadequate to meet existing commitments and to make any meaningful contribution to encouraging and facilitating capital investment across a broad range of activities and investment opportunities in the agri-food, fisheries and forestry sector. There is also a shortfall of capital funding in 2013 and 2014.

The review points out that capital expenditure of €200m will be required to

- a) honour existing contractual commitments,
- b) allow applications on hands under various schemes to be processed, to which a commitment has been given, and
- c) permit a reduced level of new forest planting, by comparison with recent years, to take place.

The reduction of capital expenditure below a level of €200m in 2012 will result in the termination of all schemes, will put existing employment at serious risk, especially in the forestry sector as no new afforestation will be possible in 2012, and will eliminate the potential for job creation.

The reduction in the capital programme would also mean that it will not be possible to implement key aspects of the Programme for Government, in particular, the commitments to Food Harvest 2020 and the specific commitment in relation to afforestation. While an increase in the Department's capital funding to €200m in 2012 would allow a minimal essential level of investment to take place, a more substantial increase would be required to actively encourage development and job creation in the sector.

## **Capital programme**

The Department's annual programme of capital expenditure covers grant schemes and aids for

- On-farm investments,
- Investment in the food processing industry,
- the horticulture sector,
- Afforestation and forestry premia and bio-energy crops,
- Investment in the fishing sector in the processing industry, aquaculture and fishery harbours,
- Capital investments by State bodies, in particular BIM and the Marine Institute, and the Sea Fisheries Protection Authority
- Expenditure by the Department in accommodation, office equipment, IT, laboratories, etc..

The capital envelope for the Department for 2011 is €269m. Under the terms of the National Recovery Plan, the allocations for the period 2010, 2013 and 2014 are €150m, €140m and €140m respectively. These allocations are inadequate to meet existing commitments. The funding available in 2012 is already fully committed, principally in the forestry premia payments, marketing and processing grants for the food industry and in capital investment by the State bodies. Unless a significant additional allocation of capital funding is received, it will not be possible for the Department to meet its liabilities and to issue any further grant approvals or to enter into any further commitments under a range of headings. These include new afforestation, in particular, as well as on-farm investment, horticulture, livestock breeding, the fishing sector and investments by State bodies. The termination of support measures would have negative consequences for investment within the sector and could seriously undermine the potential for growth and the prospects for job creation and job maintenance in the years ahead.

## **Economic contribution of the sector**

Agri-food and fisheries is Ireland's largest indigenous industry. It has an annual turnover of over €24 billion and a strong export focus. Its overall contribution to the economy is illustrated by the fact that latest data shows the sector accounting for 7.0%

of gross value-added, 7.5% of employment and 10% of exports. Export figures from the agri-food sector were particularly encouraging in 2010 and are estimated at almost €8bn (an increase of 11% on 2009) which is well ahead of growth in most sectors. Figures for the first five months of 2011 showed continued strong growth with a 16% increase on exports in the same period of 2010.

The net foreign earnings of agriculture, forestry and fishing, as well as the industries processing their products, namely the food, beverage and tobacco industries, contribute approximately 30% of the total net earnings from primary and manufacturing industries. The main reasons for the disproportionately large net contribution to earnings exports are

- the sector's low import dependence, accounting for half of all purchased Irish goods and services by the manufacturing industry, and
- the low levels of profit repatriation among its processing firms.

Investment in the sector also has a disproportionately positive impact on the economy. The latest Central Statistics Office data show that the Agriculture, Forestry & Fishing sector has a multiplier effect of 1.73. This compares, for example, with the Motor (1.41) Recreation (1.39) or Chemical (1.11) industries.

The sector directly employs up to 150,000 people with a significant weighting of activity in rural and coastal communities, often in areas where few other employment opportunities currently exist.

