



Report to

**Citizens Information Board**

**Cost Benefit Analysis of the Proposed Regional  
Reorganisation of the CIS and MABS Network**

**Final Report**

**18<sup>th</sup> August 2017**

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## Executive Summary

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1. The Citizens Information Board (CIB) agreed at its meeting in February 2017 to reorganise its Delivery Services networks to address issues arising with regard to governance and oversight of 93 local companies. This Joint Oireachtas Committee on Social Protection considered the proposed reorganisation and produced a report on the matter in June 2017. In this report, the Committee recommended that CIB should carry out a cost benefit analysis of the proposed 8 region model. This report has been prepared by KHSK Economic Consultants in response to the request from CIB to undertake the cost benefit analysis as recommended by the Committee.
2. The reorganisation involves the expenditure of public funds to provide a service to private citizens. Consequently, it is necessary to identify a rationale for the expenditure, the proposed change must constitute a feasible proposition and any proposed expenditure must be viable in that it can reasonably be expected to have a positive impact on socioeconomic welfare when compared to possible alternatives.
3. There is currently a clear market failure in the form of a principal agent problem that has resulted in a poor alignment of the objectives of the CIB and local service delivery companies. This provides the rationale for the proposed change. It is also feasible to expect that the CIB would be able to implement the reorganisation – provided the necessary resources are made available – and that the problems that have been identified would be addressed by the proposed changes.
4. The analysis shows that the proposed reorganisation would involve additional expenditure by the CIB of €4.55 million in present values over 8 years. The net impact on the exchequer of this additional expenditure has a present value of €3.19 million.
5. A socioeconomic CBA identified costs with a present value of just over €8 million and benefits of just under €27 million giving net benefits of €18.9 million. This gives a high benefit cost ratio of 6.6 and is a strongly positive result in favour of the required resources being provided to allow the reorganisation to proceed as planned. Qualitative improvements, such as better customer service and improved oversight by the CIB, have also been identified, but are not included in this assessment, as it is not possible to place a reliable monetary value on these effects.

6. A sensitivity analysis of these results was undertaken on the assumption that the reorganisation results in much lower efficiency gains than are currently projected. This shows that the result remains strongly positive even if there are no efficiency gains at all.
7. A cost effectiveness analysis was undertaken to include alternative options for reorganisation have been identified. This shows that the regional consolidation model is far superior to a 'no change' option and that it is superior to a county based integration model, even before the greater qualitative improvements that would be seen with regional reorganisation are included in the analysis.
8. Given that there is a clear rationale for change and that it is plausible to expect that the proposed solution would address the problems, the strongly positive outcome of the viability appraisal leads to a recommendation that the required resources should be allocated to implement and operate the proposed reorganisation of the CIB network.

## 1. Introduction

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### 1.1 Background and Context

This report has been prepared by KHSK Economic Consultants in response to a request from the Citizens Information Board (CIB) to undertake a cost benefit analysis of a proposal to reorganise its services network. The services in question relate to the Citizens Information Services (CIS) and the Money Advice and Budgeting Service (MABS). CIB is the responsible authority in relation to both these services<sup>1</sup>.

While the current structure of these services reflects some planned and legislated developments over the years, the structure of the network has been determined primarily by the local origins and organic growth over many years of the CIS and MABS. This is clearly seen in the corporate structure where the CIS are delivered through 42 independent companies, each limited by guarantee, while MABS are delivered through 51 similarly structured companies. Each company has a similar structure composing a chairman, a board, a manager, an administrator and front-line staff with the area of operations of each being mostly defined according to county boundaries. Concerns have been raised internally within CIB, and by external sources such as the Department of Social Protection (DSP) and the Comptroller and Auditor General (C&AG), that this is a highly inefficient structure that does not optimise the use of the available resources and introduces risks into the system due to concerns about governance and oversight. The difficulties caused by this structure have also come more to the fore as the number of staff in CIB has reduced in recent years.

In response to this situation, the board of CIB decided to reorganise the service delivery network and undertook internal studies as well as commissioning external consultants' reports to identify an optimal structure. Based on this, it was decided to reorganise the network into a regional structure of eight companies for both CIS and MABS, each of which would oversee the delivery of services in their specified region, each region being based on a consolidation of existing companies.

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<sup>1</sup> CIB also has responsibilities for other associated services, but since the proposed changes relate to the structure of CIS and MABS only these other services are not considered in this report.

The terms for reference for the current study specify that it is ‘*a cost benefit analysis of the 8 region model when compared with the ‘no change’ model*’. In moving to this structure, the CIB was informed by the findings and recommendations of the report undertaken by Pathfinder consultants in September 2014, although the decision to create eight regions – instead of the five regions or one national region, as was originally recommended by Pathfinder – was made by the CIB board. While there is reference in this report to the Pathfinder report and to other materials that have been produced in relation to the proposed change, this study is not an assessment of the validity of the conclusions and recommendation of Pathfinder nor the optimality of the Board’s decision from the point of view of addressing the difficulties that have been identified. Neither does it assess the importance of the issues identified or if the proposed reorganisation would be successful in addressing these issues beyond reviewing the findings of this earlier work<sup>2</sup>. To do so would be outside the terms of reference and would effectively amount to second guessing the studies that have been undertaken.

This means that the proposal is taken as a given and the purpose of the analysis is restricted to identifying the costs and benefits of undertaking this course of action when compared to the alternative of leaving things as they are. Having said this, it is appropriate that there is some discussion below regarding the validity of ‘no change’ as an appropriate comparator and the viability of some alternative approaches that have been suggested in included in the discussion.

## **1.2     *Structure of the Study***

The structure of this report is guided by the observation that the delivery of the CIS and MABS involves the expenditure of public money to provide a service to private citizens. The implication is that while part of the analysis focuses on the potential impact of the proposed restructuring on the internal budgeting of CIB, it is also necessary to expand this focus to assess if this change represents a value for money proposition from the point of view of the wider economy. The importance of this perspective means that the

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<sup>2</sup> The consultants are aware that some issues in this regard have been raised at the hearing conducted by the Joint Committee on Social Protection as recorded in the report. See Houses of the Oireachtas (June, 2017) *Report on the Proposed Restructuring of the Money Advice and Budgeting Service and the Citizens Information Service*. The consultants also note request that was expressed at that hearing for a cost benefit analysis of the 8 region reorganisation proposal and the commitment to this end that was given by the former Minister for Social Protection in Dáil.

structure of the analysis is guided by 3 requirements that the public expenditure must meet:

1. There must be a specified **rationale** for the expenditure. This means there must be a definite market failure that the proposed intervention or change is targeted to address;
2. The change must constitute a **feasible** proposition. This means that it is not enough to identify a requirement for change: it must be shown that the proposed policy can be implemented and can reasonably be expected to address the issue;
3. The expenditure must be **viable**. This requires that it must have a net positive impact on socioeconomic welfare when all social costs and benefits are assessed.

This approach is in keeping with what has been set out by various Government publications in recent years<sup>3</sup>.

Chapter 2 addresses the first two of these requirements. It identifies a rationale for changing the structure based on consultations and review of materials that have been produced. These materials had identified a list of reasons that indicated that the current structure is inefficient. A somewhat different approach is taken in the current study with the focus more on economic welfare rather than on the regulatory requirements, efficiency and operational procedures that are of primary concern to CIB. This chapter also assesses the feasibility of what is proposed based on review of the earlier studies.

Chapter 3 assesses the impact of the proposed change on direct expenditure by CIB and compares the projected costs to the alternative of no change. This is akin to an internal CBA. This chapter also expands this analysis to identify the impact on expenditure by the wider public sector by including an exchequer flow analysis of public expenditure and receipts that would arise directly from the reorganisation.

It is not enough to specify that there is a problem – a rationale – and to identify a solution with a reasonable chance of success – the feasibility issue. The proposal must also be considered to be viable by returning a net benefit to society. This assessment is done through a socioeconomic cost benefit analysis in Chapter 4. When interpreting the results of this analysis it is important to keep in mind that it is a marginal analysis in respect of the proposal and is in no way a cost benefit analysis of the CIB or its budget.

