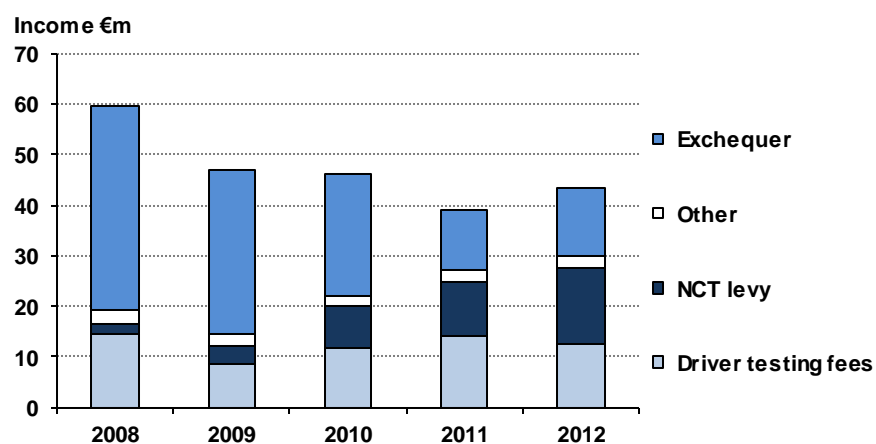


14 Cash Balances in the Road Safety Authority

- 14.1** *Public Financial Procedures* require that any balance of grants paid by a department remaining unexpended at the end of the year is liable to be surrendered back to the Exchequer. It is a requirement that particular care is taken to avoid over-issues, especially at the end of the financial year, and there should be no automatic issue of the full amount provided without ascertaining whether the funds are required to meet the grantee's actual funding requirements. The overall principle underlying these cash management procedures is that there should be economy in the management of State funds.
- 14.2** Recurrent grant funding is provided to the Road Safety Authority (the Authority) from the Land Transport Programme of Vote 31 Transport, Tourism and Sport. As Figure 14.1 indicates, Exchequer grant funding to the Authority has declined significantly in recent years. Over the period 2008 to 2012, the Authority has derived an increasing proportion of its income from non-Exchequer statutory charges, principally fees for driver testing and a levy on the proceeds of the national car test. The significant increase in the levy in 2012 is attributed to the introduction of annual testing of cars aged 10 years or more, and the general ageing of the national car fleet.
- 14.3** The Department's long-term objective is for the Authority to operate without Exchequer grant support, and to be fully funded from statutory charges and the levy.

Figure 14.1 Road Safety Authority — sources of income, 2008 to 2012

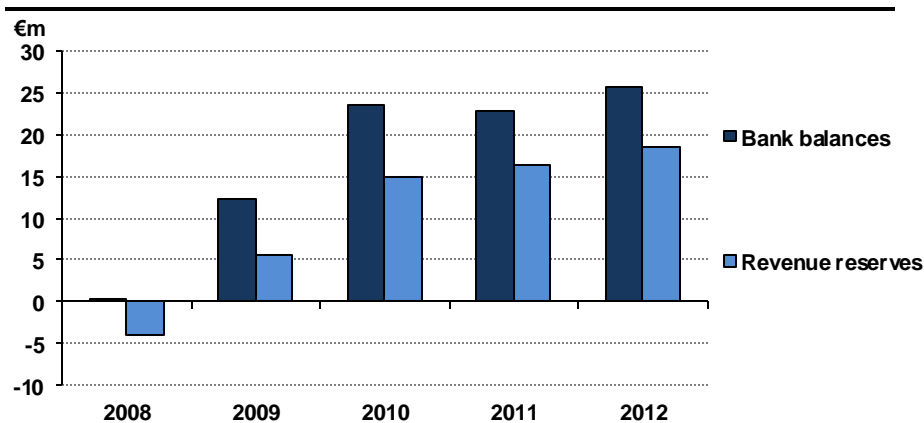


Source: Road Safety Authority financial statements 2008 to 2012

Control of Reserves

- 14.4** The Road Safety Authority Act 2006 provides that the Authority shall not be compelled to surrender to the Exchequer any moneys that it has on hands at the end of a financial year and may retain such moneys to finance its operations. The Minister for Transport, Tourism and Sport (the Minister) may require the Authority to pay a dividend to the Exchequer.
- 14.5** The Authority has accumulated very significant revenue reserves and cash balances in recent years (see Figure 14.2). At end 2012, the Authority's bank balances amounted to €25.5 million. This included €2.7 million in advance payments of fees by driver testing applicants. The advance payments are treated as deferred income in the Authority's financial statements, and are released to income in the following year as the tests are taken. As a result, these amounts are not included in the Authority's revenue reserves at year end.

Figure 14.2 Bank balances and reserves in the Road Safety Authority, 2008 to 2012



Source: Road Safety Authority financial statements 2008 to 2012

- 14.6** The Road Safety Authority Act 2006 provides for the development of a service level agreement that, in accordance with the functions assigned to the Authority, would govern 'certain tasks to be carried out, advice given, functions performed or standards adhered to in the performance of its function in the public interest'. The Act stipulates that the advance of funds would be conditional on compliance with the terms of the agreement.
- 14.7** In a memorandum of understanding dated 30 January 2012 between the Department and the Authority, it was agreed that
- the Authority's revenue reserves would be maintained at a level not exceeding €16.4 million
 - as part of the monthly draw-down of Exchequer funds, the Authority would produce management accounts in a timely manner to allow the Department to assess the Authority's financial position and to determine if any surplus in excess of the reserve agreed at the start of the year had arisen.