### **Food Harvest 2020 Strategy**

The agriculture, food, fisheries and forestry sector has considerable scope for expansion and growth. The Food Harvest 2020 strategy, which was published in July 2010 sets out a strategic blueprint for the development of the sector for the next decade. The strategy has a series of ambitious growth targets to be achieved by 2020, viz. to

- increase the value of primary output of the agriculture, fisheries and forestry sector by €1.5 billion – a 33% increase compared to the 2007-2009 average;

- improve the value-added in the sector by €3 billion;
- achieve an export target of €12 billion for the sector – a 42% increase compared to the 2007-2009 average;
- increase milk production by 50%, and
- add 20 % to the value of the beef sector.

The achievement of these targets will require considerable improvements in productivity at farm level including the adoption of new technologies and restructuring to improve competitiveness. Marketing Irish produce as environmentally sustainable is also a key pillar of the strategy and will necessitate continuation of the current targeted environmental schemes and other measures to promote environmentally sustainable practices at farm level. The value added processing industry needs to focus on improving productivity, developing the skill base and its organisational and management capability. Focussed R+D will be essential to verify the environmental credentials that will support the ‘Brand Ireland’ concept. Progress towards achieving these goals will depend on significant investment and the continuation of the incentives which are currently available through the capital grant schemes operated by the Department.

### **Employment potential**

Initial estimates by Enterprise Ireland, based on the output growth targets proposed in Food Harvest 2020 suggest that a net gain of 3,500-4,000 jobs in the food sector (other than seafood) by 2020, more than counteracting the net loss of 1,500 jobs in the past decade, is possible. Prospects of increased employment in micro food companies, employing fewer than five employees, which are not generally captured in statistics, are also good. There is also potential exists in the sea fisheries and aquaculture sector for a step change for the creation of an additional 3,000 full-time equivalent jobs by 2020.

The forestry sector is labour intensive and supports about 16,000 jobs in the Irish economy. It has a significant multiplier effect. A study completed on behalf COFORD in 2006 – *The Socio-Economic Contribution of Forestry in Ireland (ECONTRIB)* - found that for every 100 jobs in the forestry industry, another 90 full-time equivalent

jobs are provided within the economy. Any proposal to maintain and expand the forestry capital programme will have significant impact on job maintenance and creation both within the industry itself and in related industries.

Employment in the agri-food and fisheries sector is predominately in rural and coastal areas where the opportunities for alternative job creation strategies are limited. The sector generates supports significant employment in upstream and downstream activity. For example, while direct employment in the specialised horticulture sector account for about 6,000 jobs, Teagasc and Bord Bia estimate that up to 15,000 people employed in areas such as amenity horticulture, retail distribution and processing. Following the recent massive decline in the construction sector many formerly part-time farmers are now devoting their energies to examining investment opportunities and improving farm output.

### **Employment creation and maintenance**

The potential of the sector in terms of job creation and employment maintenance cannot be realised without significant investment and, in some cases, Government expenditure to incentivise private investment.

### **On-farm investment; Targeted Agriculture Modernisation Scheme (TAMS)**

The TAMS scheme is designed to maximise the return on public sector investment through

- Targeting specific value-added measures;
- Targeting specific sub-sectors and innovative farmers;
- Encouraging private sector investment to complement public funding; and
- Leveraging the multiplier effect that is very high in the sector;

TAMS comprises a range of measures to grant aid investment in Sows and Poultry Housing, Sheep Handling, Dairy Equipment, Rainwater Harvesting equipment and Bio-Energy. Applications for aid are currently being evaluated and the measures are also open for further applications. Total funding of €10m. which is co-funded by the EU at 50% was originally earmarked for TAMS. It is anticipated that about 5,700

individual projects, dispersed throughout the country will be approved for grant aid by the time the Schemes close for applications. The benefits in terms of employment are

- Pigs and poultry – without the planned investment which is provided for under the scheme, existing operators will not be compliant with new EU animal welfare requirements. There will be a serious threat to the continuing future of the sectors if the two grant Schemes concerned were discontinued and virtually all current employment of about 12,000 (6,000 in the pig sector and 6,000 in poultry) is dependent on the grant aided investments.
- Other schemes; the remaining TAMS provide targeted grants for key investment areas and will have significant employment effects as well as downstream impacts from processing to increased production of sheepmeat, milk and biomass. The investments will generate expenditure on materials and supplies and ensure a demand for the services of contractors in the construction sector and other service providers in rural areas. While the employment impact is difficult to estimate accurately, it is estimated that about 3,000 jobs are involved.