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<sup>3</sup> In particular, the approach that is taken in Central Expenditure Evaluation Unit (2013) *The Public Spending Code: Expenditure Planning, Appraisal & Evaluation in the Irish Public Service – Standard Rules and Procedures*. Department of Public Expenditure and Reform. A similar approach is detailed in the *Tax Expenditure Guidelines* as contained in Department of Finance (2014) *Report on Tax Expenditures*, October.

Given that the CIB has existed for a number of years it is assumed that it is generally perceived that the benefits of its operations exceed the costs of the expenditure involved so that there is a net socioeconomic benefit arising from its existence and the services it offers. The object of the CBA is only the additional expenditure associated with the proposed reorganisation when compared to a situation where no such intervention takes place.

It is possible to envisage alternative arrangements that could be implemented to reorganise the network and some alternatives have been discussed within the CIB and at the Joint Oireachtas Committee (JOC) hearing<sup>4</sup>. Consequently, it is necessary to examine if the proposed intervention is an efficient means of achieving the ends that have been identified, even if it returns a positive socioeconomic benefit when compared to the 'do nothing' alternative. A cost effectiveness analysis is the standard approach to do this and the efficiency of the preferred option for the reorganisation is assessed against alternatives in Chapter 5.

Finally, Chapter 6 summarises the main findings of the analysis with a brief list of recommendations.

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<sup>4</sup> The consultants did not participate in the JOC hearing and any references to that hearing are based on the contents of the *Report on the Proposed Restructuring of the Money Advice and Budgeting Service and the Citizens Information Service* that was published by the Houses of the Oireachtas in June 2017



## 2. Rationale and Feasibility

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### 2.1 Rationale for the Proposed Reorganisation

The starting point for evaluation is that the onus of proof for any proposed action or expenditure rests with the party that proposes the action. This means that a sound rationale for undertaking the action or expenditure must be identified. When the expenditure of public funds is involved or is proposed, it is generally accepted that identifying a market failure is a requirement and provides the best rationale for intervention<sup>5</sup>.

A market failure exists when it is possible to identify a better outcome, in terms of economic welfare, that could be produced, but that is not currently being achieved, even though all participating individuals are making the best possible decisions given their objectives and resources<sup>6</sup>. The term can be loosely interpreted as having a similar meaning to 'inefficiency' in that both mean that a better outcome could be produced for a given level of inputs if a change in a process could be incentivised or mandated. Market failure does not mean that individuals are not already 'doing their best' with the available resources. The problem may well be with the system within which they are operating. If a market failure is identified it provides a rationale, although not necessarily a conclusive argument, for change. In economic terms, the existence of a market failure means that there is an argument to change incentives, behaviours or operating processes to achieve a better outcome in the form of an increase in economic welfare.

A number of reasons have been put forward by CIB as providing the rationale to consolidate the current network of 93 local service delivery companies in CIS and MABS into 16 companies in 8 regions. Among these:

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<sup>5</sup> The use of the word 'market' in the term 'market failure' should not be interpreted as an indication of any intention to introduce market forces or any privatisation into the provision of citizens information. There is nothing in the material that has been produced by the CIB in relation to the proposed reorganisation that would support such an interpretation and nothing in this report such be interpreted in such a manner.

<sup>6</sup> The provision of citizens advice is an extreme case of market failure such that all market forces have been replaced by the public sector who provide the information free of charge to clients. As a result, no market for this service actually exists. However, this does not mean that there are no market failures in the form of inefficiencies within this system as all operators will still respond to incentives.

- CIB is concerned that there are risks associated with its governance and oversight of the companies to which it provides funding and has been requested by the DSP and the C&AG to take action to come into line with best practice;
- CIB perceives that reporting and administrative demands that are being placed on local companies by the current structure are resulting in a poor use of resources at local level. In addition, the demands on CIB from overseeing 93 separate entities is placing excessive demands on CIB resources;
- CIB perceives that there are difficulties in coordinating 93 companies that affect its ability to communicate and implement strategic innovations and ensure a consistent service in all areas.

In short, CIB has concluded that the current structure is inefficient and has inherent risks and could be improved by restructuring the organisation of the CIS and MABS networks it oversees. It is argued that this provides the rationale for the proposed course of action. This observation of 'inefficiency' is very much in keeping with the idea of market failure as expressed above and is often the way in which particular market failures are manifest.

The consultants have not undertaken a sufficient study of CIB and its activities from which to draw definitive conclusion on the efficiency of its network. However, even a cursory examination of a system that involves overseeing 93 independently structured companies, each of which has the purpose of delivering services that have been defined at national level, strongly suggests that there is an excessive level of fragmentation and that this would result in the sorts of problems that have been identified. The expressed views of the DSP and the C&AG are also noted along with the conclusions of the Pathfinder report which confirmed this perception and outlined a recommended course of action. Consequently, the consultants accept that there are issues that need to be addressed.

It is the consultants' opinion that this does not fully constitute a market failure. The mere existence of inefficiencies and risks do not necessarily lead to a need for structural changes. Instead, the consultants view these issues are managerial and operational objectives.

However, a review of relevant materials, in particular the JOC report, point to a deeper issue that is discussed, albeit in different terms, in the Pathfinder report. That report pointed to a lack of clarity regarding areas of authority and also identified this as a possible constraint on implementing some of the options the report identified, in particular, what was described as the 'shared authority model'. The report also

expressed associated concerns in relation to implementing the consolidation model at national level. Similar issues are seen in the JOC report where contrasting views are expressed by CIB representatives and others in relation to the optimal structure for the service. Together, these observations point to a very clear source of market failure known widely as the Principal-Agent problem.

The principal-agent problem arises when the incentives facing an overseeing authority and those responsible for implementing its decisions are misaligned. The result can be competing objectives<sup>7</sup>. In this case, CIB is the principal and undertakes the functions that accord with that role such as providing oversight, issuing strategic direction and providing funding. However, while its objective – indeed its very reason for existence – is the provision of advice, information and other services to private individuals, it does not undertake this role directly – other than online through [citizensinformation.ie](http://citizensinformation.ie) and associated microsites – but relies on its agent, its network of independent companies.

These local companies also see the provision of information as their objective. However, beyond this, the CIB as principal and the companies as agents have a number of additional objectives most of which are not shared. For example, CIB is concerned with governance, consistency and ensuring value for money for the funds it provides, while the local companies value their independence and maximising the funds they receive. Furthermore, it is likely that such differences as might exist between the CIB and actual service deliverers in this regard would be exaggerated in the case of company board members whose primary responsibility is to the local companies. These different objectives are perceived as different sets of incentives that are often in conflict. Misalignment of incentives in this way leads to market failure.

There are different approaches that may be used to address the difficulties caused by the principal agent problem. Monetary incentives, innovations to clarify directions and communications and contracts are often used in the private sector to make sure that incentives are aligned. However, it is difficult to see how these would be utilised in this case as monetary incentives can be problematic in the public sector – particularly in an era where funds are particularly constrained – and the lack of clarity in relation to areas of authority would make it difficult to strengthen the ability of the CIB to give more

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<sup>7</sup> In this case, it can be observed that the principal agent issue arises at different levels and that the CIB, while acting as principal to the local companies, is also itself an agent, primarily of DSP in organising the delivery of services within its remit, and also the C&AG in ensuring that public funds are spent in a way that provides a positive return. While not expressed in these terms, the requirement that the CIB changes the structure and the response in proposing the need for a new compliance unit or the reorganisation indicates that these principals have perceived the emergence of a principal agent problem in the system.

binding direction. Consequently, the best way to address the problem is not through directly changing the incentives but by changing the regulatory structure that determines actions.

This is effectively what the proposed change amounts to and, by clarifying authority and improving oversight, it would address the market failure. In addition, and as a consequence, by removing certain obligations from the local companies – even if in some cases this may be interpreted as removing some of their independence – this would free up resources that could be applied to the primary agreed objective of providing frontline services.

In the view of the consultants, it is the need to address this market failure that provides the rationale for the proposed course of action. Certainly, the operational efficiency and governance reasons that have been identified in the material produced by CIB and Pathfinder remain valid and relevant. However, addressing these issues should be seen as objectives of the reorganisation, not the rationale for change. Furthermore, to ensure that they remain meaningful and relevant, perceptions in relation to these issues should be reformulated as measurable outcomes that become achievable as a result of the reorganisation.