In the 2012 service level agreement between the Department and the Authority, it was agreed that

- if an unanticipated surplus in excess of the agreed reserve had arisen, then the Authority would explain in writing the reasons for the increased income or underspend
- following discussion between the Department and the Authority, the Department would advise the Authority of any adjustment that should be made to the next request for draw-down of Exchequer funding.

- 14.8** In November 2012, the Authority advised the Department that reserves had increased above the agreed limit. The Department agreed to allow the Authority to increase its reserves to €20.2 million and draw down the remainder of the 2012 allocation.
- 14.9** The 2013 service level agreement refers to the procedures governing the draw-down of the 2013 Exchequer allocation of €8 million. This agreement allows the Authority to increase its reserves to €22.5 million.
- 14.10** The Authority's stated reason for wishing to maintain a large reserve was as follows
- It needed capital funds in order to modernise its portfolio of driver testing centres, in accordance with recommendations from an externally-commissioned review. Approximately €4 million had been earmarked for this expenditure.
 - Other capital projects planned for 2013 and 2014 were listed in the 2013 service level agreement and totalled €14 million.
 - A further reserve had been set aside to cater for any unforeseen events in 2014 including industrial action, strategic outsourced supplier failure or a material drop off in demand led services and related fee income.

Views of the Accounting Officer for Vote 31

- 14.11** The Accounting Officer stated that the service level agreements concluded between his Department and the Authority in recent years have taken account of the changing circumstances of the Authority and have strived to balance the interests of the Exchequer with additional functions conferred on the Authority in a difficult economic climate. The two major additional functions, undertaken by the Authority at Government direction, involved assuming responsibility for the Commercial Vehicle Roadworthiness Service (CVR) and the National Driver Licence Service. Despite the considerable initial outlay involved, particularly in relation to CVR, both services have been commenced without recourse to additional Exchequer funding.
- 14.12** The arrangements in place through the annual service level agreement have, in the Department's view, proven successful in ensuring that the Authority has adequate funding to finance an essential capital programme while also providing the mechanisms for identifying situations where the capital reserve exceeds the agreed amount, resulting in reductions to Exchequer draw-downs.
- 14.13** The Accounting Officer has stated that, in the context of negotiating the annual service level agreement, the Department examines and discusses with the Authority the list of planned capital projects. Based on that discussion, the Department sets the reserve limit within which the Authority is expected to operate. Specific approval for the capital projects is not sought from the Department of Public Expenditure and Reform, but the process of concluding the service level agreement and the system by which the reserve level is agreed upon has been notified to that Department.

14.14 The Accounting Officer also stated that his Department has commenced a review in the light of significant changes to the Authority's functions over the past few years. The focus of the review is on whether the legislation under which the Authority operates is sufficiently robust to support the extent of its current and possible future functions and if a change in corporate governance requirements is necessary. The review will also examine the checks and balances that will be necessary when the policy objective of the Authority operating on a full non-Exchequer funding basis is achieved. The outcome of the review will be a report to the Minister on the possible reform of the Authority. A steering group, comprising representatives of his Department, the Authority and the Department of Public Expenditure and Reform is overseeing the review. The Department will review future Authority financial profiles in light of the outcome of the review.

Performance Oversight by the Department

14.15 The stated purpose of the 2012 and 2013 service level agreements with the Authority is to formalise the arrangement for the provision of the services detailed in the Authority's annual business plans. The 2012 plan was a 200 page document with identified outputs for each of the Authority's four directorates. It details a total of 260 outputs for the Authority.

14.16 The agreements provide for an annual review of the Authority's performance under the agreement. No formal review was conducted in respect of 2012. The Department considered that its on-going discussion with the Authority fulfilled this requirement.

14.17 The Chief Executive of the Authority stated that the Authority provides detailed and timely monthly management accounts and an annual business plan and budget to the Department. The Authority has been proactive in developing an annual memorandum of understanding and service level agreement with the Department in order to formalise the reporting relationship. This has been augmented by monthly update meetings between the Chief Executive and the Department.

Conclusion

14.18 Since 2010, the Authority has consistently had receipts considerably in excess of its immediate funding requirements. Notwithstanding significant reductions in annual Exchequer funding to the Authority, this has resulted in the build-up of substantial cash balances. The Authority's additions to fixed assets have been much less than the available reserves, amounting to €3.2 million in 2012 and €2 million in 2011.

14.19 Cash balances held by public bodies significantly in excess of their requirements has an opportunity cost, in the form of interest on State borrowing that might not be required with tighter cash management.

14.20 Service level agreements between departments and public sector bodies should include a small number of relevant performance indicators covering the volume and quality of services provided by the body so that performance can be effectively monitored and reported.

14.21 The service level agreement between the Department and the Authority provides for a performance review. In that context, it would be expected that a formal review of planned and actual outputs would be completed at the end of each year. Such a review was not conducted in 2012.

Recommendation 14.1: The Department and the Authority should develop key performance indicators and conduct a formal review of actual performance each year against those indicators.

Accounting Officer's Response: Agreed. The recommendation will be addressed and taken on board as part of the review of the Authority that is currently taking place and to which the chapter refers.

Chief Executive's Response: The Authority will comply in full with the development of key performance indicators and in having a formal review of performance against such indicators.