

Chapter 7

Community, Rural and Gaeltacht Affairs/Justice, Equality and Law Reform

7.1 Agency Services – Control of Advances to Pobal

Pobal

Pobal (formerly Area Development Management Ltd.) is a not-for-profit company with charitable status initially set up in the early 1990s to manage programmes on behalf of the Irish Government and the EU. Following a consultancy review in 2003, the Government agreed to a fundamental reform of the company to address accountability issues, to define its role as a delivery agent for Government programmes and to provide for the appointment by the Government of the Board and Chair. Pobal operates within the ambit of the Department of Community, Rural and Gaeltacht Affairs and its annual accounts are subject to audit by me.

Pobal has no independent source of funding. Contractual arrangements, negotiated with the Departments and Agencies for which it delivers a service, provide that it receives advances to enable it meet the cash requirements of the programmes it manages. The financial statements of Pobal for 2005 show that it had received cash advances of some €174m in the year. €10.5m of this went to meet its administration costs, agreed as part of these arrangements.

Year-end Departmental Balances in Pobal's 2005 Financial Statements

The financial statements for Pobal for 2005 indicate that at 31 December 2005, the company held balances on behalf of Departments and the Dormant Accounts Fund Disbursements Board amounting to approximately €34.5m. It had cash balances of some €37m at that time (an increase of some €12m on 31 December 2004) and earned some €700,000 in bank interest on foot of these cash balances. Table 29 shows the balances Pobal held on behalf of its main clients, the Departments of Justice, Equality and Law Reform and Community, Rural and Gaeltacht Affairs at the beginning of 2005, how much was paid to it by way of advances, the administration costs it was entitled to, the payments made by it under each programme and the amount still on hands at the year-end.

Table 29

	Balance 1 January 2005	Advances Received	Less Administ- ration Costs	Less Programme Payments	Balance 31 December 2005
	€'000	€'000	€'000	€'000	€'000
Department of Community, Rural and Gaeltacht Affairs					
Grants for Community and Voluntary Service	0	6,142	183	0	5,959
Local Development/Social Inclusion (LDSIP)	497	47,697	2,112	44,760	1,322
RAPID	462	1,333	783	679	333
Rural Social Scheme	172	24,287	360	23,036	1,063
Other	181	0	0	126	55

Department of Justice, Equality and Law Reform					
Equal Opportunities Childcare Programme	12,047	72,549	3,207	64,417	16,972
Equality for Women Measure	32	3,490	315	1,555	1,652
Enhancing Disability Services Programme	0	3,000	146	3	2,851
Other	3	345	75	2	271
Total	13,394	158,843	7,181	134,578	30,478

As the amount of interest earned by Pobal in the year suggested that it had a daily average of the order of €20m on deposit throughout the year, I sought the observations of the Accounting Officers of both Departments.

Department of Community, Rural and Gaeltacht Affairs Response

The Accounting Officer pointed out in his response that Pobal is a private company limited by guarantee without access to funding in its own right. It was therefore necessary for it to be put in funds by his Department to enable it to discharge the obligations placed on it in terms of the delivery and administration of programmes on behalf of his Department. Oversight and control procedures varied according to the requirements of each programme. Budgets for each programme and associated administrative costs were agreed with Pobal annually.

He stated that funding was provided to Pobal on the basis of advances, drawn down in accordance with the contractual arrangements particular to individual programmes, to meet commitments and forthcoming expenditure. Expenditure incurred by Pobal in previous periods was taken into account in deciding the amount to be advanced on foot of each drawdown request. Funds were only advanced where they were considered warranted to meet commitments on hand or demands likely to arise within the subsequent operating period.

He informed me that an independent review of the drawdown procedures and the funding arrangements in place between his Department and Pobal for the delivery of Departmental programmes was currently being undertaken by the Internal Audit Unit of his Department.

In subsequent correspondence the Accounting Officer informed me that following recent meetings with Pobal, the Company would, for the larger Programmes (e.g. LDSIP, Rural Social Scheme and the Community Services Programme),

- Receive two months' funds at the commencement of the financial year and
- Not make an application to draw down the next tranche of funding until it has a month's or less funding remaining.

In effect, bearing in mind that it took 15 days to process payments at Departmental level, this meant that the operating cash for programmes could run as low as a fortnight's advance payments. Such an arrangement was intended to ensure that Pobal was not at any time holding more than two months' funds, and would generally hold substantially less. These revised payment procedures would be subject to the verification checks already carried out by his Department on all requests for funding received from Pobal.

In regard to smaller Programmes, such as the Annual Community Grants Scheme, it was proposed to make payments to Pobal only in respect of actual commitments under the Scheme and based on careful ongoing appraisal of actual expenditure.

He stated that with all programmes, the final payments each year would be calculated to ensure that there was no significant carryover of funds from year to year. In the case of larger Programmes, however, it would be necessary to pay an advance of 2 weeks' funding to ensure that projects were kept in funds until the first draw-down of the following year's funding could be processed.

In regard to the level of interest earned by Pobal, he informed me that, in light of the increasing value of the programmes being delivered by Pobal on behalf of the Department, the question of interest earned was now being addressed in the ongoing review of the apportionment of administration costs associated with those programmes.

In his subsequent communication, he stated that it had recently been agreed with Pobal that his Department's approval would be sought before any surplus on the Company's accounts was distributed in future years. It was anticipated, given the revised cash-flow management procedures being implemented, that the surplus accruing from interest would, in any event, be significantly reduced.

Department of Justice, Equality and Law Reform Response

The Accounting Officer of the Department of Justice, Equality and Law Reform informed me that the drawdown of advances by Pobal was fully supported and evaluated by his Department and took account of the need to ensure that payments would not lead to an excessive cash reserve in the accounts of Pobal relative to its requirements to spend drawdown funds and to make a prudent provision for expenditure by it in the subsequent operating period.

In respect of his Department's funding of the Childcare Programme capital expenditure he pointed out that by December 2005, his Department considered it prudent, given the level of outstanding capital commitments, to increase its funding of Pobal by approximately 10% of these commitments. This was considered essential to avoid unnecessary delays within Pobal in processing applications for payment. He said that even allowing for stringent evaluation of drawdown requests, unanticipated delays outside the control of both Pobal and lead Departments could arise.

However, the Accounting Officer suggested there was a need to review the way in which Pobal interacts with all Government Departments. He considered that the role of the Department of Finance in any cross departmental review would be crucial both in terms of the way Pobal operated, and as regards the impact of any changes on the annual estimates process. The way funding was allocated on a year on year basis for schemes operated by Pobal on behalf of Government Departments would also have to be examined.

He stated that there was no provision in terms of engagements or contracts for Pobal to retain interest earned on any balances provided by his Department under the Equality for Women Measures, Enhancing Disability Services or Community Based CCTV programmes. This matter would be clarified with Pobal in due course. The issue of interest earned on the funding provided under the Childcare Programme had been the subject of ongoing discussion between Pobal and the Childcare Directorate but had yet to be fully resolved.

In subsequent correspondence, following a meeting of the key parties, the Department informed me that new accounting procedures would be implemented in the very near future to ensure that Exchequer funding provided to Pobal would be based on documentary evidence of corresponding expenditure by Pobal via standing imprest arrangements for rolling grant-aided programmes such as Childcare, Equality Measures and Disability Projects. These procedures would minimise bank account balances held by Pobal and thereby its potential to accumulate bank interest.