## **2.2 Feasibility**

It is one thing to identify a problem – a rationale for some course of action – and even to assess that achieving a stated outcome would result in a positive contribution to economic welfare, in other words, that there would be a higher return on resources already employed or a positive return on additional resources to implement the change. However, having identified the rationale for action, it is necessary to examine if the proposed solution can be implemented and would actually address the problem. This is what is meant by feasibility.

Some concerns were raised at the JOC regarding the ability of the CIB to implement this solution and a claim was made that it would be *ultra vires* for the CIB to undertake the proposed course of action. The consultants have been assured that this issue has been examined and that there is no such problem. Given this, there does not appear to be a prohibitive impediment to implementation provided adequate funding is available. Consultations indicate that the resources that would be required to set up the new structure would be mostly available from within existing funds and a detailed budgetary

proposal for such additional resources as are required and resources for the operation of the new structure has been developed. Beyond this, creating the new structure would largely involve legal undertakings and getting the buy-in – through co-operation, the use of funding incentives or by enforcement – of local service deliverers.

The conclusion is that it is feasible to implement the proposed reorganisation provided a positive decision is made to fund the required actions. This leaves the second aspect of feasibility: would the change actually address the identified problem that provides the rationale?

Review of the Pathfinder report and of the somewhat opposing views that were expressed at the JOC hearings indicates that this reorganisation would successfully address the problems by greatly clarifying the spheres of authority and making it much more straightforward for the CIB to provide adequate oversight. The view was expressed at the JOC that this was a big move towards centralisation, but this is inaccurate. There is no change in the functions of the CIB in relation to the CIS or MABS services. Rather, this change would allow the CIB to undertake its oversight and directive functions more efficiently. It is, however, easy to see in the light of the discussion above regarding misaligned incentives how this might be perceived to be a diminution of the local independence of the service providers.

The clarification of areas of authority would also make it easier for the service providers to undertake their primary functions by freeing up resources from administrative requirements. In this way, their actual activities would be better aligned with the objectives of the CIB, i.e. delivering services to private individuals. In this way, the potential for a principal-agent problem would be further reduced.

Based on these observations it is concluded that it is feasible to implement the proposed course of action – provided the required resources are made available – and that it is feasible to expect that it would be a major step in addressing the market failure that has been identified. Consequently, the attention now turns to assessing if the required resources should be provided to implement the proposal i.e. is the proposal viable in the sense that it can reasonably be expected to provide a positive return when compared to alternatives.

### **3. Budgetary Impact Assessment**

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#### **3.1 Data and Assumptions**

The analysis in this chapter concentrates on the impact of implementing the 8 region model with 16 companies, when compared to the 'no change' option – known as the counterfactual – on the CIB budget. In the final section, this perspective is expanded to examine the impact on overall public expenditure. Based on projections that have been prepared by CIB and the consultants, there will be expenditure required during the set up phase and during operations, but it is also the case that there will be certain operational savings when compared to the no change comparator. At all times, the analysis refers only to flows arising directly from the implementation of the proposed reorganisation and there is no analysis of the overall CIB budget.

Many of the estimated costs have been compiled by the CIB. The consultants have attempted to verify the validity of these in as far as this is possible but for most estimates it is the case that CIB personnel are best placed to assess the likely budgetary impact of specific courses of action. It is clear that a lot of work has been undertaken to identify these costs and it would be well outside the terms of reference of this study to attempt to replicate what has already been done.

#### *The Compliance Unit*

An important point is that it is not realistic to adopt an assumption of absolutely no change for the counterfactual. Consultations with CIB personnel indicate that it is imperative that there is an appropriate response to the concerns that have been raised by the DSP and C&AG. Doing absolutely nothing is not a viable option based on the information that is currently available. Therefore, the appropriate counterfactual is to do nothing in terms of reorganising the CIB network but to institute a new compliance unit within CIB to meet these concerns. This is usually described as a 'do the minimum' option and is a viable comparator.

Budgetary projections have been prepared by CIB for this option, which involves operating the compliance unit, and it is projected that it would cost €433,621 annually to run it. This would not be required if the reorganisation went ahead and so, in order to maintain intact, in as far as possible, the assumption of a 'no change' counterfactual, this value is included as a saving related to the reorganisation when assessing its

budgetary impact. It is assumed that this unit would be in place from the start of January 2018 if the reorganisation is not progressed and that the full cost would arise from that time. No allowance is made for any set up costs associated with the compliance unit as it is assumed that these would be handled from within the current operating budget of the CIB.

### *Time Period and Parameters*

The expenditure and savings would arise over a period of time and relate to set up costs and to operations. It is therefore necessary to identify a period of time for the analysis and to compile the flows in terms of their value in a single year in order to facilitate a meaningful comparison.

Some costs have already been incurred in 2017 and some others are provided for in the budget for the remainder of this year. However, most set-up costs – amounting to almost 74% of the total – would arise in 2018 with about 20% of the total arising in 2019.

Based on the CIB work programme and projections, it is projected that 2 regions will begin operating from January 2018, 2 from May 2018, 2 from September 2018 with the final 2 regions in place from the start of January 2019. This means that 2019 would be the first full year of operating costs with operating costs in 2018 amounting to 50% of a full year.

It is assumed that the new network would have an operating lifetime of 8 years i.e. 2018 to end 2025. This implies that no further reorganisation would occur within this time period. The boundaries of this assumed period are somewhat arbitrary since it is impossible to predict what factors might result in a need to change the way the services are delivered. It is recognised that an argument could be made for the use of other time periods. Consequently, the analysis was undertaken for shorter and longer periods. This did not have a meaningful impact on the conclusions that are drawn below although the precise estimates for operating costs would change somewhat<sup>8</sup>.

The Net Present Value (NPV) approach was adopted for the comparison with 2017 used as the base year. This means that all results and conclusions are expressed in 2017 values although current values are used in some tables. In line with official recommendations

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<sup>8</sup> The conclusions are somewhat strengthened if a shorter time period is used but there is little impact if a period of 10 years or more is adopted. This is because the impact of discounting expenditure from the more distant future has limited impact on current values.

for the evaluation of public expenditure, a real discount rate of 5% was used throughout<sup>9</sup>. Since the recommended rate is a 'real' rate, there is no need to allow for inflation or include any estimates for market price changes<sup>10</sup>. This also means that the projections are for this exercise only and are not a projection of the actual costs that may be experienced by CIB in future years given that inflation could become a factor.

### 3.2 Expenditure Projections

Projected expenditure for setting up the new regional companies and transferring operations from the existing structure are shown in Table 3.1. This shows that a total budget of €1.94 million is required for set-up.

**Table 3.1: Estimated Set Up Costs**

	2017	2018	2019	Total
Project Management	38,500	288,930	57,810	385,240
Focus Groups	7,410	0	0	7,410
Company Documents	6,458	0	0	6,458
TUPE consultations	2,050	15,498	3,116	20,664
TUPE due diligence	22,375	111,876	14,917	149,168
Assignment of premises	0	545,659	181,886	727,545
Pension advice	4,100	30,996	6,232	41,328
Company establishment	5,904	0	0	5,904
Branding	9,608	0	0	9,608
Board recruitment	9,717	29,151	0	38,868
Manager recruitment	16,113	48,339	0	64,452
Winding up companies	0	180,164	60,055	240,219
PR & communications	1,968	29,520	7,872	39,360
IT equipment	0	156,000	52,000	208,000
<b>Total set up costs</b>	<b>124,203</b>	<b>1,436,133</b>	<b>383,888</b>	<b>1,944,224</b>

The present value of this expenditure in 2017, following discounting, would be €1,840,146. As expected, discounting to the base year means that there is only a small difference

<sup>9</sup> Central Expenditure Evaluation Unit (2013) *The Public Spending Code: Technical References E-02-Test Discount Rate for Economic Appraisal*. Department of Public Expenditure and Reform.

<sup>10</sup> Central Expenditure Evaluation Unit (2013) *The Public Spending Code: Expenditure Planning, Appraisal & Evaluation in the Irish Public Service – Standard Rules and Procedures*. Department of Public Expenditure and Reform, page 24



between the present value and the current estimates for set up costs as these all arise in the early years of the project.