In all cases, expenditure will take place in the local economy and because of the multiplier effect already described, investment of €10m at a grant rate of 40% would generate expenditure of €265m and trigger an injection of €160m into the rural economy. TAMS also enables Ireland to meet its financial obligations under the current Rural Development Programme as 10% of expenditure must be ear-marked for Axis I measures (i.e. on-farm investments). In addition to the funding for TAMS which would not be drawn down (€5m for every €1m of underfunding) the elimination of these measures would cause significant wider difficulties in relation to the drawdown of EU funding under the Programme as a whole.

Applications under the TAMS are currently suspended pending the outcome of the Comprehensive Expenditure Review and decisions on the allocation of capital funding. As outlined elsewhere, expenditure under TAMS has a critically important role in determining the level of drawdown of EU co-funding under the Rural Development programme.

## **Horticulture**

The horticulture sector (including potatoes) contributed approximately €350m to farm output in 2010. The scheme for investment aid for development of the horticulture sector provides grant aid for capital investment in specialised plant and equipment that:

- facilitate environmentally friendly practices
- improve product quality
- promote diversification of on-farm activities and
- improve working conditions.

The scheme plays a role in retaining and creating employment for a sector that is under continued downward pressure from retail multiples.

## **Forestry**

In economic terms, the output of the forestry sector was valued at €1.8 billion in 2008 and, as indicated, supports about 16,000 jobs.

As an indigenous industry which is dependent on a locally sourced raw material, there is a strong case for ensuring the future viability of forestry through continued sustainable management. The potential to add value to the product through processing or to promote its use as a fuel, displacing imported fuel sources, is more important now in the current economic climate than it has been in recent years. Such sustainability can only be assured through a continued and active afforestation programme. It is also important to note that much of this employment is within rural communities where job opportunities are limited and where agriculture and forestry account for a significant proportion of the total workforce.

There has also been growing recognition of the non-wood benefits of forestry. The public goods most commonly associated with forestry include:

- Leisure and recreation – with benefits for public health;
- Landscape;
- Climate change mitigation – carbon sequestration;

- Soil and erosion control;
- Bio-diversity and conservation.

The value of non-wood benefits were estimated at over €88 million per annum by Bacon and associates (2004).

Forests also play a significant role in mitigating climate change through carbon sequestration whereby trees remove carbon dioxide from the atmosphere and convert it to carbon, which is then stored in wood, vegetation and soils. It is estimated that the carbon sequestered by Irish forests could be worth an average of €33 million annually for the first commitment period of 2008-2012 inclusive.

Ireland has one of the lowest levels of forest cover in Europe and a high priority has been given to increasing the planted area. This increased emphasis is seen as important as the development of a significant forest processing industry, future indigenous demand far outstrips supply, requires a regular and stable supply of raw material. Forestry in Ireland can also make a significant contribution to the State in meeting greenhouse gas emission reduction targets under the Kyoto Protocol; the potential to supply the renewable energy market into the future; and the ability to generate and sustain employment in rural areas.

The Government is committed to an annual afforestation programme of 14,700 ha per annum which is well in excess of current levels of 8,000 ha. A reduction in the Department's capital allocation in 2012 to €150m would mean that it will not be possible to fund any new planting in 2012. A capital programme of €200m would, however, enable existing commitments to farmers (annual premia payments second stage grants) to be paid and for a reduced level of new planting, by comparison with recent years, to take place. Further additional capital funding in excess of €200m for the Department in 2012 would be required to grant aid new planting on the higher scale provided for in the Programme for Government. With additional funding, benefits will accrue in terms of employment in the nursery sector and contractors. By contrast, it is estimated that up to 2,000 jobs would be at immediate risk and that additional jobs would be lost in the medium term if new planting ceases. Under the existing capital funding allocations under the National Recovery plan, no new afforestation will be possible from 2012 onwards.