The additional operational costs will arise due to the need to recruit 16 regional managers – one in each region for both CIS and MABS. These will be additional to staff currently employed in the CIB and its services network, and will be recruited at point 1 on the AP scale, currently €65,093 per annum. When allowance for pension contributions and employers PRSI is included this will amount to additional annual expenditure of €77,967 per manager. This gives total expenditure of €623,739 in 2018 as the regional structure is put in place and just under €1.25 million per annum thereafter. This expenditure has a present value in 2017 of €7.47 million for the 8 years of the projection.

### *Savings*

The reorganisation will allow for expenditure savings compared to the do nothing comparator as a result of the more efficient structure. These will arise under four headings:

- lower expenses payable to board members as a result of the reduction in the number of boards,
- reduced audit fees due to smaller number of companies,
- savings in legal and other professional fees, and
- avoidance of expenditure on the compliance unit that would not be needed if the reorganisation is undertaken.

These projected savings are shown in Table 3.2. The estimates are based on work previously undertaken in the CIB in relation to previous reorganisation proposals that have been adjusted for the 8 region model under consideration<sup>11</sup>. The present value of these savings in 2017 is €4.76 million.

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<sup>11</sup> This work was compiled in the document entitled *Business Case for Restructuring of CIS and MABS* which was prepared for the CIB Board Meeting on 12<sup>th</sup> October 2016. That document identified savings that would be achieved under a number of possible reorganisation scenarios including no change, a national company model, a 6 region model and a 30 region model. These scenarios indicated that there is a negative relationship between the level of savings that would be possible and the number of companies that would exist following the reorganisation. The estimates in Table 3.2 are based on a linear projection of those contained in the document prepared for the 2016 Board meeting.

**Table 3.2: Projected Operational Savings**

	2018	Annually 2019-25
Board members expenses	58,250	116,500
Audit fees	70,150	140,300
Other legal & Professional fees	34,720	69,440
Compliance unit not required	433,621	433,621
<b>Total annual operational savings</b>	<b>596,741</b>	<b>759,861</b>

This calculation means that the net operational cost of the reorganisation compared to the no-change situation i.e. total costs less these savings, is €487,617 per annum in a full year of operation. The present value in 2017 of the total net operational cost up to 2025 would be €2.71 million.

When set up costs are added in this gives a total budgetary cost for the project, over the period 2017 to 2025, of €4.55 million in 2017 values.

### **3.3 Exchequer Flow Analysis**

This analysis shows that this reorganisation would require an increase in the CIB budget of €487,617 once the network is fully operational and that this has a discounted value €4.55 million. In other words, the CIB would be more expensive to operate following the reorganisation when compared to the 'no change' alternative. However, while these estimates provide a basis for the evaluation, they do not provide any basis from which a conclusion can be drawn regarding whether the reorganisation should proceed and they should not be prioritised in any such decision. This is the case for two reasons. First, they relate only to the narrow budgetary impact on CIB. They are not a full account of the impact of the proposal on overall public sector funds. Second, the decision must be based on obtaining value for money for the public sector, not simply changes in expenditure. After all, if the objective were simply to reduce expenditure then the easiest way would be to just cut the CIB budget. However, no such decision should ever be made without assessing the socioeconomic impact this would have.

The analysis in this section deals with the first of these issues. The estimates for both set up and operational costs include expenditure by the CIB that is directly returned to the exchequer, primarily through VAT and income taxes.

In the set up phase this arises in three ways. First, the estimated expenditure on project management mostly arises in the form of additional salaries and so there are additional taxes, PRSI contributions and USC payments. Second, the estimates include VAT which is directly recycled to the exchequer. This is particularly important for professional and legal services. Third, portions of the estimates that are identified under certain headings – such as company establishment and assignment of premises – are, in part, direct payments to state entities that would arise from items such as stamp duties and company registration fees.

In total, it is estimated that these elements of the estimated expenditure amount to 23.5% of the total identified. This portion of the overall expenditure would have no net impact on the exchequer. When these payments are netted out, the impact of set up costs on the exchequer is estimated to have a present value in 2017 of €1.41 million.

The main cost in the operational phase is the salary cost of employing new regional managers. Indeed, this is the only operational cost included as it is assumed that existing facilities and premises will be available to accommodate these managers. It is also assumed that no travelling or other expenses would arise. The salaries to be paid would include income tax, PRSI and USC. Based on current regulations and the salary level it is estimated that these would amount to 27.7% of the gross salary (before pension contributions). This would equal a return to the exchequer of €18,026 per manager per annum. The present value of this in 2017 is €1.73 million so that the impact on the exchequer of higher operational costs following the reorganisation is €5.74 million.

A similar exercise is also required in relation the estimate for ongoing savings as some of the savings experienced by the CIB would result in lower inflows for the exchequer. The savings on board member expenses are unaffected since no taxes are payable on expenses. Savings on audit fees and other legal and professional fees will result in lower VAT. Similarly, the savings from not having to form the compliance unit will result in lower taxes arising. When these adjustments are made to the budgetary estimates the impact is that the savings in terms of exchequer flows have a present value of €3.96 million. The annual net cost of the reorganisation is €325,145 when fully implemented. Table 3.3 summarises these estimates.

**Table 3.3: Exchequer Flow Analysis of Reorganisation (Present Values)**

Set up costs	€1,407,240
plus Operational Costs	€5,741,925
less Savings	€3,960,465
Net Exchequer Impact	€3,188,700

This analysis shows that approximately 30% of the net expenditure that is estimated in terms of the CIB budget (after allowance for savings) would be simply recycled into the exchequer. The actual exchequer costs of the proposed reorganisation would be just under €3.2 million in present values.

## 4. Socioeconomic Assessment

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### 4.1 Methodology for Viability Assessment

The objective of the reorganisation is not to minimise the CIB expenditure but to improve the efficiency with which its services are delivered. Thus, any appraisal that concentrates simply on the impact on the CIB budget would miss the important issues. Consequently, it is necessary to take a wider perspective when assessing the proposal. This is done through socioeconomic cost benefit analysis.

As the name indicates, this analysis is done from the wider perspective of the economy and attempts to include issues that may be of value from a social point of view, not just those that have a clear economic value. This is important given that the narrow economic or marketed value of the CIS and MABS is zero – there is no charge for the services and so there is no price placed on what is produced. However, it cannot be concluded that they have no value.

Socioeconomic CBA is undertaken from the viewpoint of an independent observer that has the maximisation of the welfare of society as their objective. Efficiency is clearly required if this is to be achieved. However, this is not an assessment of the overall efficiency of CIB or its operations. The existing operations are taken as a given and the assessment is concerned only with costs and benefits that would arise as a result of the proposed reorganisation.

Notwithstanding, the methodology is a comparison of the outcome i.e. the changes to costs and benefits, that would result following implementation of the proposal compared with some alternative scenario, the counterfactual. The terms of reference specify that this should be the 'no change' option but, in line with the approach taken in the previous chapter and considered in official publications, the more accurate description of the appropriate counterfactual is a '*do the minimum*' option. This is because the CIB will have to invest in, and operate, a compliance unit if it does not undertake the reorganisation.

Intuitively, the best way to incorporate this into the analysis would appear to be to include the avoidance of the costs that would be associated with this new unit as a benefit of the analysis. However, this would complicate the calculation unnecessarily as it would result in the inclusion of a benefit that would need to be valued according the

social cost of funds while all other benefits identified are values at their market or private values. As discussed below, these two valuations are not the same. In order to avoid this complexity, the consultants consider that the best approach is to continue what was done in the previous chapter i.e. to net out the cost of implementing this from the cost of implementing the reorganisation. This has no impact on either the net benefits of the proposal or the conclusion<sup>12</sup>.

One further issue that must be considered when dealing with public expenditure proposals is whether any increase in output would simply replicate and then 'compete with' what is already available – known as displacement – or would achieve no more than what would be achieved in any case – known as deadweight. It is not considered that either of these two issues are relevant for the existing proposal. The CIS and MABS are distinctive services and there is evidence that their ability to service the demand for their services is under strain. This has led in some cases to lengthy delays for those trying to access services and a concern in CIB that some potential clients may be discouraged by the prospect of having to experience such delays. Furthermore, it is clear that the changes will not arise without a planned programme – such is the nature of principal-agent problems – and that the reorganisation cannot be made to work without the expenditure identified.

### *Market and Social Values*

In line with best practice, market values are used as far as possible in this appraisal. However, there are three issues where it is necessary to consider the use of social values.

The first such issue arises in relation to the appropriate discount rate. This is quite straightforward given that all the expenditure arises from public funds and so, in line with the approach taken earlier, the recommended real discount rate of 5 per cent per annum is used<sup>13</sup>. Furthermore, the evaluation adopts the time frame as set out in Chapter 3 i.e. set up during the period 2017 to 2019 with operations beginning in 2018 and continuing unchanged up to 2025. As this is quite a short time period, it is appropriate to use a flat discount rate across all years.

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<sup>12</sup> This approach does have a small impact on the benefit cost ratio that is calculated as it removes a cost item and a benefit item from both sides of the calculation of the ratio, but there is no impact on the conclusions.

<sup>13</sup> Central Expenditure Evaluation Unit (2013) *The Public Spending Code: Technical References E-02 - Test Discount Rate for Economic Appraisal*. Department of Public Expenditure and Reform

The second issue refers to the social cost of new employment. There would be a small amount of employment created as a result of the reorganisation i.e. the 16 regional manager positions that would be created and that would be funded by the CIB. The employment of additional labour imposes a cost on the economy since it means that the work that these people would previously have been doing now remains undone. Thus, the wages were included fully as additional public sector expenditure in the previous chapter.

However, an additional issue also arises since the appraisal is being undertaken from the point of view of the impact of the expenditure on society, not just on the CIB. It has often been argued, particularly where there is high unemployment, that some of the new positions would be filled by people who would otherwise be unemployed. In such a case, the wages that are paid might not reflect, but exceed, the true cost to society of people gaining employment. This latter value is usually referred to as the shadow wage, or the social cost of labour.

This issue has been considered in official publications and a clear recommendation is available<sup>14</sup>. This says that the shadow wage should be estimated to be equal to 100% of the wage rate unless a good argument can be made for a lower level, in which case, the shadow wage should be valued at no less than 80% of the wage rate. In other words, the wage rate should be considered to equal the social cost of labour unless there are good reasons not to do so. While noting that some of the new positions to be created would exist in regions of Ireland where the unemployment rate remains quite high, the recruitment process will be a national competition. It is considered that there is no reason to argue that the shadow wage should be set at less than the wage rate.

The benefit of creating additional employment can be estimated either by including the value of the net after-tax incomes plus the direct taxes, or by placing a value on the products or services that are produced. The former approach is simpler when dealing with public employment where the output is not sold on a market and is followed in this appraisal.

Finally, it is necessary to assess if the market value of the funds to be spent represents the true cost to society of providing those funds. Again, there is a clear recommendation, given the constraints that exist on public funds and the distortionary impact of taxation,

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<sup>14</sup> Central Expenditure Evaluation Unit (2013) *The Public Spending Code: Technical References E-03 - Shadow Price of Labour*: Department of Public Expenditure and Reform

that the market value is not appropriate and that a social value equal to 130% of the market value should be used when valuing the social cost of public funds<sup>15</sup>.

## 4.2 Valuing the Costs

Estimating the costs that are associated with the proposal is relatively straightforward given the earlier analysis as summarised in Table 3.3. However, three adjustments to the earlier data are required. The first is that only costs that refer to expenditure that has not yet taken place should be included in the CBA. As discussed earlier, most setup expenditure would take place in 2018, but there has been some expenditure already in 2017, mostly arising from project management, initial due diligence and organising focus groups, that must be considered to be sunk costs and excluded from the analysis<sup>16</sup>. These costs are estimated to amount to just over €27,000 when expenditure that directly accrues as income to the exchequer is netted out.

The second adjustment is that while savings will accrue to the CIB, these are not equivalent to savings for the wider Irish economy. All the expenditure that is now avoided would have created income within the Irish economy. When the expenditure is avoided the incomes do not arise. However, this is not a zero sum transaction due to the social cost of funds being greater than 1. This is the final adjustment that is required: the expenditure needs to be expressed in terms of its social cost as discussed above. The resulting estimates for socioeconomic costs of the expenditure associated with implementing the proposal is shown in Table 4.1. This shows total net socioeconomic costs of just over €8 million associated with the project.

**Table 4.1: Socioeconomic Cost of Reorganisation (Present Values)**

Set up costs	€1,794,224
plus Operational Costs	€7,464,503
less CIB Savings	€5,148,604
plus Reduced Incomes	€3,960,465
Socioeconomic cost	€8,070,588

<sup>15</sup> Central Expenditure Evaluation Unit (2013) The Public Spending Code: Technical References E-04 - Shadow Price of Public Funds. Department of Public Expenditure and Reform

<sup>16</sup> A similar argument can be in respect of any benefits. However, since none of the estimated benefits for this proposal actually accrue in 2017, and could not accrue before the decision to proceed with the reorganisation takes place, no adjustment is required.



In the appraisal of many projects involving public funds it is prudent to include contingency costs associated with risks and unforeseen costs arising. However, it is considered that the risks associated with the costs for this proposal are low and it is unlikely that unforeseen costs would arise that could not be handled from within the CIB budget without any impact on existing operations. Consequently, it is not considered that any cost allowance in this regard is required.

### **4.3 Valuing the Benefits**

Placing values on the benefits that are expected to accrue from the reorganisation is somewhat more complex. The benefits would arise under four headings, but only three of these can be included here for reasons discussed below.

#### *New Incomes*

The first category of socioeconomic benefits arises as a result of the extra incomes that are paid during the setup phase and to the new regional managers. Almost all the expenditure incurred during the setup phase, when exchequer revenues are excluded, would arise as incomes within the Irish economy. The only exception is expenditure on new IT equipment. It is assumed 50% of the amount identified for purchase and installation of new IT equipment would be spent on imports. Consequently, expenditure on setup would create additional incomes with a present value of €1.33 million.

The full cost of employing the new regional managers is included on the cost side – the social cost of a new job is assumed to be equal to the private cost or wage rate. On the benefit side, since the output that would be produced by these managers is not sold, it is valued according to the after tax salaries that are received. This was estimated in Chapter 3 above as amounting to €5.74 million in discounted 2017 values.

#### *Efficiency Gains*

The second category of benefits arises due to the efficiencies that would be created within the network i.e. a more efficient network would lead to higher output in frontline services for the same level of resources employed having allowed for the new regional managers. This would arise from the need to administer and run fewer companies. It is important to note that this is not referring to the output or services provided by the

newly employed regional managers. The benefits of these new positions are fully assessed by including the new salaries that arise. Those managers would not be involved in providing front-line services but the reorganisation, which includes the recruitment of these new regional managers, would result in people that are currently employed in local companies, and that would continue to be employed at local level, having a reduced administrative workload. The time that would be freed up could then be allocated to providing services. These are the efficiencies that the CIB and the Pathfinder report have identified as possible.

Placing a value on these efficiency gains is inevitably somewhat complex. The best way to value these benefits would be if data existed from which a market value – a notional price – could be inferred for the services that are provided to clients. The usual way to approach this would be to undertake research to identify the value that the clients who receive the service would place on output. This ‘stated preference’ or ‘willingness to pay’ approach is generally considered to be the most objective, but there would be problems with attempting to apply this methodology in the case of CIS and MABS. These services are provided free of charge and people are used to receiving them free of charge. Asking clients to place a value on the services – typically this research would ask question relating to the price clients would be willing to pay to continue to receive the service – would risk undermining clients’ confidence in the availability of the service and could generate a fear that they might be asked to pay if they receive the service. At best, clients would have a strong incentive to understate the value in such a case. At worst, they might decline to receive the service. An alternative approach would be to ask clients what monetary value they place on the service they received, after their interaction with CIS or MABS has completed. This ‘contingent valuation’ approach would be useful although the valuation would be subjective.

In the absence of such data the best available approach is to value the service that is provided according to the cost of producing the service. This is a common approach when dealing with public services for which no market price is available<sup>17</sup>.

CIB has undertaken some research among its network to identify how time allocation in local companies would change following the implementation of the reorganisation

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<sup>17</sup> The implicit assumption is that the public service allocates a budget to provide a service up to the point where the average cost of providing the service is equal to the average benefit that each customer receives. This assumes a highly rational, fully informed, budget allocation process at central Government level. Given that full data on costs and benefits are not available and that the budget allocation process is subject to, and the result of many forces, the basis for this assumption is somewhat questionable, but it is the best available.

proposal. This has suggested that meaningful increases in output, as measured by the time allocated to providing frontline services, are possible. For example, it was identified that the potential exists to free up a significant amount of local manager time if regional managers were to take on responsibility from local managers for liaison with CIB, HR matters such as recruitment and staff deployment, promoting the service, finance, maintenance of premises and staff development and training. It is envisaged by CIB that these responsibilities will transfer to the regional managers with the result that it would lead to an estimated 30 to 50% of the total time of local managers, which is currently being spent on these activities, being freed up for frontline service provision.

It is also the case that some of the functions that are currently undertaken by administrators in local companies, including payroll, Board support and budget reporting, would be undertaken at regional level. This would allow for more of the time of administrators to be reallocated to supporting face-to-face services such as reception, triage, and record keeping for individual cases. It would also be possible for managers to divert to administrators some tasks they are currently undertaking, such as staff and volunteer rostering, Health & Safety checks and scheduling of outreach and specialist clinics. This would free up additional time for these local managers to focus on service delivery.

As is shown clearly by the Pathfinder report, there would be considerable variation between different services. Some managers have a large unit to manage with up to 100 staff and volunteers, while many local companies are very small with only a few staff. As a result, some managers have had very little time to allocate to frontline services while some already allocate over 50% of their time to service delivery. However, given these possibilities that have been identified by the CIB research above, it seems reasonable to assume that an additional 50% of managers' total time could be diverted to frontline services.

The Pathfinder report also identified that the salary cost of local managers is about €5 million per annum in 2014. This would indicate that additional output with a value of €2.5 million per annum could be provided i.e. allocating an additional 50% of managers' time, on average, to service provision. The present value of this increase in output over the course of the period amounts to €14.97 million.

#### *Reduced Usage of Board Volunteers*

The reduction in board volunteers would reduce expenses payable by the CIB and this has been included in the calculation of savings. However, there is an additional benefit

also that would accrue from this reduction in resources required to operate the network. Just as new employment has a social cost due to the increase in the allocation of resources, a reduction in the number of board volunteers required provides a socioeconomic benefit as these resources are freed up for alternative uses in the economy.

The fact that volunteers are not paid is not an issue here and a number of publications have provided estimates for the value of volunteering based on the time that is allocated<sup>18</sup>. Following these, it is assumed that the time of volunteers for boards should be valued according to average earnings in Ireland. This would appear to be a minimum appropriate valuation given the responsibilities that are attached to this work.

Each of the 93 local companies has a volunteer board and the Pathfinder report found that there are between 5 and 18 members for each board. Assume an average of 10 people per board. Reducing the number of companies from 93 to 16 would reduce the number of volunteer board members by 770. Assume that board members are required to allocate 4 hours per month to MABS/CIS business. This would lead to a reduction of 36,960 hours of volunteering per annum that would be required to operate the network.

According to the most recently released CSO data, average earnings in Ireland in the first quarter of 2017 were €22.25 per hour. This would mean a saving in volunteering allocated to running the local boards with an annual value of €822,360 and a present value in 2017 for the full period of operation up to 2025 of €4.92 million.

Table 4.2 summaries these benefits under the different headings.

**Table 4.2: Socioeconomic Benefits of Reorganisation (Present Values)**

New Salaries	€7,069,597
Efficiencies	€14,967,556
Reduced Volunteer Time	€4,923,488
Total	€26,960,641

This analysis shows that socioeconomic benefits with an estimated present value of €26.9 million would arise as a result of the reorganisation when compared to the 'no change' option.

<sup>18</sup> See for example, Volunteer Ireland Volunteering Statistics [www.volunteer.ie/resources/volunteering-statistics](http://www.volunteer.ie/resources/volunteering-statistics) and Irish Sports Council (2010) *Assessment of the Economic Impact of Sport in Ireland*. Report by Indecon Consultants

### *Benefits Not Included*

Some likely benefits are not included in this assessment due to the difficulty of identifying appropriate monetary values. For example, from the point of view of the CIB, an emphasis is placed on improving its ability to apply best practice in areas such as governance, consistency, communication and improving the responsiveness of the network to its strategic direction. While hugely important, these are classified in this analysis as qualitative improvements that would be achieved but no value is included. Other potential improvements were also identified in the CIB research discussed above. These include the capacity to extend the opening hours of services through lunchtime, evenings and Saturdays. This would come about as a result of the better deployment of resources that could be achieved with the regional reorganisation and would allow for demand to be better managed across the day and the week, rather than being concentrated into core hours. This could provide for additional increased output and would improve the quality of the service as experienced by all clients with shorter waiting times and more flexible, customer friendly service hours.

### **4.3 Interpretation of Cost Benefit Results**

This analysis has a very clear conclusion. Even allowing for some identifiable benefits that have not been included due to no monetary estimates being available, the proposed reorganisation has a clear socioeconomic net benefit with a present value of €18.9 million. This arises from net additional exchequer expenditure of €4.1 million giving a benefit cost ratio of 6.6. This is a very positive result<sup>19</sup>.

### *Sensitivity Analysis*

It is clear from the estimates above that the largest determinant of the size of the positive result is the value of the efficiencies that are identified. Consequently, it is

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<sup>19</sup> A benefit cost ratio of this size might appear rather high and would be considered to be such if the expenditure involved new infrastructure. A ratio in the range of 1 to 2 would be a more common outcome for expenditure on infrastructure. However, this ratio reflects the fact that the benefits arise not just from the expenditure that is required to implement the reorganisation, but also from the better use of all the funding that is provided by CIB to companies engaged in the delivery of services. The gain in efficiency applies across all the funds and means that the new funding is leveraging the existing funding, thereby magnifying the benefits.

important to see how changes in the estimates that provide these results might affect the outcome.

The analysis was redone under two more restrictive assumptions. In the first it was assumed that the increase in the time that can be allocated by managers to providing services was just 30%, rather than the 50% in the main calculation. This coincides with the minimum estimate that was identified in the research undertaken by the CIB. If this is used in the calculation then the net benefits are reduced to €12.9 million and the benefit cost ratio falls to 5.1. This is still a strongly positive outcome.

The second assumption was that there is no efficiency gain i.e. there is no success in freeing up time to allocate to providing frontline services. This is not foreseen, but even with this very restrictive assumption the outcome remains positive with a net benefit to cost ratio of 2.9.

The time saved by fewer volunteers being required is also an important benefit. The analysis was redone using the assumption that there was no efficiency gain and that the time saved could not be put to any good use elsewhere in the economy. It was therefore given a zero value. This is a highly restrictive set of assumptions and contrasts with the usual approach. However, even with these restrictions, the net benefits remain positive amounting to over €1 million and a benefit cost ratio of 1.7. This is important as it means that net benefits arise even if only the salaries that would be received by the additional managers that are employed are included. These are under the control of the CIB – within such restrictions as may be imposed by pay guidelines – and so the net benefits do not depend on any efficiencies gains or changes in the external economy which may be outside the direct sphere of control of the CIB.

## 5. Cost Effectiveness Analysis

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### 5.1 Use of this Approach

While cost benefit analysis is generally considered to be the key tool in aiding investment decisions, a cost effectiveness model can provide additional insight when dealing with proposals such as the one under consideration. The cost effectiveness approach has two major advantages. The first is that it enables relatively straightforward comparison of a number of different options. As a result, where several alternative proposals have been identified it can be useful in allowing the inclusion of all reasonable alternatives into the analysis rather than the comparison of a single preferred option with a counterfactual. The second advantage is that it avoids difficulties that can arise if there are known differences in the outcomes that would be produced by different proposals. It does this by identifying a single desired or achievable outcome and assessing what would be the most cost effective way to achieve that outcome.

The major disadvantage with using a cost effectiveness approach compared to cost benefit analysis is that it concentrates primarily on budgetary aspects of the analysis i.e. it assesses the outcome in terms of the impact of alternative proposals on the CIB budget rather than on the wider socioeconomic impact. This is why it is generally considered to be a secondary decision tool compared to CBA.

#### *Possible Alternatives*

It is considered useful to undertake a cost effectiveness analysis of the project since several alternative proposals have been discussed in relation to the reorganisation of the CIB network. Four alternatives are considered:

1. The regional model, which is the preferred proposal, and which formed the basis for the analysis in Chapters 3 and 4 of this report. This would achieve certain efficiencies which have been assessed above in terms of the increases in the quality of services that would be delivered and improvements in governance. However, as in the CBA approach, while it is considered by CIB that there would also be improvements with this reorganisation compared to the current situation arising from better consistency and better communication – qualitative improvements – it is not possible to fully integrate these benefits.
2. No change/do the minimum. This has been used as the counterfactual in the CBA. There would be no change in the quality of operations or in the volume of service

delivered, but it would be necessary to improve governance as this is a requirement that has been placed on CIB and to which they must respond. As such, investment in a compliance unit within CIB would be required. Additional expenditure would also be required to achieve the increase in output that has been identified for the Regional model in order to fulfil the requirement of a common output, or objective, across all options.

3. National companies, one each for MABS and CIS. This option was considered in the *Pathfinder Feasibility Study* and while that report does not definitely identify that this as a preferred objective it is clear that it sees consolidation as the best approach and identifies that the objective should be '*to consolidate the boards as much as possible, as close to a single point of authority for each of MABS and CIS*' (Pathfinder, page 51).
4. A 30 company integrated county model. This integrated model was dismissed by Pathfinder which 'strongly' recommended consolidation rather than integration. However, it was considered in the *Business Case* document presented to the CIB Board in October 2016 and was also raised by participants at the Joint Oireachtas Committee hearing. CIB has confirmed that this model would require that the compliance model is put in place in order to address the issues that have been raised by the C&AG. In addition, some increase in resources would be required in order to achieve the increase in output that would result from the regional model<sup>20</sup>.

The cost and savings estimates for each option are based on information provided by CIB with some adjustments where considered relevant by the consultants. The data and the approach taken is consistent with the approach taken in Chapter 3 above with all estimates in present values in 2017 prices.

## **5.2 Cost Effectiveness Estimates**

The costs and savings that would be associated with implementing the regional model with 16 companies have been discussed in detail in Chapter 3 above. The calculations showed that there would be set up costs of €1.84 million and ongoing operational costs for the period 2018-25 with a present value of €7.47 million. Implementing this

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<sup>20</sup> The number of companies would fall from 93 to 30 and so there would certainly be efficiencies when compared to the no change model. It is assumed that 68% of the efficiencies that would be achieved with the regional model can be achieved with the county model based on the observation that this reduces the number of local companies by 68% compared to the 'no change' model.



reorganisation would lead to direct savings of €4.76 million giving a net cost for the project with a present value of €4.55 million.

### *No Change Option*

As might be expected, set up costs for the no change model are much lower. However, some costs have already been incurred, the sunk costs estimated in Chapter 4 above. These are estimated to amount to €33,450 in 2017<sup>21</sup>. None of the savings that would be achieved by the reorganisation would arise<sup>22</sup>.

There would be two major differences in operating costs between this option and the regional model. The first is that there would be no need to recruit regional managers and so the associated costs would not arise. However, the assumption that the output – the quantity of services delivered – would be the same without changing the process means that there would need to be an increase in capacity for service delivery to mimic the efficiency gains of the reorganisation options. This could only be achieved through an increase in the grant that is paid by CIB to the CIS and MABS companies.

The analysis in Chapter 4 showed that an increase in the output of frontline services could be achieved by implementing the regional model. If there are no efficiencies achieved then this could be replicated by increasing the grant to allow for more staff and facilities. The CIB estimates for potential efficiency gains with the regional model identified that an additional 50% of the time of local managers could be diverted to frontline services meaning that additional services worth €2.5 million per annum could be provided. If this efficiency is not achieved then the same outcome could be achieved by an additional grant of €2.5 million per annum<sup>23</sup>. In the case of MABS the outcome would be replicated by increasing the number of new staff while the use of volunteers within CIS companies could be expanded along with new staff<sup>24</sup>. This is a major cost item and means that the cost of increasing service provision over the period 2018 to

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<sup>21</sup> These sunk costs are estimated on the same basis as previously but they are expressed here in terms of the impact on the CIB budget. In Chapter 4, expenditure that would directly accrue as revenue for the exchequer was subtracted leaving the estimate of just over €27,000 that was used in the CBA calculation.

<sup>22</sup> The costs associated with the compliance unit would be incurred but are not overtly included in this calculation since, in order to remain consistent with the approach taken earlier in this report, the avoidance of these costs is included as savings for those options where the compliance unit would no longer be required. Obviously this cost would arise as a budgetary item if the no change option were to be adopted, but to include it here would be a case of double counting.

<sup>23</sup> This retains the approach of valuing public services that are provided without charge according to the cost of producing the services.

<sup>24</sup> Utilising additional volunteers is not costless as training and facilities must be provided.

2025 to replicate the efficiencies that would be achieved by means of the reorganisation has a current value of just under €15 million.

### *National Companies*

The Pathfinder report identified as desirable a reorganisation resulting in two national companies to oversee service delivery, one each for MABS and CIS, but also identified that there would be difficulties in achieving this outcome. This conclusion is supported by views expressed at the JOC. To allow time to address these issues it is assumed that these companies would not be in place until July 2018 i.e. six months later than the projected date for the first regional companies. Despite this, the process of putting this reorganisation in place should be somewhat more straightforward than for the regional model with 16 companies and would be completed sooner. This would allow for some savings on project management, company formation, IT installation and recruitment. Based on this, set up costs are estimated at €1.54 million.

Operational costs would be lower than for the regional model as it has not been identified that there is a need to recruit regional managers. Instead, the CIB has identified that promotions and reassignments with some additional staff would be in a position to oversee this model. It is estimated that these costs would have a present value of €3.35 million for the period 2018-25. Considerable savings would be achieved as a result of only two boards and two sets of audit and professional fees. Furthermore, the compliance unit would not be needed. In total, it is estimated that this model would save about €291,000 annually in operating costs compared to the current situation. When set up costs are included, the saving for the period 2018-25 has a current value of just under €412,000, equivalent to 8.2% of the total gross expenditure incurred.

### *Integrated County Model*

The pathfinder report identified problems with the proposal to integrate, rather than consolidate, the CIS and MABS companies. Setting these issues aside, the proposal can be analysed for the purpose of the current exercise simply as a move in the direction of reducing the number of companies from 93 to 30. Given that this is a larger number of companies than in the regional model, the timeline for full implementation would be somewhat longer. It is assumed that 20 of the new companies would be in place by the end of 2018 and that the remainder would be created by July 2019. Some additional costs would be incurred due to the need to recruit a larger number of board members and to provide fit out and IT equipment for the 30 companies. It is estimated that set up cost for this option would be just over €2 million.

Senior manager positions would be needed in each of the 30 companies which would result in additional operating costs estimated at €150,000 per annum. Given that the number of companies is reduced, efficiencies would be achieved. However, an increase in the level of grants would still be required to replicate the output that would be achieved under the regional model as the efficiency gain would not be as great. Based on the same approach that is described for the 'no change' option above, but allowing that 68% of the efficiencies would be achieved by this reorganisation, the cost of this increased grant is estimated to amount to €5.65 million in present values for the period 2018-2025.

The reduction in the number of companies would also allow for some savings to be made due to fewer boards and reduced audit and professional fees. It is estimated that these savings for the period 2018-25 have a present value of €1.5 million. However, the compliance unit is still required with this option.

### 5.3 Interpreting these Results

Table 5.1 summarises these results for easy comparison. The great benefit of this comparison is that the estimates are produced on the basis that the volume of output is held constant irrespective of the option implemented.

**Table 5.1: Net Cost of Reorganisation Options (2017, Present Values)**

	Setup Costs	Operational Costs	Operational Savings	Net Cost
Regional Model	€1,840,146	€7,468,679	€4,755,791	€4,553,034
No Change	€33,450	€14,967,556	0	€15,001,006
National Companies	€1,537,637	€3,352,732	€5,302,167	-€411,798
Integrated Counties	€2,040,490	€5,653,091	€1,499,749	€6,193,832

The 'no change' option is clearly not cost effective and can be removed from consideration. On first sight, the 'integrated counties' option, with 30 county defined companies, may appear to be close to the consolidation models represented by the regional and national companies. However, there are two other crucial issues that must be considered when interpreting these results that lead to the conclusion that this is not the case.

The first is that, based on the Pathfinder analysis and the views of the CIB, neither the 'no change' or 'integration' options would result in the qualitative improvements, such as better communications and oversight, improved management of the system and better governance, that are viewed as important. In contrast, both the 'regional' and the 'national' options would provide these benefits.

Second, it is important to consider what is implied by the assumption that the improved service delivery could be achieved by an increase in the grant. This would be an increase in the expenditure of public funds leading to additional resources employed in order to provide an increased service. Leaving aside the not inconsequential issue of whether such an increase in resources would be made available, this basically amounts to '*throwing money at the problem*'. It would be a case of increasing the resources being put into a system where it has been identified that the system is inefficient, rather than addressing the source of the inefficiency. This would almost certainly, and correctly, be identified as waste. As a result, while the county integration model appears to provide a broadly similar outcome to the regional model, based on Table 5.1, in reality this outcome is very different.

Leaving this aside, a sensitivity analysis was undertaken on these results given that there are some assumptions in relation to how much of managers time would become available with the regional model and, consequently, the additional resources that would be required to replicate the efficiency gains that might be achieved by increasing the grants. This showed that if only 33% of managers time can be diverted to frontline services, leading to an efficiency gain of 5.8%, as a result of implementing the regional model then it remains a more cost effective proposal than the integrated county option even before the considerations above or any consideration of the qualitative gains that were discussed in Chapter 4. This is towards the lower extreme for the estimated likely efficiency gains that were identified by the CIB research discussed in Chapter 4 above.

#### *National or Regional Consolidation*

This exercise leads to the conclusion that the consolidation approach results in the most cost effective reorganisations. It also indicates that Pathfinder was correct in concluding that the consolidation should aim to get as close as possible to the national model. However, while the cost effectiveness analysis supports this conclusion, some caution is required.

First, this analysis is based on projections and data for costs as estimated by CIB and the consultants are concerned that the projected employment resource projections – and therefore the costs – that are associated with the national companies option appear rather light, particularly when compared with the more recently prepared projections associated with the regional companies option. Consequently, a review of these would be required before a definite conclusion in this respect could be drawn. Second, the CIB board was broadly aware of the relative cost projections when deciding to prefer to the regional model over the national model. The consultants were not party to the discussions that led to this decision and, consequently, accept that there are other non-monetised considerations that are not included in this analysis but that were deemed to be important. Third, and possibly related to the Board's considerations, it is clear from the JOC report that representatives of local service delivery companies particularly do not favour the national model and argued that this would lead to an excessive centralisation of the network. The consultants are not in a position to assess the importance of these concerns as the basis from which they were formed is not well articulated in the JOC report – they are just asserted without any supporting data or clear argument – but further clarity would be required before they could be dismissed.

In summary, there is a clear conclusion in favour of the cost effectiveness of the consolidation models as represented by the regional and national company options. However, while the latter was preferred by Pathfinder and appears the most cost effective based on this analysis, there are considerations that cannot be included in a cost effectiveness analysis that mean that caution is required before drawing a definite conclusion in favour of this option over the regional company approach.

## 6. Conclusions

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### 6.1 Main Findings

Concerns have been raised internally within CIB, and by external authorities that the CIS and MABS services are delivered through a network of companies that is inefficient and reflects the organic growth of the services at local level rather than a properly planned and organised system. As a result, the structure does not optimise the use of the available resources and introduces risks into the system due to concerns about governance and oversight. In response, the CIB has developed a proposal to reorganise its network into 8 regions with a new regional company in each to oversee the delivery at local level of both CIS and MABS services. If this is not done then it would be necessary to create a new compliance unit within CIB to meet the concerns that have been expressed.

The terms for reference for the current study require *'a cost benefit analysis of the 8 region model when compared with the 'no change' model'*. This counterfactual is interpreted as a *'do the minimum'* option involving the creation of the compliance unit as doing nothing at all is not a possibility given the concerns that have been expressed. The structure of this report is guided by the observation that the delivery of the CIS and MABS involves the expenditure of public money to provide a service to private citizens. Consequently, it is necessary to identify a rationale for the expenditure, the proposed change must constitute a feasible proposition in terms of addressing the problems that are identified and any proposed expenditure must be viable in that it can reasonably be expected to have a positive impact on socioeconomic welfare when compared to possible alternatives.

While there are certainly inefficiencies in the current structure with an excessive number of companies and a poor allocation of resources, the analysis identifies that there is a clear market failure in the form of a principal agent problem. This has resulted in a poor alignment of objectives for the CIB – the principal – and local delivery companies – its agents. This provides the rationale for the proposed change. A full analysis of the CIB and its network is not required as there has already been a number of studies in this regard. Based on review of these and the nature of the underlying problem, it is concluded that it is feasible to expect that the CIB would be in a position to implement the reorganisation – provided the necessary resources are made available – and that the problems that have been identified would be addressed by the proposed changes.

A number of approaches are adopted to assess the viability of the proposed change. The first is to estimate the likely impact on expenditure by the CIB. The analysis shows that the proposal would involve set up costs that are estimated to have a present value of €1.84 million and would increase the cost of running the network by an estimated €2.71 million in present values for the period 2018 to 2025. Together, the net cost of the proposal on the CIB budget would be additional expenditure of €4.55 million in present values over 8 years.

Not all of this expenditure results in a net increase in public expenditure as some would result directly in new tax revenues such as PAYE on new employment and VAT on certain set up costs. When these are removed from the calculation the net impact on the exchequer is additional expenditure with a present value of €3.19 million.

Of course, this is not a basis on which any decision regarding the proposal can be made as the objective is to achieve better services for any given level of resources rather than minimising the CIB budget. This requires that the value of benefits that could be achieved is include into the appraisal and this is done through a socioeconomic CBA of the proposal. This is done using such data as are available and parametres as recommended in official publications.

The CBA identifies socioeconomic costs with a present value of €8 million and benefits of €27 million for the regional reorganisation compared to the counterfactual. This gives net benefits of €18.9 million and a high benefit cost ratio of 6.6. This is a strongly positive result in favour of proceeding with the reorganisation i.e. that the required resources should be provided to allow it to proceed and to operate as planned.

Achieving greater efficiencies in local delivery as resources are reallocated from administrative and managerial tasks to service delivery is a very important issue in determining the outcome of the CBA. The potential for these efficiencies to be achieved is identified in CIB research but even if the outcome is that much lower efficiencies, or no improvements at all, the result remains strongly positive. Furthermore, this analysis does not include qualitative improvements that have been identified such as better customer service and improved oversight by the CIB.

Finally, given that some alternative options for reorganisation have been identified in various sources, a cost effectiveness analysis was undertaken based on an objective of achieving the efficiency improvements that were identified as feasible. This analysis shows that the 'no change' option is not cost effective and that a 30 company integrated

model would not be cost effective compared to the proposed regional even if efficiencies towards the lower end of projected outcomes could only be achieved. Furthermore, this alternative would maintain a number of the problems that exist and would require additional resources to achieve the outcome over and above those that are required to implement the regional reorganisation.

## **6.2 Recommendations**

Based on these findings, it is recommended that CIB should proceed with the proposed consolidation and reorganisation of its network along the timelines that have been communicated to the consultants.

It is recommended that this reorganisation should be undertaken in a manner such that the number of regional companies that are created is as low as is deemed by the Board of CIB to be feasible while retaining the balance between addressing the issues and achieving the objectives that have been identified in previous relevant studies and retaining the local strengths of the CIS and MABS.

While the analysis undertaken in this report does not lead to a definitive conclusion on what this number might be, it does indicate that the costs associated with the reorganisation will be lower, and the contribution to socioeconomic welfare will be greater, as the number of companies approaches the model of one national company for each of CIS and MABS. Consequently, it is recommended that the burden of argument should rest with any proposal that would have the effect of increasing the number of regions above the minimum that is deemed to be feasible.

A number of arguments have been developed, mostly based on operational efficiency and governance, that conclude that a reorganisation of the CIB network is required. This report has not relied on these arguments in determining its conclusions – other than the contention that that resources would be freed from administrative tasks at local levels that could then be applied to providing frontline services – and has not examined the validity of the analysis that has led to the stated conclusion. However, it is recommended that the arguments that have been developed should be restated as quantifiable objectives to be achieved in the reorganised network and that progress in this regard should be monitored.



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